NORSKE SKOG 2002

Annual Report

JAN REINÅS:
Uses downturn to strengthen Norske Skog

THE RESULT:
Weak markets for publication paper, sound financial position

OPERATIONS:
Weak demand and reduced production. Asia is a bright spot.

FUTURE PROSPECTS:
Weak markets also first half of 2003

HEALTH AND SECURITY:
Strong results in 2002

ENVIRONMENT:
High priority also during improvements

Norske Skog

Main financial figures

NOK million	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
1. Profit and loss account										
Operating revenue	23 471	30 354	26 635	18 054	14 908	13 312	13 265	12 548	9 170	7 338
Operating earnings	1 306	5 096	4 211	2 129	1 780	1 083	1 916	2 500	732	299
Earnings for the year	1 162	2 494	1 958	1 300	1 020	590	1 317	1 699	206	-47
2. Main financial figures										
Cash flow from operating activities	3 687	7 052	4 922	2 162	2 859	1 615	2 616	2 555	866	492
Depreciation	3 292	3 323	2 388	1 689	1 323	1 140	1 132	832	616	552
Investments in operational fixed assets	1 146	1 422	1 351	1 154	3 983	1 814	1 053	926	565	1 127
Gearing	1.02	1.18	0.92	0.65	0.71	0.45	0.63	0.61	0.67	1.13
3. Profitability										
Gross operating margin %	19.6	27.7	24.8	21.1	20.8	16.7	23.6	26.6	14.7	11.6
Return on capital employed %	4.7	13.7	13.1	11.0	11.7	8.4	15.9	25.4	8.3	3.4
4. Shares and shareholder structure										
Net earnings per share after tax	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88	-0.74
Net earnings per share after full conversion	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21	0.69
Equity per share	133.43	146.66	218.04	126.17	111.71	107.34	99.19	84.82	66.21	108.14

Main figures per area

NOK million	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Europe										
Operating revenue	14 087	14 219	13 229	12 102	10 539	9 284	9 493	8 066	5 831	4 731
Operating earnings	1 189	3 247	2 266	1 809	1 946	1 134	2 078	1 708	454	469
Operating margin %	8.4	22.8	17.1	14.9	18.5	12.2	21.9	21.2	7.8	9.9
North America										
Operating revenue	–	5 455	4 157	–	–	–	–	–	–	–
Operating earnings	–	329	529	–	–	–	–	–	–	–
Operating margin %	–	6.0	12.7	–	–	–	–	–	–	–
South America										
Operating revenue	1 107	1 939	1 035	–	–	–	–	–	–	–
Operating earnings	-9	473	231	–	–	–	–	–	–	–
Operating margin %	-0.8	24.4	22.3	–	–	–	–	–	–	–
Australasia										
Operating revenue	3 807	4 473	2 801	–	–	–	–	–	–	–
Operating earnings	546	725	545	–	–	–	–	–	–	–
Operating margin %	14.3	16.2	19.5	–	–	–	–	–	–	–
Asia										
Operating revenue	2 688	2 434	2 572	1 988	485	–	–	–	–	–
Operating earnings	562	616	526	336	61	–	–	–	–	–
Operating margin %	20.9	25.3	20.5	16.9	12.6	–	–	–	–	–
Other activities										
Operating revenue	1 931	2 319	3 881	4 132	4 037	4 043	3 800	4 504	3 546	2 756
Operating earnings	47	98	372	37	-90	33	-100	778	324	-102
Operating margin %	2.4	4.2	9.6	0.9	-2.2	0.8	-2.6	17.3	9.1	-3.7

THIS IS NORSKE SKOG

Norske Skog is the world's second largest producer of publication paper, with 24 wholly and partly owned mills in 15 countries on five continents. Norske Skog has a 13% share of the global market for newsprint and magazine paper.

VISION: Norske Skog shall be a leading international paper and pulp company.

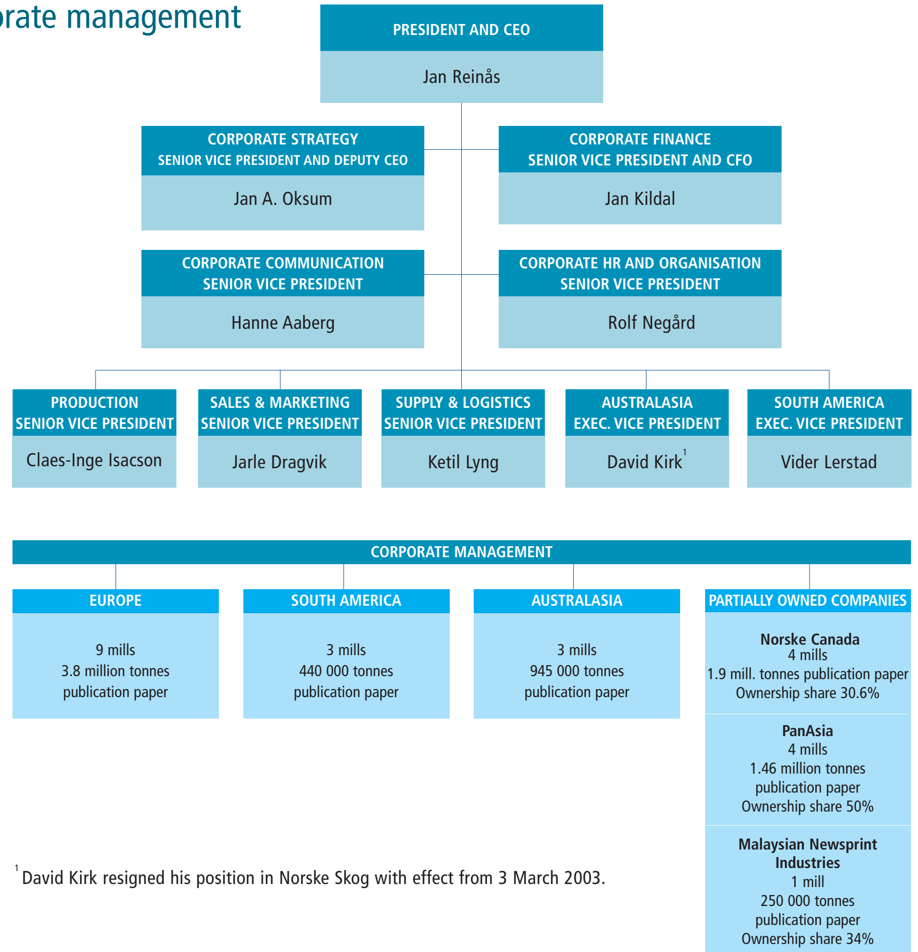
GOAL: Norske Skog shall create value for shareholders on a par with the best companies in the sector.

STRATEGY: Concentration on the core area publication paper, profitable growth in important markets, cost-efficient production.

Norske Skog was established in 1962, and the first newsprint machine came on line in 1966. Acquisitions, construction of new capacity and mergers made the Company the undisputed leader of Norway's paper and pulp industry during the 1970's and 1980's. In the 1990's Norske Skog built a strong European platform through acquisitions and new plant construction in Norway, France, Austria and the Czech Republic. Since 2000 the company has become a leading global player, with activities in Asia, North America, South America and Australasia as well. Since 1999 the Company has divested about 40 units outside its core area, and is now virtually 100% concentrated on publication paper.

During 1992-2002 operating revenue grew from NOK 7.6 billion to NOK 23.5 billion, and its market capitalisation from NOK 1.8 billion to NOK 13 billion.

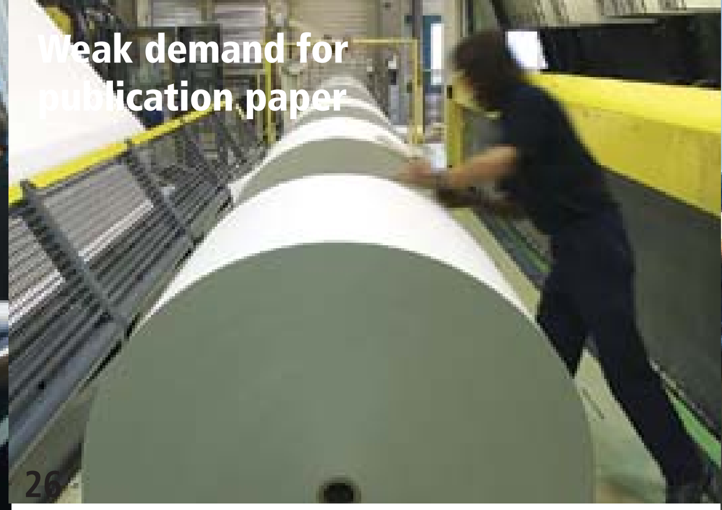
Corporate management



[1] David Kirk resigned his position in Norske Skog with effect from 3 March 2003.

sident and CEO Jan Reinås.

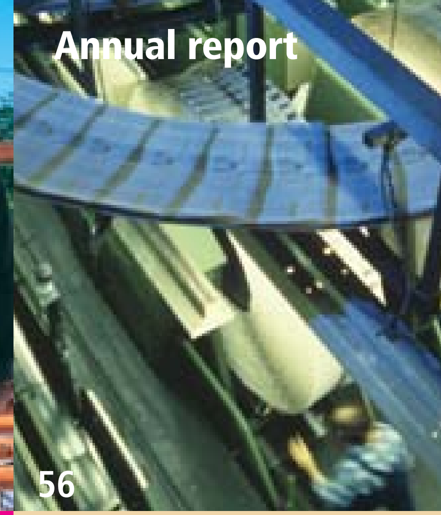
Dividend of NOK 6 per share.



Increase in Asia and stability in Australasia.

Openness, honesty and co-operation.

Results are more than economics.



Sound financial position despite weak results.

With sustainable development in focus.

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Introduction

Norske Skog is using the downturn to become an even stronger and better supplier of publication paper. CEO Jan Reinås promises a competitive and strong Norske Skog.

Capital market information

Weak markets, but high trading volume of Norske Skog's shares. Read more about the stock market, investor relations and risk management on pages 10-25.

Review of Operations

Increase in demand for publication paper in Asia and stable in Australasia despite a decline in global demand. You will find more details concerning Norske Skog's 24 wholly and partly owned companies on pages 26-41.

Management and organisation

Norske Skog has well functioning internal governance and control mechanisms. Read more about the corporate bodies managing Norske Skog on pages 42-51.

Social responsibility

To Norske Skog sustainable development means achieving results not only with regard to the traditional, financial bottom line. The Company is also focusing on environmental and social conditions. Read more about our engagement on pages 52-55.

Annual report

Weak demand and a strong Norwegian krone had a significant negative effect on Norske Skog's result for 2002. Read more about the results and future prospects on pages 56-93.

Environmental report

Environment is highly prioritised in Norske Skog. Read more about our environmental performance on pages 94-111.

Photo front page:
The newsprint mill in Golbey, France, is 10 years in 2003. Virginie Cholez (25) has been educated at the mill and is today a machine operator. She hopes for a future at Norske Skog.

Satisfactory development – despite the recession

Norske Skog continued to implement its development plan during 2002. The Company is now almost completely restructured and has become a purely publication paper company, with a global customer base and a very strong position in important markets.

The economic downturn and a strong Norwegian krone in 2002 led to significantly lower earnings and share prices than in the record year 2001. The high NOK exchange rate mainly hit Norwegian production, and weakened earnings by about NOK 1 billion in 2002.

Norske Skog still has a satisfactory cash flow, however, and this - combined with long-term, satisfactory financing - means that Norske Skog is starting 2003 with a sound asset position, including liquid assets, in relation to our debt repayment obligations. This is important, because it means that we can continue to develop the Company's competitiveness, even if the recession should last for a time yet.

HOW IS NORSKE SKOG REACTING TO THE RECESSION?

The global economic downturn has reminded us that we belong to a cyclical industry. Demand for our products fluctuates with the general economic conditions in the markets in which we operate.

As a global company, we have adapted production to demand in an appropriate manner, throughout the entire company. Even so, there remains potential for further improvement under the circumstances, but Norske Skog has sought to ensure that the consolidation process has been of benefit to all interest groups.

Norske Skog will continue its strategy, adapting output to demand. We shall cut costs, in order to compensate as much as possible for lower earnings, and make the Company even more competitive, in the shorter and longer term. Meanwhile, we shall behave as a highly professional player, concerned to protect our relations with our customers and other interest groups.

IMPROVEMENT DRIVE

When, at the start of 2002, we saw clear signs of a global economic recession and a decline in demand for paper, we immediately launched a short-term cost-cutting programme. Later in the year we realised that the downturn was not going to be short-lived, but that it could last for a long time. We therefore replaced the short-term cost-cutting programme with a new, long-term programme in which costs are to be reduced by a minimum of NOK 2 billion during the course of two years.

It is important to be able to change priorities and focus rapidly when one moves from an upswing and strong company growth to weak markets and internal consolidation. We have managed this, and Norske Skog is using the downturn to become an even stronger and better supplier of publication paper.

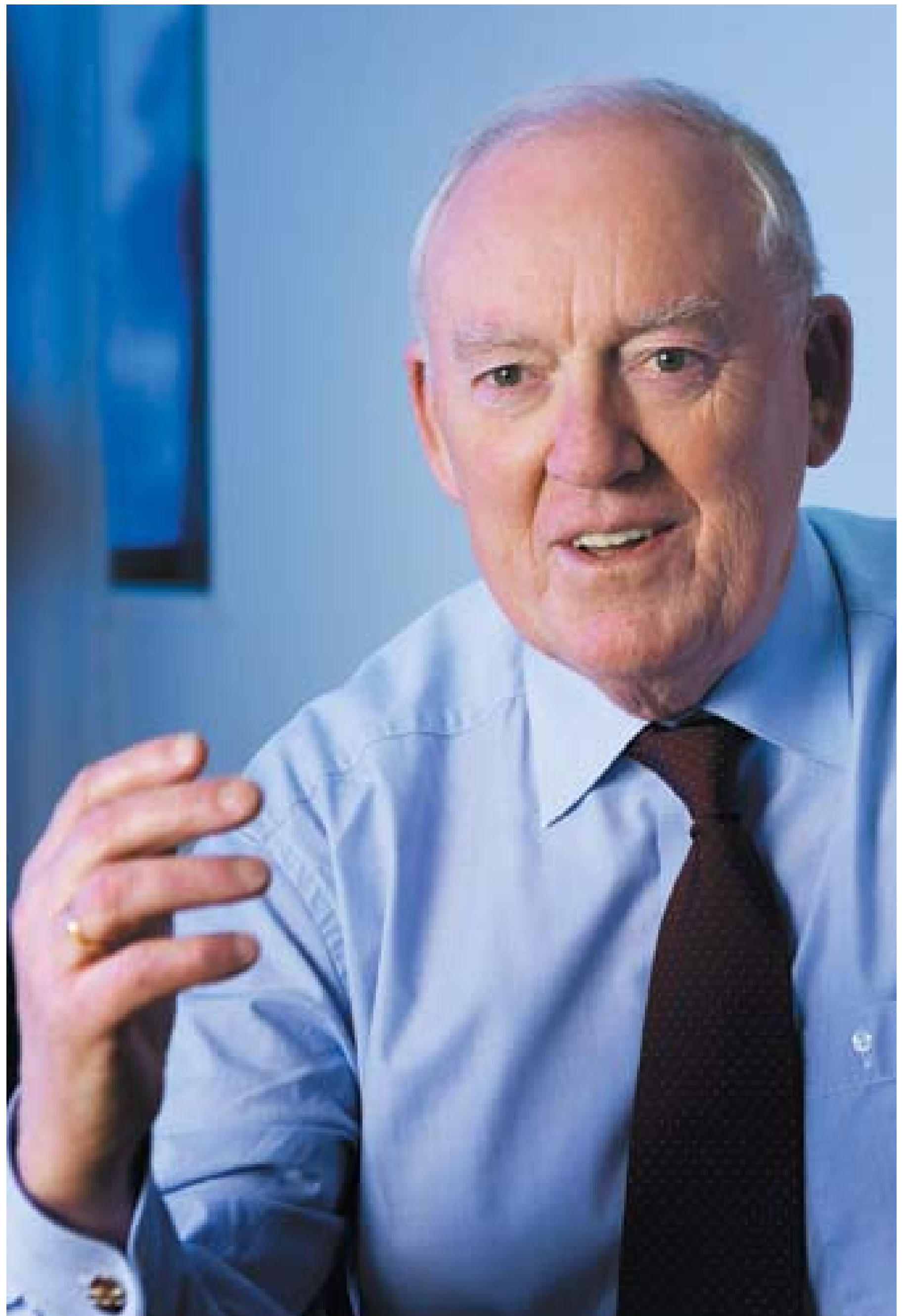
The "Improvement 2003" programme involves ambitious requirements in many areas. There will be a thorough overhaul of working methods, priority setting and management requirements. Significant changes will be made in the areas of administration, procurement and logistics. Where production is concerned, we shall cut costs by streamlining work processes at all mills. Experience gained throughout the Company will be combined so that the most efficient solutions are designed to create the best operating model for each mill. At the same time, marketing and customer service processes will be further improved.

As part of the improvement drive, the Group's organisation has been changed. Norske Skog is now in a phase where we shall focus on consolidation, stronger market positions and lower costs. At the same time, we shall maintain high productivity and product quality. We have therefore moved from being an organisation with geographic regions to one with a flatter and more function-oriented structure.

Parallel with the cost-cutting programme, a plan is being prepared for the future development and restructuring of our production facilities. This is also an important aspect of competitiveness.

I extend my thanks to all Norske Skog employees, and to our business associates all over the world, for their valued cooperation in 2002.

Jan Reinås
CEO



President and CEO Jan Reinås

This happened in 2002

FIRST QUARTER:

• In January, Norske Skog and NorskeCanada – in which Norske Skog is the only industrial owner, with a stake of 30.6% - signed an agreement concerning a strategic alliance between the two companies.

• Norske Skog concluded, in February, an agreement on a long-term loan of EUR 340 million, as final financing of both the Walsum and Parenco acquisition, and the increase of its ownership stake in PanAsia from 33% to 50%.

• In February, the Group launched a programme aimed at cutting costs and increasing revenue by a combined total of NOK 700 million. The final result in 2002 was NOK 875 million.

SECOND QUARTER:

• Lars Wilhelm Grøholt was elected chairman of the Company's board in May, following Lage Westerbø, who had been board chairman since 1989.

• Following changes in ownership stakes, Norske Skog and Abitibi-Consolidated signed a revised shareholder agreement in May. The agreement confirms the owners' intention to use PanAsia as its vehicle for growth in Asia.

• In June, Norske Skog concluded an agreement about the sale of the Company's 13 generating plants for NOK 1.3 billion.

• Also in June, Norske Skog signed an agreement with the International Chemical, Energy, Mining and Factory Workers' Federation (ICEM) and the Norwegian United Federation of Trade Unions. The agreement is based on the UN's value platform for fostering co-operation between employees, the trade union movement and the business community, and in the paper and pulp industry it is the first of its kind in the world.

THIRD QUARTER:

• Norske Skog Parenco, in the Netherlands, implemented plans in August for restructuring the company. These plans involve a workforce reduction of about 125, from 690 to 565.

• From September, Norske Skog was included in the FTSE4 Good Global Index of socially responsible companies. The criteria for inclusion in this index are primarily a sustainable environmental policy, the way in which personnel policy and relationships with various interest groups is practiced, and the Company's concern for human rights.

FOURTH QUARTER:

• The board of Forestia, a subsidiary company, decided in October to wind up operations at its Agnes particle board mill in Vestfold county, Norway.

• Norske Skog established in October a new, long-term drawing facility of EUR 400 million, to replace a drawing facility that was soon to fall due.

• Norske Skog started in November a comprehensive programme –"Improvement 2003" – to improve the Company's profitability in the shorter and longer term. Its aim is to improve results by NOK 2 billion by the end of 2004.

2002 in summary

• Demand for newsprint and magazine paper was weak throughout the whole year, and prices declined. This particularly applied to Europe, North America and South America, while activity was better maintained in Australasia and Asia. At the wholly-owned mills it was necessary to cut output by amounts corresponding to 10% of total capacity.

• Operating revenue in 2002 was NOK 23 471 million, against NOK 30 354 million in 2001. Earnings per share amounted to NOK 8.79, against NOK 20.68 in 2001.

• Financially, Norske Skog emerged stronger from 2002. Debt was paid off by NOK 2.4 billion, and as of 31 December 2002 equity capital ratio stood at 39.9% and the debt/equity ratio at 1.02.

• In 2002 Norske Skog virtually completed the restructuring of its non-core area activities. The period 2000-2002 saw the divestment of about 40 activities. The Group's assets are now virtually 100% concentrated on the core area, wood containing publication paper.

• Norske Skog moved, during 2002, from a phase of strong growth to a period of consolidation. As part of the Improvement Programme 2003-2004, the Group's regionalised organisation was changed to a flatter and more operations- and customer-oriented structure.

Improvement 2003

Senior Vice President and deputy CEO Jan Oksum heads the comprehensive work with Improvement 2003.

Improvement programme to reduce costs by NOK 2 billion

In October 2002, Norske Skog began work on a comprehensive programme to strengthen the Company's profitability and competitiveness. The "Improvement 2003" programme covers all aspects of Norske Skog's global business. Through systematic project work, the programme has identified more than 300 large and small improvement measures that can be carried out. Its aim is to improve results by NOK 2 billion by the end of 2004.

CONSOLIDATION

During recent years, Norske Skog has passed through a period of expansion and strong growth. At the same time, it has concentrated strongly on its core business, wood-containing publication paper, while other activities have been sold. As a result, Norske Skog is today a leading global producer of newsprint and magazine paper.

The Company has now embarked on a period of consolidation. There are plans for significant cost reductions and a restructuring and streamlining of the core area. It is a logical continuance of Norske Skog's strategy that efforts are now being stepped up to exploit the advantages of being a global company.

Significant gains and synergies will be achieved through greater co-ordination of administration, production, procurement and logistics. Administration will be simplified and slimmed down, while organisation and manning at the mills will become more standardised. This will make it easier to share knowledge and transfer best practice among the Company's production units.

AMBITIOUS GOALS

Improvement 2003 has ambitious goals. By the end of 2004, measures will have been put into effect that – in total – will improve Norske Skogs results by NOK 2 billion, on an annual basis, compared with 2002. Another target is to reduce working capital by NOK 500 million.

These goals come in addition to an improvement in results of about NOK 875 million, which was achieved during 2002.

The goals of Improvement 2003 assume that market conditions will remain the same as in 2002, and restructuring costs are not included.

EMBRACING THE ENTIRE COMPANY

Implementation of Improvement 2003 has been given the highest priority and focus in Norske Skog. Corporate management forms the project's steering committee. Senior Vice President and deputy CEO Jan Oksum is project manager.

All parts of Norske Skog's business are included in the improvement programme. Partly-owned companies are not directly included, but Norske Skog will contribute actively towards implementing improvement measures in these companies, too.

WIDE INVOLVEMENT

Working with Improvement 2003, great efforts have been made to identify and exploit improvement potential. As improvement measures are gradually put into effect, the entire line organisation will be activated.

The first phase, up to December 2002, concentrated on identifying possible improvement measures. During January 2003 the proposed measures and plans for implementing the various initiatives have been quality controlled. This in itself has been a very comprehensive task. In all, about 300 relevant improvement initiatives have been identified. The second phase, implementation, started in February 2003.

REALISTIC TARGET

The work done to date has confirmed that the target of a NOK 2 billion improvement in results by the end of 2004 is realistic.

According to calculations made by Norske Skog, the measures, which will improve the results by the end of 2004, can be listed as follows:

- Production and maintenance manning: NOK 450 million
- Corporate and mill overhead: NOK 450 million
- Supply: NOK 600 million
- Distribution: NOK 150 million
- Sales and operations: NOK 350 million

The effects of the improvement programme will be tracked continually according to the above categories. Information will be given on status and effect of the programme along with the performance reports from the Company.

WORKFORCE REDUCTIONS

Workforce reductions throughout Norske Skog's total activity will affect more than 1 200 people. The number of administrative positions will be cut by around 25%, while the production and maintenance workforce will be reduced by about 15%. Most of this de-manning will take place during 2003.

De-manning will take place at the individual unit, in accordance with the rules applying in each country.

Norske Skog has prepared a global policy and guidelines regarding de-manning. One goal of the guidelines is to ensure responsible and uniform handling of all parts of the process. This policy will not reduce employee rights that are regulated by agreements or national legislation in the different countries. Significant efforts will be made to help those made redundant to find new work.

BRINGING TOGETHER SERVICE FUNCTIONS

To streamline administration, two shared service centres will be established in Europe for Norske Skog: one at Skogn, Norway and one in Antwerp, Belgium. The Antwerp centre will handle support functions for sales and logistics, and the centre at Skogn will provide accountancy and wages services for the Norwegian units. These centres will bring together and streamline administration, which at present is spread over many units.

TARGETED INVESTMENTS

In the coming period, Norske Skog will prepare a long-term, overall plan for the development of the Company's production facilities.

Investments will be channelled toward the long-term development of strong production units, while investments in less profitable machines will be cut back or terminated. About 15-20% of Norske Skog's paper machines are in a category, which means that they will not be further developed through major investments besides maintenance.

Norske Skog will at a later stage present a long-term development plan for the mills and paper machines.

Norske Skog 40 years old

The Norske Skog idea is said to have been hatched during a meeting of forest owners at a rifle club in Hegra, mid-Norway, in 1958. The Company was founded in 1962, with Reidar Due as its first board chairman (1962-83) and Rolv Lindseth (1962-81) its first managing director. Its purpose was to ensure a market for mid-Norway's forest resources and to give the raw material suppliers greater insight into the wood processing industry. The Norwegian Forest Owners' Federation was its driving force and principal shareholder, with 50% of the NOK 49 million share capital. The first newsprint machine at Norske Skog Skogn came on line in 1966 and the second in 1967.

The project was, to put it mildly, greeted with considerable scepticism. Its backers had no industrial experience, no knowledge of the market and limited capital resources. In the industry, there were those who began musing about what ought to happen after a bankruptcy. The doubters were even more amazed when the new management was in place and decided to build not one large newsprint machine, but two – at the same time. This entailed investments of around NOK 300 million – the equivalent of NOK 2.3 billion in today's money. This boldness bore rich fruits – even more than that: the decision to build two machines was later described as having made the difference between success and fiasco.

The company performed its task as a processing business, and satisfactory profitability gave it room to expand and diversify. Until 1980 its development followed two main lines, leading in slightly different directions. The principal shareholders had a strategic interest in gathering together, in one company, all their industrial ventures – paper and pulp, sawn timber and board production. The administration and central management of the Norwegian Forest Owners' Federation also stressed the need for structural evolution within the forest products industry along the lines of that seen in Sweden and Finland.

After several attempts to achieve a better structure in Norway's forest products industry – some of them with the help of the authorities – things began to happen in 1972. That year, Norske Skog and Follum Fabrikker concluded an agreement to pool their newsprint marketing and logistics, and to take shares in one another's companies. In the 1980's, when Norske Skog had increased its ownership stake in Follum and secured large stakes in Union and the pulp mill Tofte Industrier, people began talking about "the Norske Skog group". In 1982 Arnfinn Hofstad became CEO (1982-94), while Jan Jenssen – deputy chairman of the board since the Company's foundation in 1962 – served as board chairman from 1984 until his death in 1989.

During the 1980's the Company's management was concerned with two main strategic concepts: consolidation in Norway and growth abroad. Complete consolidation of the publication paper industry in Norway would prevent a few, relatively small Norwegian players from competing one another to death on export markets. In the longer term it was necessary to grow as the market grew, and this could happen only outside Norway. Around 1990 came a breakthrough on both fronts. In 1989 Norske Skog, Follum and Tofte merged. That same year, the merged company bought Saugbrugsforeningen in Halden, east Norway, and immediately expanded it by building a large new paper machine there. With Union as a partly owned company, virtually 100% of Norway's publication paper output was now collected under one hat. Papeteries de Golbey, at Lorraine in France – where Norske Skog was the driving force and owner of 49% of the shares – started its first paper machine in 1992.

Board chairman Jan Jenssen was succeeded by Lage Westerbø (1989-2002). In 1994 Jan Reinås became CEO. During the latter half of the 1990's resources were concentrated on strengthening the Company's presence in its primary market, Europe. The Golbey mill became 100% owned by Norske Skog in 1995, the Bruck publication paper mill in Austria was bought in 1996 and the Steti newsprint mill in the Czech Republic in 1997. In 1999, Golbey brought its second paper machine on line. During 1990-1999 Norske Skog more than doubled its European publication paper capacity – from 1.3 million to 2.8 million tonnes.

Towards the end of the 1990's the consolidation of the international forest industry gathered pace. It was a matter of buy or be bought. The Company's strategy rested on three main pillars: profitable growth, internationalisation and concentration on its core area, publication paper. In 1998 Norske Skog bought two newsprint mills in Korea and Thailand, and a joint venture in 1999 has given it, today, a 50% stake in Asia's leading newsprint company, PanAsia. In 2000 Norske Skog bought Fletcher Challenge Paper's nine wholly and partly owned publication paper mills in Australasia, Asia, South America and North America. The purchase of two mills in Europe in 2001 doubled its magazine paper capacity, giving it a better-balanced product range.

Thus, from 1999 to 2002, total capacity was once again more than doubled – to nearly 8 million tonnes at 24 wholly and partly owned mills in 15 countries on five continents. At the same time the business had been restructured, with the disposal of about 40 units outside the core area, publication paper. About 2000 the long-term strategy had been fully achieved. In 2002 the Company is what it was originally – purely a producer of publication paper. It has come full circle.

How have things gone with the people who held that meeting at the rifle club in Hegra in 1958 – the forest owners? Both they, and the purely financial owners, showed remarkable foresight in allowing earnings to accumulate in the Company – the first dividend was paid in 1983. In doing so they created the financial basis for the restructuring and renewal of the Norwegian paper and pulp industry, at the same time they laid the foundations for a Norwegian-based, global paper and pulp company which today is one of the world's largest producers of publication paper. Including their participation in subsequent capital expansions, the initial NOK 25 million subscribed by the Forest Owners' Federation has grown to a portfolio with a market value of nearly NOK 3 billion.

To simplify somewhat, Norske Skog's development up to the present can be divided into three phases:

- Establishment and consolidation of the forest owners' largest industrial ventures into one company 1962-72.
- Restructuring and consolidation of the Norwegian forest products industry 1972-1989.
- First European, thereafter global growth within the Company's core area, publication paper, 1990-2001.

After several good years, publication paper markets experienced a marked setback in 2001-2002, at the same time as Norske Skog sees unsolved structural tasks within its core area. The capacity of the 50 paper machines at the 24 mills varies from 90 000 to 335 000 tonnes. In 2003, therefore, the Company is introducing an improvement programme, which will also embrace structural changes within its publication paper business.

The strategist behind the Company's foundation, and the first chairman of the Corporate Assembly, was the managing director of the Norwegian Forest Owners' Federation, Ivar Aavatsmark (1962-84). The legendary Anders B. Werp was the Federation's chairman. During the phase in which the idea of a newsprint mill was to be translated into action, Aavatsmark and Werp were on a trip to Finland to study the industry there. On the night train home they reached this conclusion: "We're going to face a lot of trouble and a lot of problems. And it will mean a terrible lot of work. We'll do it!"

Photo: Rolv Lindseth (left), the first managing director for Norske Skog, is discussing a modell of the newsprint mill at Skogn, Norway, with Ivar Aavatsmark, managing director of the Norwegian Forest Owners' Federation.

Photo: The newsprint mill in Golbey, France, is the newest and most modern mill in Europe to day.

Weak stock markets in 2002

From right, Senior Vice President CFO Jan Kildal, Vice President Jarle Langfjæran and Director Rune Gjessing are in charge of Investor Relations at Norske Skog.

Despite weak stock markets, trading volume of Norske Skog's shares was high.

During the year, a total of 107.6 million Norske Skog shares were traded on the Oslo Stock Exchange. The total shares traded represented a turnover ratio of 81%. In addition, 60 million shares were traded at SEAQ (Stock Exchange Automatic Quotation System) in London.

Shareholder information

PRIMARY GOAL:

Total return to shareholders to match that of the best companies in the industry

Risk capital has been and still is a prerequisite for Norske Skog's development. With this in mind, Norske Skog has defined its primary goal as follows: Norske Skog shall create value for its owners matching the performance of the best paper and pulp companies.

The forest industry is a sector traditionally marked by earnings fluctuations and by the significant amounts of capital needed for continuous investment in machinery and plants. Norske Skog is, moreover, a company with definite ambitions to grow – including, among other things, growth through acquisitions. To cope with cyclical swings and investment outlays a sound balance sheet is needed, with financing provided mainly from a high equity capital ratio and long-term borrowing.

Norske Skog will achieve this through dividend payments and by creating the conditions for an increase in the value of its shares, over the longer term.

Norske Skog aims to pay a dividend that distributes to shareholders approximately one third of the Group's earnings, during an economic cycle. Efforts will be made to even out dividend payments throughout the cycle.

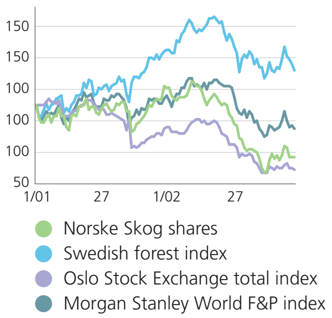
MEASURING THE RETURN TO SHAREHOLDERS

Norske Skog defines total return to shareholders as the sum of the increase in the share's value, plus dividend, over a period, as a percentage of the share price at the start of the period. This is measured over rolling, two-year periods. The return on Norske Skog's shares in absolute figures is interesting, but a number of circumstances beyond the Company's control make it more relevant to measure return against an index. An index has been compiled consisting of Nordic competitors (50% weight), Morgan Stanley World Forest and Paper Index (25% weight) and the Oslo Stock Exchange total index (25% weight).

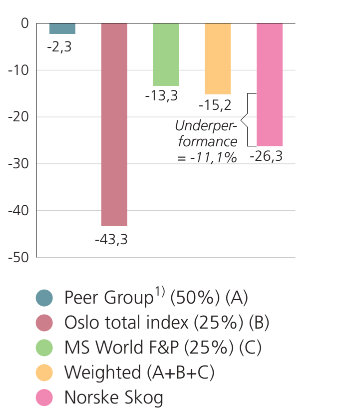
In the period 31.12.2000 to 31.12.2002 Norske Skog delivered a total return of minus 26%. The starting value is calculated as an average of A- and B-shares, corrected for the share split and the issue in connection with the merger of A- and B-shares in 2001. The result for our competitors during the same period was minus 2%, for the Morgan Stanley index minus 13% and for the Oslo Stock Exchange total index minus 43%. The total weighted return for these three was minus 15%, leaving Norske Skog's return at 11 percentage points lower. This is unsatisfactory, and is largely due to the negative impact on results of a stronger Norwegian krone and the weak trend of the Oslo Stock Exchange.

Norske Skog's return, measured against our competitors and against the Morgan Stanley and Oslo Stock Exchange indices, is an important driver with regard to the management's bonus schemes.

Norske Skog share price, Oslo Stock Exchange total index, Swedish forest index and MSCI World F&P index 2001-2002



Relative TSR 31.12.2000 - 31.12.2002



1) Price increase + dividend paid in % of share price as of 31.12.2000

VALUE FOR SHAREHOLDERS

Norske Skog's strategy incorporates several important points aimed directly at building value for shareholders:

- NORSKE SKOG SHALL GROW AND OPERATE GLOBALLY.

Profitable growth is one of the most important prerequisites if the value of Norske Skog shares is to reflect the value of its assets. Size makes Norske Skog more attractive to large investors, and size makes it easier for the Company to participate actively in the consolidation of our sector.

- NORSKE SKOG SHALL CONTRIBUTE TO BALANCE AND STABILITY IN THE MARKET.

This means that market requirements shall guide decisions concerning both the building of new capacity and the utilization of existing capacity. It is a fact that in the past the sector has invested excessively and simultaneously, thereby creating overcapacity and large deficits, at times.

- NORSKE SKOG SHALL USE CAPITAL EFFICIENTLY.

This means, among other things, that capital shall be tied up only where this is strategically important to the core business, and it is a clear goal that productivity increases should be achieved with the smallest possible investment outlays. The aim of Norske Skog's cost-cutting programme "Improvement 2003" is that the Group should meet its targets for return on capital during a cycle.

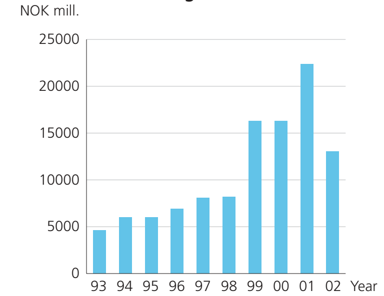
- NORSKE SKOG SHALL BE A COST-EFFICIENT PRODUCER.

This means that Norske Skog shall utilise the most cost-efficient input factors in each production area. The Group shall strive to produce and deliver each product at the lowest cost in each market, and those units proving most competitive shall be developed further.

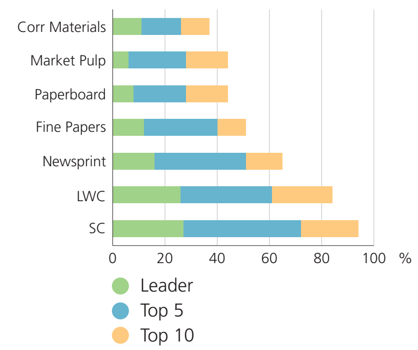
DIVIDEND FOR 2002

The goal for dividend distribution is one third of earnings throughout an economic cycle. The dividend should, moreover, be evened out during the cycle. The Board proposes a dividend of NOK 6 per share for 2002, unchanged from previous year. This gives a dividend distribution ratio of 68% for 2002, and 38% as a weighted average over the past three years. Based on the share price at the end of 2002, the dividend represents a return of 6%. Dividends will be paid on 30 April to those who are shareholders on the date of the Ordinary General Meeting, which will be held on 10 April, 2003.

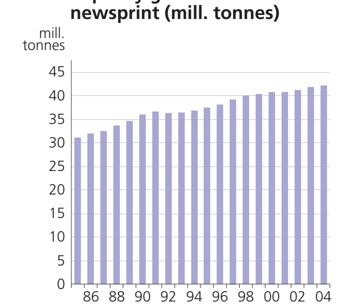
Market value Norske Skog as of 31.12.2002



World consolidation by paper grade

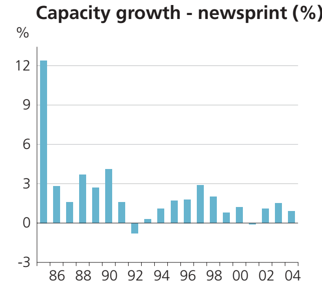


Capacity growth - newsprint (mill. tonnes)



Source: PPPC April 2002

Capacity growth - newsprint (%)



Investor Relations shall help achieve correct pricing of Norske Skog shares

Senior Vice President Corporate Finance and CFO, Jan Kildal (right), received the IR award - here with Karl-Chr. Agerup, chairman of Hugin, a company distributing financial information from European companies.

Investor Relations, which covers the provision of information to the Norwegian and international financial market, has high priority in Norske Skog. The aim is to increase knowledge about the Company and understanding of the industry. This creates the confidence needed to interest investors in Norske Skog, and over time it should help achieve the correct pricing of the Company's shares in the stock market.

Issuing relevant and timely information is an important part of keeping the stock market informed. Below is Norske Skog's financial calendar for the year 2003:

- Preliminary report 2002 – 5 February, 2003
- Ordinary General Meeting 2003 – 10 April, 2003
- 1st quarter – 7 May 2003
- 2nd quarter – 6 August 2003
- 3rd quarter – 5 November 2003

Norske Skog's Internet web site is well supported. It contains the Company's annual and interim reports, press releases and announcements to the stock exchange, presentations, share-related information and general information about the Company.

Supplementing this printed and electronic information, Norske Skog holds regular presentations for the Norwegian and international financial markets. In other connections, presentations are arranged at its mills, and Norske Skog employees also participate as speakers at international conferences and seminars. In 2002 more than 200 presentations and information sharing sessions were held in Norway and several other countries. Most took place in England, Sweden and the US, but the European continent is becoming increasingly important. During the year, Norske Skog also contributed speakers to seven share-related conferences or seminars. Information activity abroad has increased considerably during recent years, reflecting the larger proportion of the Company's shares held by non-Norwegians.

Norske Skog's investor relations activity is based on these fundamental principles:

- Information to all sections of the financial market shall be as standardised and identical as possible.
- Only a small number of persons shall make statements to the financial market.
- Information shall be fact-based, to the greatest possible extent.
- Comments about future trends shall be qualified.
- Presentations and other forms of information material shall be of high quality.

About 20 Norwegian and foreign broking houses follow Norske Skog and publish analyses of the Company. A list of these may be found on Norske Skog's web site.

Jarle Langfjæran and Rune Gjessing are responsible for Norske Skog's investor relations.

DISTINCTIONS AND COMMENDATIONS IN 2002

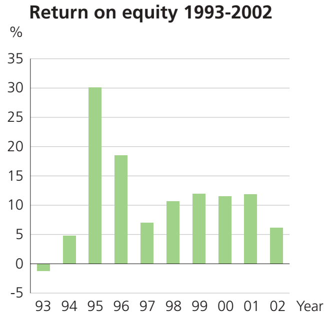
Norske Skog received several distinctions and commendations for its investor relations performance in 2002:

- REGI Research & Strategi AB, a Swedish firm, undertook a comprehensive investor relations survey in Norway and Sweden in the spring of 2002. Norske Skog was named the best company, overall, in Norway, and was also judged best in the sub-categories CEO, Investor Relations Officer and Annual Report.
- Thomson Extel, of the UK, put Norske Skog first among Norwegian companies in an investor relations table.
- Investor Relations Magazine named Norske Skog the best company in Norway regarding Investor Relations, and the Company also won an award as the best Nordic company in the category "Best Investor Relations to Retail Investors".

FTSE4 GOOD GLOBAL INDEX

In 2002 Norske Skog was included in this index, the criteria for which are primarily a sustainable environmental policy, plus the practice of personnel policy and support for human rights.

Return on equity 1993-2002



Shares and share capital

As of 31.12.2002 the Company's share capital was NOK 1 331 370 880, representing 133 137 088 shares with a par value of NOK 10 each. All shares hold equal rights in the Company. There were no changes in share capital during 2002.

On the whole, Norske Skog's ownership structure is relatively stable. As of 31 December, 2002, the Forest Owners' Association owned 21% of the Company's shares – a marginal increase from a year earlier. The largest life insurance companies in Norway reduced their shareholdings from 6% to 4% over the year, while the National Insurance Fund increased its stake from 6.7% to 8.3%. The proportion of shares held by foreign owners rose to 43.1%, at the beginning of 2003 up from 41.3%. Apart from employees of Norske Skog's mills outside Norway, most foreign investors are registered through custodial banks, and consist mainly of US mutual funds.

Norske Skog has a total of 22 293 shareholders, of which 1 210 have addresses outside Norway.

As of 31.12.2002, Norske Skog owned 888 247 of its own shares. These were acquired when A/S Union was merged with Norske Skog in 1999, and are used primarily for the annual sale of shares to employees, and bonus schemes. The Company's holding of its own shares was reduced by 280 651 during 2002.

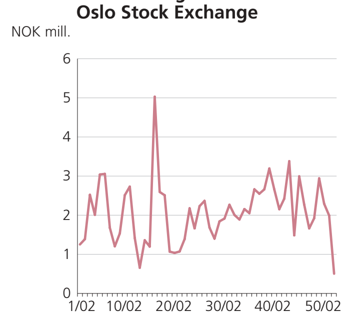
The Board has authorisation to buy back up to 10% of outstanding shares. This authority is valid until 29 October 2003. The Board will seek to have this authority extended further at the ordinary General meeting in April 2003.

Trading in Norske Skog shares

The Company's shares are listed on the Oslo Stock Exchange and on SEAQ (Stock Exchange Automatic Quotation System) in London.

During the year a total of 107.6 million Norske Skog shares were traded on the Oslo Stock Exchange. When compared with the average number of shares held (excluding those owned by the Company itself) this represents a turnover ratio of 81.4%, against 96.6% in 2001. In addition to the shares traded on the Oslo Stock Exchange, 60 million shares were traded on SEAQ.

Norske Skog share on Oslo Stock Exchange



Share savings scheme and incentive system

Norske Skog has changed, in the course of a few years, from a traditional Norwegian industrial company to a company with extensive international activity. This internationalisation also affects the way in which Norske Skog rewards its management. Remuneration schemes for the Group's senior people are being evaluated, and the general share savings scheme has been significantly expanded. An important aspect of the scheme is to increase employees' shareholdings, and the shares offered shall either be taken from Norske Skog's holding of its own shares, or bought in the market.

Employees at all levels within Norske Skog should be shareholders. This will enable all of them to participate in the Company's value creation, and over time the share scheme represents an advantageous form of saving. The annual sale of shares to employees highlight – throughout the entire organisation – the role of owners in Norske Skog, and provide insight into the stock market.

The shares are sold at a discount on market prices. The scheme was introduced for the Group's employees in Norway in 1996. It has since been extended, in stages, to apply to all employees at all mills and sales offices throughout the world where Norske Skog owns more than 90%. Each year, employees can buy shares up to a limit of 3/5 G (G = basic Norwegian old age pension). Shareholder-elected members of the Board and Corporate Assembly are also eligible to buy shares under the scheme.

1 807 employees participated in the February 2002 sale, buying a total of 270 290 shares. Of those participating, 867 were in Norway and 940 in other countries.

From 1998 a bonus system was introduced for managers above a certain level in Norske Skog. The bonus is a part of each individual's employment contract, and relates to certain specific goals that must be achieved if the bonus is to be paid. Fifty per cent of any bonus paid shall be used to buy Norske Skog shares, which must then be held for at least three years.

In December 2002 a new option scheme was launched to replace an earlier programme which had expired. Under the new scheme, options may be allocated each year to people in Group management. The options are priced at the market price of Norske Skog shares on the date the options are awarded. They run for three years, and can be exercised in the final six months of that period. If the options are exercised, an amount corresponding to the difference between the market price, and the option price will be paid, minus tax. The net amount shall be used to buy Norske Skog shares in the market, and these must then be held for three years. Like the previous option programme, this one has no dilution effect. The programme will run for a period of three years starting in 2003.

The stock market 2002

The turbulence on stock markets seen in 2001 continued in 2002, and most of the world's stock exchanges fell during the year: New York (Dow Jones) by 17%, London (FTSE 100) by 24%, Stockholm by 42% and Oslo by 32%.

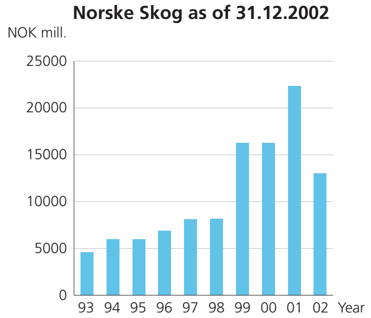
Norske Skog shares started the year strongly, reaching a peak of NOK 175.50 in February. Subsequently the trend was mainly negative, with the lowest price – NOK 82.50 – recorded in early October. The trend of the Oslo Stock Exchange generally, and of Norske Skog, is significantly affected by the stronger Norwegian krone, which has a negative impact on Norwegian raw material-based industry.

SHARE PRICE INFORMATION:

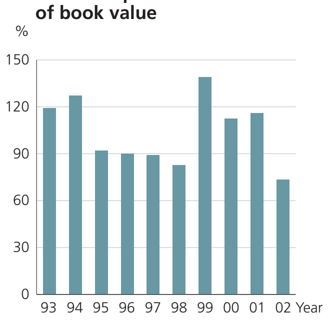
	NOK per share
Official price (for tax return purposes) on 31.12.2002	100.50
Price 30.12.2002	98.00
Price 29.12.2001	168.50
High 2002	175.50
Low 2002	82.50

Norske Skog's market capitalisation was NOK 13 billion as of 29.12.2002, against NOK 22.4 billion a year earlier.

Market value Norske Skog as of 31.12.2002



Market cap. as % of book value



40 years of Norske Skog shares

Norske Skog was established in 1962, and the Norwegian forest owners' cooperative owned 50% of the original share capital of NOK 49 million. The rest was mainly owned by other agricultural organisations, the State Forests and a large number of private forest owners. In all, there were 4 800 shareholders. As a result of the merger with the particle board activities of A/L Orkla Skogindustri and A/S Saga Skogindustri in 1972, the number of Norske Skog shareholders rose to 11 200, and the company got the geographic spread of its shareholders in Norway which still largely exists. This was because the particle board mills were largely financed by capital injections from private forest owners in the vicinity of the mills.

Norske Skog paid no dividend until 1983, and up to the mid-1980's its shares were infrequently traded – and then mostly in connection with property transfers in the agricultural sector. During the 1980's this changed. Norske Skog floated a convertible bond loan in 1985, and foreign investors gradually became aware of the Company's shares.

In 1989 Norske Skog merged with the stock exchange listed companies A/S Follum Fabrikker and A/S Tofte Industrier. At the time of the mergers, Norske Skog owned barely half of the shares in Follum, and the rest was mainly owned by Norwegian financial institutions. Follum had been stock exchange listed for many years. Tofte had been listed for only two years, and Norske Skog, Follum and the forest owners' cooperative owned a total of 49%, with the rest held by a large number of shareholders. Through this merger a complex cross-ownership disappeared, and Norske Skog's share capital rose from NOK 265 million to NOK 485 million.

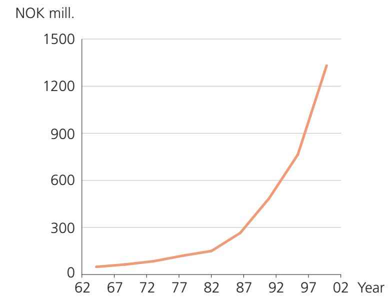
In common with a number of other Norwegian companies, Norske Skog created non-voting B-shares in 1990. The aim was to be able to offer shares to foreign investors, who – at that time – could not own more than 1/3 of the votes in Norwegian companies. The proportion of B-shares was originally 10%, but during the 1990's B-shares were issued on several occasions, so that it stood at 27% when the two share classes were merged in the spring of 2001. The existence of two share classes had indisputably hampered the liquidity of the Company's shares.

A major expansion of Norske Skog's foreign activities has taken place since 1990, and equity capital has to a large extent come from the Company's cash flow and from sales of assets outside its core area. In addition, however, Norske Skog has on several occasions raised money on both the Norwegian and foreign capital markets:

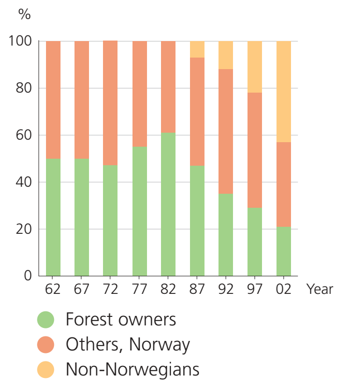
- Convertible loans totalling NOK 1.2 billion in 1990 and 1991
- NOK 800 million new share issue in 1994
- NOK 1.5 billion private placement of new shares in 2000
- NOK 3.2 billion international offering in 2001

Through these operations, and through the merger of A- and B-shares, Norske Skog has become one of the largest and most traded companies on the Oslo Stock Exchange. A well-functioning capital market, both in and outside Norway, was an important prerequisite for this to happen.

Share capital growth



Percentage ownership distribution



Financing and liquidity

MAIN PRINCIPLES

Norske Skog operates in a cyclical and capital-intensive industry. Consequently, strong emphasis is placed on maintaining a sound financing structure and satisfactory liquidity. Norske Skog has centralised responsibility for financing, and the main principle is that all external financing shall take place through the parent company, Norske Skogindustrier ASA.

GROWTH AND FINANCIAL STRUCTURING

Norske Skog has expanded significantly during recent years. Several major investments have been made since 2000, the largest of which were the acquisition of Fletcher Challenge Paper and the two paper mills Walsum and Parenco. Investments during the years 2000 and 2001 totalled NOK 32.3 billion.

The financing of these large acquisitions has presented major challenges, and throughout the entire period Norske Skog's aim has been to maintain a sound and balanced financial position. Large bridge loans were therefore rapidly refinanced by long-term loans and equity issues. In addition, the Group's strong cash flow, together with the sales of non-core assets, has significantly contributed to reducing its financial exposure.

The graphs on the next page show the composition of Norske Skog's sources of funding in connection with the major acquisitions during 2000 and 2001. 2002 has been a year of consolidation for Norske Skog, in which no new large investments have been made. Debt has, however, been further reduced through the Group's positive cash flow and the sales of non-core assets.

During this period, Norske Skog has broadened the spectrum of funding sources to include international bond markets, too. These now represent an important source of funding, together with bank loans and the Norwegian bond market. Opportunities for raising loans on international capital markets increased in 2001, when Norske Skog decided to seek credit ratings from Standard & Poor's and Moody's.

On the equity capital side, the Company has implemented several share issues, and its two share classes have been amalgamated into one. In addition, a share split was carried out, in order to further boost the shares' liquidity.

FINANCING

Debt financing is mainly arranged through syndicated and bilateral bank loans, as well as domestic and international bond loans. Norske Skog believes in maintaining a diversified loan portfolio, where the financing is spread among different banks, investor groups and markets. Diversification of funding sources helps reduce the Company's refinancing risk. By refinancing risk is meant the risk of being unable to fulfil repayment obligations owing to inadequate liquidity and difficulty in raising external loans.

The Group aims for the greatest possible standardisation of loan conditions. For example, all of its bank loans have the same requirements as regards financial covenants. These are

- consolidated tangible net worth (equity less intangible assets) minimum NOK 9 billion, and
- net interest-bearing debt/equity gearing maximum 1.4.

Its bond loans have no requirements regarding key financial covenants. Its loan agreements contain no rating sensitive covenants.

AMORTISATION PROFILE AND MATURITY SCHEDULE

Norske Skog aims for a smooth amortisation profile on its debt portfolio. By avoiding high, short-term repayments, it is better placed to service its loan obligations even in years of low economic activity. The Company's goal is that its loan portfolio should have an average maturity of minimum five years. As of 31.12.2002, average maturity was 5.1 years.

LIQUIDITY

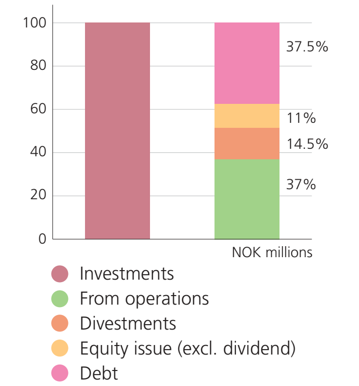
Norske Skog's policy is to have available liquid assets and committed, undrawn credit facilities of at least 10% of expected annual turnover. Apart from that, the Company should have a strategic capital buffer of up to NOK 5 billion. In calculating available liquidity, only facilities with a maturity of more than one year are included.

RATING

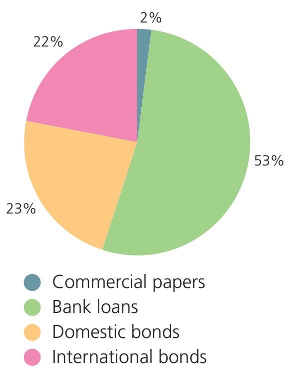
Norske Skog is credit rated by Standard & Poor's and Moody's, two of the world's leading rating agencies. At the turn of the year, Norske Skog had a rating from Moody's of Baa3. Our goal is a long-term rating of Baa2. On the same date, Standard & Poor's rating was BBB, which is in line with the Company's target. Standard & Poor's put Norske Skog on its "negative watch" list on 5 February 2003. In the light of the requirements specified by Standard & Poor's for the relevant rating category, some of Norske Skog's operating financial key figures showed a weak trend in 2002, combined with continued uncertain market prospects for 2003. Standard & Poor's expects that any downgrading will be limited to BBB-, which is one notch below today's rating. On average, other publication paper producers are rated at around BBB level. The table below shows rating levels as of 31 December 2002.

Company	Moody's	S&P's
Stora Enso	Baa1	BBB+
UPM Kymmene	Baa1	BBB+
Holmen	Baa1	BBB+
Norske Skog	Baa3	BBB
M-Real	Baa3	BBB-
Abitibi Consolidated	Ba1	BBB-
Bowater	Ba1	BBB-

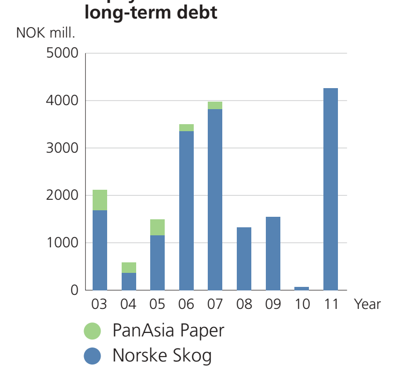
Sources of finance, acquisitions



Financing by sources



Repayment schedule long-term debt



*) Norske Skog consolidates 50% of PanAsia's debt, but has given no guarantees.

Risk management in Norske Skog

Norske Skog is exposed to unforeseen events world-wide, which affect profitability. It is therefore necessary to develop a corporate wide risk management strategy across functions and national boundaries, in order to reduce this uncertainty.

Corporate wide risk management is an integrated, forward looking and value based process, which makes it easier to understand and prioritise risks that affect the business. Corporate wide risk management is divided into four main categories: financial, hazard, operational and strategic risks. The goal is to protect the Group against unexpected losses, while securing stable earnings in order to create value for the Company's shareholders.

The Group has established key functions, each of which is responsible for identifying, quantifying, analysing and mitigating various risks, in accordance with guidelines that have been approved by the Board. Responsibility for following up and monitoring group wide risk management in Norske Skog lies with the Corporate Risk Management department.

CURRENCY RISK

The Group is today one of the most international paper and pulp companies world wide with an exceptional cost base, where significant costs are in NOK and sales are in foreign currencies. This means that Norske Skog is exposed to a greater currency risk than most of its competitors.

Norske Skog is exposed to currency risk in the following areas:

- Assets and debt in foreign currencies on the balance sheet (balance sheet risk)
- Net cash flow which to a great extent consists of a positive cash flow in foreign currencies and a negative cash flow in NOK (transaction risk)

BALANCE SHEET RISK

Balance sheet risk arises when the Group's accounts are consolidated in NOK and translation differences arise on assets and debt in foreign currencies. This translation difference is booked against equity, thereby affecting important key ratios such as gearing (net interest-bearing debt/equity). Balance sheet risk is managed by ensuring that the Group's net debt is denominated in a mix of currencies in which the Group also holds assets, in order to reduce fluctuations in key financial covenants resulting from currency rate movements. During 2002 the currency portfolio of the Group's debt was designed to neutralise the effect of such fluctuations against the gearing covenant.

The Group meets the requirement for hedge accounting under Norwegian accounting principles. Investments outside Norway are financed in foreign currencies in proportion with the Group's net assets (USD, EUR, AUD, KRW, CZK, NZD). For practical reasons, forward contracts are also used, to optimise the debt portfolio.

The balance sheet effect of currency changes in the accounting year 2002 is as follows (rounded figures):

- Assets reduction: NOK 4.4 billion
- Debt reduction: NOK 2.4 billion
- Equity reduction: NOK 2.0 billion

The table below shows the equivalent in NOK of the Group's hedge portfolio, as well as the balance sheet mix per currency.

TRANSACTION RISK

Norske Skog is also exposed to currency fluctuations when the Group's cash flow in foreign currencies is translated to NOK. The cash flow in foreign currencies consists of cash flow from operations, asset sales and investments, as well as cash flow related to financing activities. The value, in Norwegian kroner of expected future cash flows, is affected by foreign exchange rate movements.

Norske Skog's policy is to hedge between 50-100% of the next 12 months' expected net cash flow per currency. The aim is to even out the effect of currency fluctuations on the Group's cash flow and to make it easier to predict the Group's earnings.

The Groups net currency exposure as of 31.12.2002 for the next 12 months is about NOK 5.2 billion and is made up as follows:

USD	EUR	GBP	AUD	NZD	Other	Total
26%	30%	29%	17%	-10%	8%	100%

The strengthening of the Norwegian krone led to a reduction in the operating result in 2002 by about NOK 850 million compared with average foreign exchange rates in 2001. In addition translation differences on accounts receivables and payables, amounted to about NOK 150 million. Gains on hedges have however been nearly NOK 900 million.

INTEREST RATE RISK

There is a correlation between economic trends and interest rate movements. Interest rates fall during an economic downturn and rise in an upswing. Norske Skog seeks to structure the fixing of interest rates on its loans so that interest costs partly offset changes in revenue as a consequence of changes in the economic climate. To a large extent, Norske Skog has floating interest rates on its loans. By floating is meant interest rates fixed for periods of less than one year. Limits are set for fixing interest rates per currency. At the end of the year interest rates on the Company's loans had an average duration of about 10.5 months. To adjust the duration, various types of derivative instruments are used.

The table below shows the interest rate period, in effective terms of Norske Skog's foreign currency and NOK loans as of end-2002.

The Group's net interest cost, and interest cost as a % during the period 2000 to 2002, is as follows:

(NOK million)	2002	2001	2000
Net interest cost	1 203	1 150	893
Average interest cost (%)	5.7%	6.0%	6.9%

LIQUIDITY RISK

The Group shall at all times hold a liquidity reserve of minimum NOK 3 billion. The liquidity reserve at the end of 2002 totalled NOK 6 billion. This consists of available liquidity (cash) as well as committed drawing facilities with banks. The minimum liquidity shall be NOK 500 million, placed in bank deposits or liquid securities. Transactions are primarily undertaken with counterparties having high credit rating. Credit limits are monitored and reviewed continuously.

CREDIT RISK

To manage the risk of losses on accounts payable the Group has developed clear guidelines for credit control per customer. Internal credit ratings and credit lines are set for each customer, based on financial quality. In cases where the risk is high, credit insurance, or other hedging instruments, shall be considered where applicable (see note 28, page 85).

INSURANCE

Norske Skog has centralised the management of its group wide insurance programme. This programme includes insurance policies, which cover property damage and business interruption, general liability and transportation. The insurance value of property damage and business interruption totalled NOK 90 billion on 31 December 2002. Total general liability cover amounted to NOK 1.5 billion. One of the goals is to achieve the best cover available, based on competitive terms in the global insurance market. Total cost of risk shall be minimised by, among other things, implementing risk-reducing activities. Norske Skog seeks to achieve an appropriate balance between retained insurable risks and risks that are transferred to the external insurance market.

Business units are responsible for maintaining a high standard regarding all loss-prevention activities. That is described in internal standards and procedures. Central support is offered in identifying risks through comprehensive technical surveys. Among other things, these surveys form the basis for exchanging best practice between mills.

Norske Skog has a captive (its own insurance company - NSI Forsikring), which is registered in Denmark. Proper methods of financing various types of risk through this captive are under continuous evaluation. In the longer term, the Group may decide to retain a higher risk on property damage. This should result in lower insurance premiums. The Group has a satisfactory loss history, which is important in setting the premium.

PROJECT RISK

During the past two years, Norske Skog has invested in companies and projects world wide. Risk is often related to the areas where these projects are located. A method has been developed for identifying and managing such risks. The risk will depend on a number of future events, which may occur during the project's lifetime. Norske Skog handles this by using so-called expected cash flows in risk analysis, adjusted for the risk of possible losses or gains. This method helps ensure that capital allocation is as efficient as possible and that these investments create value for Norske Skog's shareholders.

Balance sheet exposure as of 31 December, 2002

	NOK	USD	EUR	AUD	CAD	CZK	THB	KRW	NZD	Total
Net assets before interest-bearing debt	**7 625**	**4 504**	**11 933**	**3 451**	**2 258**	**300**	**202**	**2 974**	**2 879**	**36 126**
Net local interest bearing debt	-261	-924	-168	-232	–	-87	-28	-820	-785	-3 305
Norske Skogindustrier ASA debt	-5 075	-4 179	-4 938	-360	-280	–	–	–	–	-14 832
Financial derivates	751	3 264	-921	-887	-888	-51	-85	-634	-616	-67
Total hedges	**-4 585**	**-1 839**	**-6 027**	**-1 479**	**-1 168**	**-138**	**-113**	**-1 454**	**-1 401**	**-18 204**
Balance sheet exposure after hedging	**3 039**	**2 665**	**5 906**	**1 972**	**1 090**	**162**	**89**	**1 520**	**1 478**	**17 921**
Hedging ratio of net investments %	–	26	50	39	52	24	49	29	29	42
Gearing hedges by currency %	60	41	51	43	52	46	56	49	49	50

Effective interest rate period, in effective terms, of the Group's debt as of 31 December, 2002

	NOK	USD	EUR	AUD	CAD	CZK	THB	KRW	NZD	Total
Currency composition of the Group's debt (including currency swaps)	4 585	1 839	6 027	1 479	1 168	138	113	1 454	1 401	18 204
Duration per currency (effective interest rate duration)[2]	1.66	-0.28[1]	0.36	0.77	0.15	0.08	0.09	0.14[1]	1.50	0.75

[1] In the calculation of duration Pan Asia Paper's debt is not included (NOK 379 million in USD and NOK 707 million in KRW).

[2] Forward contracts in relation to the balance sheet hedging (hedging gearing) is included in the calculation of duration.

Production capacities (1 000 tonnes)

Mills	Country	Newsprint[1]	Other uncoated papers	SC	LWC	Total publication paper
Europe:						
Norske Skog Skogn	Norway	580				
Norske Skog Saugbrugs	Norway			550		
Norske Skog Follum	Norway	130	165		115	
Norske Skog Union	Norway	165	85			
Norske Skog Golbey	France	600				
Norske Skog Bruck	Austria	120			255	
Norske Skog Steti	Czech Republic	125				
Norske Skog Walsum	Germany				435	
Norske Skog Parenco	The Netherlands	320		155		
Total Europe		**2 040**	**250**	**705**	**805**	**3 800**
Australasia:						
Norske Skog Tasman	New Zealand	380	50			
Norske Skog Albury	Australia	225				
Norske Skog Boyer	Australia	205	85			
Total Australasia		**810**	**135**			**945**
South America:						
Norske Skog Pisa	Brazil	185				
Norske Skog Klabin [2]	Brazil	130				
Norske Skog BioBio	Chile	60	65			
Total South America		**375**	**65**			**440**
Norske Skog Canada Ltd. [3]						
Crofton	Canada	290	150			
Elk Falls	Canada	375	155			
Port Alberni	Canada		220		210	
Powell River	Canada	220	230			
Total Canada		**885**	**755**		**210**	**1 850**
Pan Asia Paper Company Pte. Ltd. [4]						
Pan Asia Paper Jeonju	Republ. Korea	865	135			
Pan Asia Paper Chongwon	Republ. Korea	190				
Shanghai PanAsia-Potential Paper Co., Ltd.	China	145				
Pan Asia Paper Sing Buri	Thailand	125				
Total Pan Asia Paper Co Pte. Ltd.		**1 325**	**135**			**1 460**
Malaysian Newsprint Industries Sdn. Bhd. [5]	Malaysia	**250**				**250**
Grand total		5 685	1 340	705	1,015	8 745
Excl. 50% Pan Asia		5 025	1 270	705	1 015	8 015
Based on legal ownership		4 065	750	705	870	6 390

[1] Newsprint capacity is based on 45 g/m2 in Europe and Asia, and on 48,8 g/m2 in other regions.
[2] Capacity for Norske Skog Klabin included 100%: Norske Skog owns 50% of the company, but this joint venture will be terminated in the spring of 2003 and the 130 000 tonnes of newsprint will be converted to other grades.
[3] Capacity for NorskeCanada included 100%: Norske Skog owns 30.6% of the company. NorskeCanada produces in addition 115 000 tonnes of kraftliner and 410 000 tonnes of market pulp.
[4] Capacity for PanAsia included 100%: Norske Skog owns 50% of the company. PanAsia owns 56.1% of Shanghai Pan Asia-Potential Paper.
[5] Capacity for MNI included 100%: Norske Skog owns 33.65% of the company.

Main financial figures

	Definitions	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Profit and loss account (NOK mill.)											
Operating revenue		23 471	30 354	26 635	18 054	14 908	13 312	13 265	12 548	9 170	7 338
Gross operating earnings	1	5 198	8 419	6 599	3 818	3 103	2 223	3 136	3 332	1 348	851
Operating earnings		1 306	5 096	4 211	2 129	1 780	1 083	1 916	2 500	732	299
Earnings before financial expenses	2	1 180	5 581	4 575	2 252	1 948	1 194	2 076	2 850	843	589
Earnings before taxes		806	3 894	3 021	1 825	1 417	650	1 732	2 336	333	4
Earnings for the year		1 162	2 494	1 958	1 300	1 020	590	1 317	1 669	206	-47
Balance sheet (NOK mill.)											
Fixed assets		38 197	45 417	43 717	18 828	17 586	12 778	12 031	10 246	7 377	7 694
Current assets		6 769	10 855	17 510	6 086	6 663	4 515	4 592	4 618	4 333	4 261
Total assets		44 966	56 272	61 227	24 914	24 249	17 293	16 623	14 864	11 710	11 955
Shareholder's equity incl. minority		17 921	19 526	22 351	11 727	10 029	9 123	7 691	6 546	4 731	3 864
Long term debt		20 835	30 858	31 906	9 021	9 564	4 947	5 178	4 981	4 936	6 133
Current liabilities		6 210	5 888	6 970	4 166	4 656	3 223	3 754	3 337	2 043	1 958
Total liabilities and shareholder's equity		44 966	56 272	61 227	24 914	24 249	17 293	16 623	14 864	11 710	11 955
Net interest bearing debt		18 204	22 820	20 535	7 618	7 082	4 145	4 827	4 006	3 170	4 366
Profitability											
Gross operating margin %	3	22.1	27.7	24.8	21.1	20.8	16.7	23.6	26.6	14.7	11.6
Net operating margin %	4	5.6	16.8	15.8	11.8	11.9	8.1	14.4	19.9	8.0	4.1
Net profit margin %	5	5.0	8.2	7.4	7.2	6.8	4.4	9.9	13.5	2.2	-0.6
Return on assets %	6	2.3	9.5	10.6	9.2	9.4	7.0	13.2	21.4	7.1	5.0
Return on equity %	7	6.2	11.9	11.5	12.0	10.7	7.0	18.5	30.1	4.8	-1.2
Equity ratio	8	39.9	34.7	36.5	47.1	41.4	52.8	46.3	44.0	40.4	32.3
Net interest bearing debt/equity		1.02	1.18	0.92	0.65	0.71	0.45	0.63	0.61	0.67	1.13
Return on capital employed %	9, 15	4.7	13.7	13.1	11.0	11.7	8.4	15.9	25.4	8.3	3.4
Net earnings per share after tax (NOK)	10	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88	-0.74
Net earnings per share fully diluted (NOK)	10	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21	0.69
Cash flow per share after tax (NOK)	11	27.89	58.47	48.18	23.29	31.85	19.00	33.74	33.11	12.12	7.75
Cash flow per share fully diluted (NOK)	11	27.89	58.47	48.18	23.29	31.85	19.00	29.22	28.67	10.80	7.49
Liquidity											
Liquid assets (NOK)	12	868	4 158	8 629	803	2 312	853	1 088	1 010	1 499	1 716
Cash flow (NOK)	13	3 687	7 052	4 922	2 162	2 859	1 615	2 616	2 555	866	492
Current ratio	14	1.09	1.84	2.51	1.46	1.43	1.40	1.22	1.38	2.12	2.18

Definitions main financial figures:
1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses
2. Earnings before financial expenses = Operating earnings + Interest income + Share of earnings in affiliated companies
3. Gross operating margin = Gross operating earnings : Operating revenue
4. Net operating margin = Operating earnings : Operating revenue
5. Net profit margin = Earnings for the year : Operating revenue
6. Return on assets = Earnings before financial expenses : Total assets (average)
7. Return on equity = Earnings for the year : Equity (average)
8. Equity ratio = Equity : Total assets
9. Return on capital employed = Operating earnings before restructuring costs : Capital employed (average) (see 15)
10. Net earnings per share after tax = Earnings for the year : Average number of shares *)
11. Cash flow per share after tax = Cash flow : Average number of shares *)
12. Liquid assets = Cash and bank deposits + short term investments
13. Cash flow = Net cash flow from operating activities (from statement of cash flow)
14. Current ratio = Current assets : Current liabilities
15. Capital employed = Total assets less affiliates, interest free current liabilities and interest bearing assets

*) When calculating financial ratios per share after full conversion net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.

Principal shareholders as of 31 December 2002 (>0,5% OWNERSHIP)

	A-shares	
Name	No.	%
Foreign shareholders[1]	57 372 142	43.09
Forest owners' association[2]	27 811 958	20.89
Folketrygdfondet, Oslo	11 069 000	8.31
Vital Forsikring, Bergen	2 086 057	1.57
Rederiaktieselskapet Henneseid, Skien	1 950 204	1.46
DnB Investor, Oslo	1 722 584	1.29
Odin-fondene, Oslo	1 497 500	1.12
Havlide A/S, Skien	1 379 248	1.04
Gjensidige NOR, Oslo	1 315 232	0.99
Storebrand Livsfors./IF, Oslo	1 280 067	0.96
Avanse-fondene, Oslo	1 256 169	0.94
Skagen Vekst, Stavanger	1 150 000	0.86
Orkla ASA, Oslo	1 038 002	0.78
Norske Skogindustrier ASA	888 247	0.67
Nordea-fondene, Oslo	796 339	0.60
Total, shareholders with > 0,5% ownership	112 612 749	84.58
Total no. of shares	133 137 088	100.00

1) The majority of these shareholders are registered under custodial banks (nominees).
2) The regional forest owners organisations in Norway and the Norwegian Forest Owners Association.

Key figures related to shares

		2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Average number of shares ex. shares held in treasury (1 000)		132 194	120 604	102 159	92 829	89 773	84 991	77 537	77 177	71 454	6 3476
Average number of shares after full conversion excluding shares held in treasury (1 000)		132 194	120 604	102 159	92 829	89 773	84 991	91 986	91 641	86 915	79 266
Net earnings per share after tax (NOK)	1	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88	-0.74
Net earnings per share after full conversion (NOK)[a]	1	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21	0.69
Cash flow per share after tax (NOK)	2	27.89	58.47	48.18	23.29	31.85	19.00	33.74	33.11	12.12	7.75
Cash-flow per share after full conversion (NOK)[a]	2	27.89	58.47	48.18	23.29	31.85	19.00	29.22	28.67	10.80	7.49
Dividend per share (NOK)		6.00	6.00	6.00	5.50	4.25	3.50	3.50	3.00	0.75	0.50
Price earnings ratio (A)	3	11.15	8.15	7.86	12.11	7.93	12.51	5.09	3.42	26.77	–
Payout ratio (%)		68.26	29.01	26.90	33.6	31.9	42.70	19.50	11.50	21.70	–
Number of shares 31.12. (1 000)	A-share	133 137	133 137	67 972	57 592	57 592	57 592	53 114	53 062	52 398	47 368
	B-share	–	–	25 172	25 172	18 832	18 832	12 168	12 168	11 122	5 262
	Total	133 137	133 137	93 144	82 764	76 424	76 424	65 282	65 230	63 520	52 630
Share prices high (A restricted)		175.50	168.50	172.10	172.51	110.81	120.15	86.86	94.57	82.60	71.24
Share prices low (A restricted)		82.50	115.00	90.11	82.80	66.97	77.12	70.83	69.00	56.83	26.38
Trading volume (Oslo Børs)	1 000	107 649	116 458	54 118	46 424	47 650	61 000	51 200	56 000	52 384	51 238
Share prices 31.12	A restricted	–	–	–	–	–	–	–	–	77.93	71.24
	A free	98.00	168.00	150.59	169.67	90.11	86.86	86.46	75.29	77.12	71.44
	B-share	–	–	146.00	168.50	95.50	100.00	97.25	87.75	92.00	87.50
Number of shareholders 31.12.	A restricted	–	–	–	–	–	–	–	–	–	16 907
	A free	21083	22 587	19 431	17 900	18002	17 466	17 456	17 285	17 222	16 106
	B-share	–	–	14 915	14 693	13746	13 796	14 271	14 605	14 950	15 384
	Total	21 083	22 587	21 779	19 884	18753	18 075	18 070	17 710	17 503	17 552
Number of foreign shareholders 31.12.	A free	1 210	1 092	546	483	203	186	154	179	164	139
	B-share	–	–	133	110	88	97	92	127	130	80
	Total	1 210	1 092	589	518	222	208	177	231	222	162
Percentage of shares for foreign shareholders 31.12. (%)	A free	43.1	41.3	25.1	27.6	27.6	26.0	23.6	14.2	15.9	42.7
	B-share	–	–	8.3	5.6	6.0	8.3	15.2	41.4	60.8	58.4
	Total	43.1	41.3	20.5	20.9	22.3	21.6	22.0	19.3	24.7	18.6
Market value (NOK mill.)		13 047	22 367	16 284	16 278	8 191	8 100	6 900	6 000	5 983	4 597

1. Net earnings per share after tax = Profit for the year : Average number of shares
2. Cash-flow per share after tax = Cash flow : Average number of shares
3. Price earnings ratio = Share price 31.12. : Net earnings per share after tax

a) When calculating financial ratios per share after full conversion net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.

A restricted shares and A free shares were merged at the turn of the year 1994/95.

Weak demand for publication paper

Low economic activity and general uncertainty in large parts of the world marked the year 2002. There was an increase in demand for publication paper in Asia and a stable situation in Australasia, despite a decline in global demand for publication paper in 2002.

Norske Skog in total produced 5 million tonnes of publication paper in 2002 against 4.8 million tonnes in 2001. Owing to reduced demand, most mills implemented production adjustments.

Information about the mills – products, capacities and localisation – is in the chart on page 22.

Norske Skog had a total production of 5 million tonnes publication paper in 2002 and covers 13% of the global market for newsprint and magazine paper.

The world of Norske Skog

NORTH AMERICA

NorskeCanada Elk Falls
Canada
Newsprint, other publication

NorskeCanada Crofton
Canada
Newsprint, catalogue paper

NorskeCanada Port Alberni
Canada
Catalogue paper, LWC magazine paper

NorskeCanada Powell River
Canada
Newsprint, other publication paper

NorskeCanada
Vancouver, Canada
30.6% equity stake
Headquarter

EUROPE

Norske Skog Golbey
France
Magazine paper

Norske Skog Walsum
Germany
LWC magazine paper

Norske Skog Parenco
The Netherlands
Newsprint, SC magazine paper

Norske Skog Union
Norway
Newsprint, book paper

Norske Skog Skogn
Norway
Newsprint

Norske Skog
Headquarter, Oslo, Norway
Regional office Europe, Oslo, Norway

Norske Skog Follum
Norway
Newsprint, other publication paper

Norske Skog Saugbrugs
Norway
SC magazine paper

Norske Skog Steti
The Czech Republic
Newsprint

Norske Skog Bruck
Austria
Newsprint, LWC magazine paper

ASIA

Pan Asia Paper Sing Buri
Thailand
Newsprint

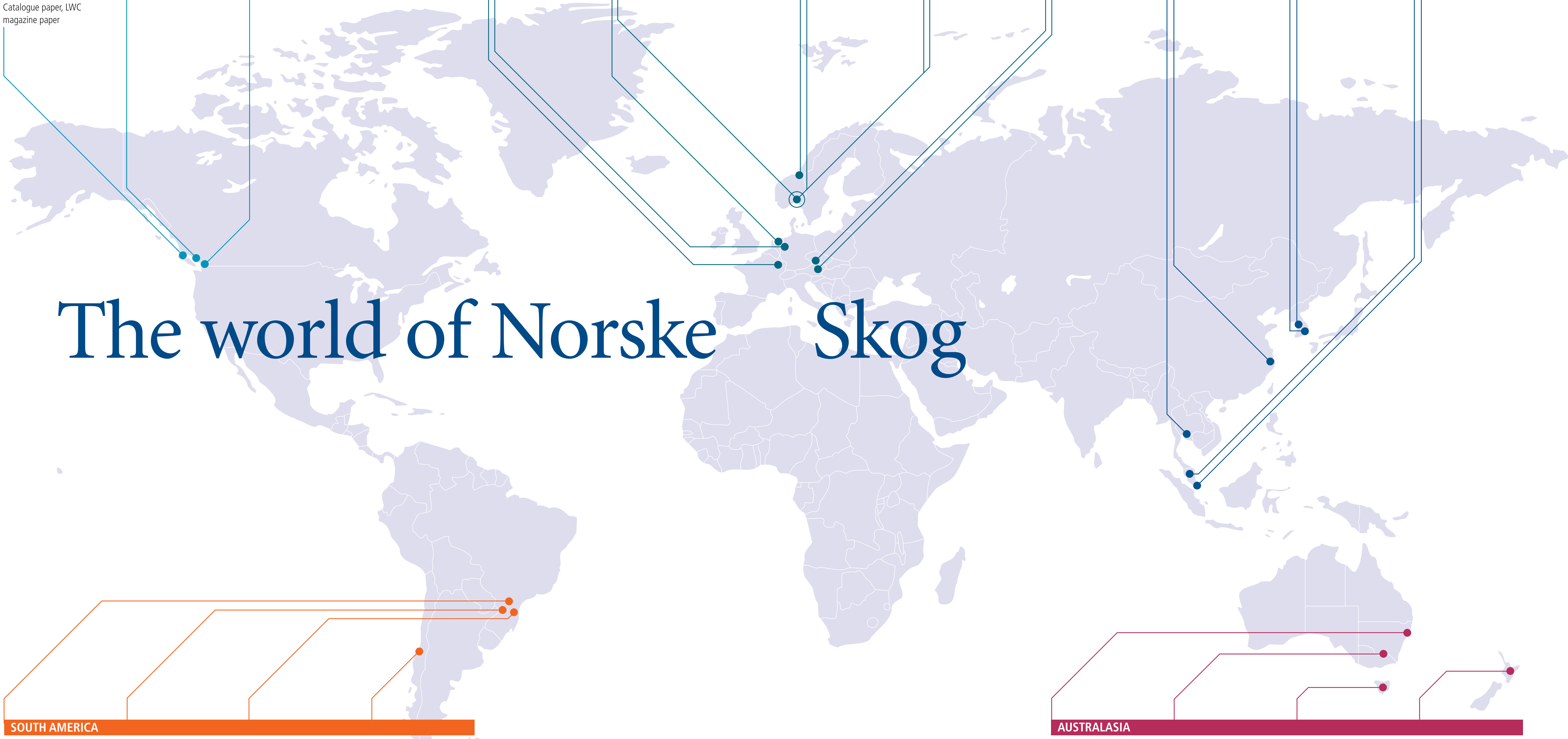
Shanghai Pan Asia-Potential Paper
China
Newsprint

Pan Asia Paper Jeonju
South Korea
Newsprint

Pan Asia Paper Chongwon
South Korea
Newsprint

Malaysian Newsprint Industries
Malaysia
34% equity stake
Newsprint

Pan Asia Paper
Singapore
50% equity stake
Regional office



SOUTH AMERICA

Norske Skog Pisa
Brazil
Newsprint

Norske Skog Klabin
Brazil
50% equity stake
Newsprint

Norske Skog South-America
Curitiba, Brazil
100% owned mills
Regional office

Norske Skog Bio-Bio
Chile
Newsprint, catalogue paper

AUSTRALASIA

Norske Skog Australasia
Sydney, Australia
100% owned mills
Regional office

Norske Skog Albury
Australia
Newsprint

Norske Skog Boyer
Australia
Newsprint, catalogue paper

Norske Skog Tasman
New Zealand
Newsprint, catalogue paper

Europe

Further softening of the publication paper market following weaker economies and reduced advertising

The softening of the publication paper markets in 2001 continued in 2002. For most grades, prices and utilisation rates fell from high levels in 2001. The weak market situation is expected to continue into 2003. Several initiatives have been planned and implemented, strengthening the Norske Skog European operations and making them better positioned towards the market in 2004.

LOWER PRICES AND VOLUMES

The demand for newsprint fell by 6% in 2002 in Europe, due to the weakening economic climate and the following decrease in advertising expenditures in most European countries. This was, however, partly offset by very strong pick up in the demand from markets outside Europe and North America. European exports increased by close to 50%. The capacity utilisation averaged approximately 90%, down from approximately 93 % in the previous year. The prices fell, from a high level in 2001, by around 10% in Europe in 2002. At the same time, export markets experienced very low price levels.

Deliveries of uncoated magazine paper (SC) to Europe were healthy throughout the year and decreased by close to -1% from 2001. Global demand for the SC-B quality paper decreased by -1% while the demand for higher quality SC-A grades increased somewhat compared to the previous year. The increase in exports by 2% offset half of the decrease in Europe. The capacity utilisation for uncoated magazine paper (SC) as a whole was close to 90%. However, the SC-A machines ran almost full while the capacity utilisation for SC-B machines is estimated to be close to 81%. The price remained constant in 2002.

Hubert Plank on PM 4 at Norske Skog Bruck, Austria, got all the safety motivation he needed when a colleague was badly injured.

The coated mechanical paper (CMR) demand in Europe increased by 1% compared to 2001, but the substantial production capacity increases in recent years continued to trouble this market segment. Markets outside Europe improved during 2002 and exports increased by 11%. Capacity utilisation fell to approximately 80%. Prices fell by 4% compared to the previous year.

WEAKER CAPACITY UTILISATION

Norske Skog European operations produced a total of 3 193 000 tonnes of publication paper in 2002, 22% more than last year. The increase is a result of the full integration of the Parenco and Walsum mills, although the capacity utilisation was weaker due to unfavourable market conditions throughout the year. The overall productivity was at the same level as in 2001.

The European performance improvement program introduced in 2000 was expanded to cover all nine mills in the region. The program has identified large improvement potentials, and improvement initiatives have been implemented successively in all mills.

The total newsprint production increased by 8.8% as a result of the Parenco integration, but the overall capacity utilisation went down from 91 to 85% due to production curtailment caused by weaker demand. The Steti mill suffered from serious production problems due to the flood situation in the Czech Republic last summer, but is now back to normal production. The main focus for Steti has also been cost reductions and bringing the quality in line with the Nornews standard.

Total magazine paper production increased by close to 50% as a result of the integration of the production in Walsum and Parenco. The capacity utilisation was at the same level as the previous year, 88%.

The major investment projects in 2002 were an expansion of capacity at the de-inking plant for recovered paper and a new incinerator in Parenco.

FULL EMPLOYMENT DESPITE WEAKENING MARKETS

At the end of 2002, Norske Skog European operations had 5 664 employees on the payroll, with approximately 50% of these employed in units outside Norway. The corresponding figure for 2001 was 5 943. The main reason for the decrease in number of employees is due to the restructuring process in Parenco and general reductions due to various local improvement programs.

Despite weakening markets throughout the year, full employment during 2002 has been maintained. In co-operation with The Federation of Norwegian Process Industries' School, Norske Skog has developed and is now implementing a new e-learning training program for paper machine operators, which is designed to specialise and broaden their professional skills. During 2002, more than 20 managers attended the Norske Skog Europe Management Program.

1 September, 2002, Norske Skog Europe reorganised the management structure in order to streamline performance and strengthen the focus on strategic issues and people development.

The European Works Council had three meetings with the main focus on de-manning and restructuring processes.

The main activities in 2002, have been to complete the integration of Walsum and Parenco and implementation of cost saving and improvement programs to offset the negative impact of the weakening market.

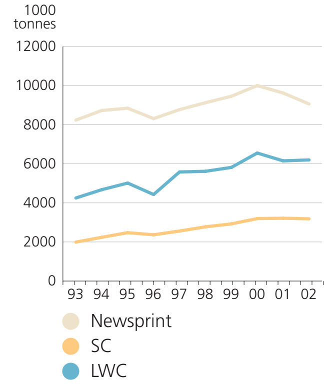
FUTURE PROSPECTS

The weak market situation in 2002 is expected to continue into 2003. The prices for all grades are expected to drop in Europe and capacity utilisation is expected to remain fairly low. Due to this situation and also the strong Norwegian krone, Norske Skog Europe has decided to take extensive curtailment in Norway during the first part of 2003. The Improvement 2003 program and continuous improvement work is anticipated to give positive contributions from 2003, and with a more cost efficient basis, Norske Skog European operations should be well positioned moving into 2004.

Main figures

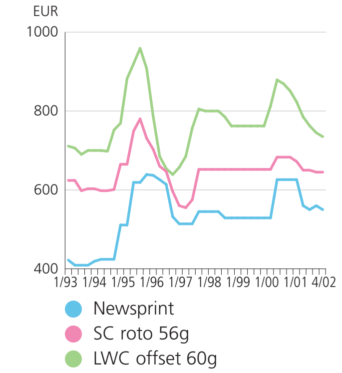
Europe		2002	2001	2000
Operating revenue	NOK million	14 087	14 219	13 229
Operating profit	NOK million	1 189	3 247	2 266
Gross operating margin %		21.1	31.3	25.9

Deliveries of publication paper to Western Europe 1993-2002



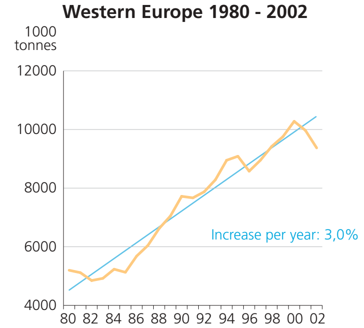
Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Price development publication paper in Germany, 1993-2002



Source: PPI Pricewatch

Newsprint demand in Western Europe 1980 - 2002




Safety Manager Josef Leber (right) discusses safety with Papst Gottfried in the control room for the deinking plant, Bruck, Austria.


Same culture: Many things are similar in Norske Skog's European mills. Most people will recognize this subject from Bruck.

Integration of Walsum and Parenco

The German magazine mill Walsum and the Dutch newspaper and magazine mill Parenco were acquired in late 2001, and the work to integrate the mills into the Norske Skog Europe organisation was ongoing throughout the year. The optimisation of product and market distribution between Bruck and Walsum, which both produce coated mechanical paper (CMR), was successful, and both the customers and the mills have benefited from the acquisition.

The Parenco integration has proved demanding and the mill contributed negatively to the results in 2002. This can be attributed to low operations rates and a challenging process to agree on a more slim and efficient organisation of the mill. By the end of the year, the manning had been reduced by about 150 people, from the date of acquisition. With the Improvement 2003 programme, in addition to the original improvement ambitions, over the next few years, the synergies and improvement targets will be increased.

Strong reduction in number of accidents

The number of accidents causing absence and time loss measured on number of accidents per 1 million hours worked (H-factor) is reduced to 4.3 compared to last year's level, 12.5. This positive development is achieved through an increased focus on health and safety at all levels in our organisation and several activities implemented in the "Take care 24 hours" program.

The average rate of absence due to illness and injuries is 5.2% compared to 5.5% in 2001. The rate of absence in the Norwegian mills is still significantly higher than the continental mills, but improvements have been achieved in some of the units.

Volatile raw material markets

The market price for recovered paper has been high and unusually volatile in 2002, with the prices doubling from March to June. The market calmed down during the autumn giving a market price average for the whole year between EUR 10-15 per tonne higher than in 2001. The market price for pulp has also been highly volatile during the year, but with a lower average price compared to the two previous years. Given the unusual development in electricity prices in Norway, energy trading has delivered significant earnings. Wood prices have been stable throughout the year on a level slightly below 2001.

South America

Global economic downturn and regional political conditions impacted local paper markets

NEWSPRINT CONSUMPTION DOWN

In 2002, the South American newsprint demand was approximately 8% lower than in 2001, totalling approximately 950 000 tonnes. The aggravation of the Argentinean economic situation, the devaluation of the Brazilian Real, and the Venezuelan crisis were the main drivers of such reduction. Specifically in Brazil, newspaper consumption declined by 8%, basically due to weaker circulation, following increased newspaper cover prices and a reduction in private consumption. In Chile, demand was also down by 8%.

Norske Skog's market share in the region continued improving to 31% in 2002. In Brazil, market share has increased to the highest value since 1993, considering the mills owned by Norske Skog. North American shipments to the region declined by 13%. In 2002, there were no capacity changes in the region.

During the second half of the year, Brazilian reference prices for standard newsprint quality with a surface weight of 45g/ms went below US$ 390 per tonne. On average, the Brazilian reference price dropped 33% in relation to 2001.

STRONG POSITION IN TELEPHONE DIRECTORY

The South American telephone directory market demand was approximately 85 000 tonnes in 2002, 15% lower than the 2001 demand. The primary reason for that reduction was the decision of several Brazilian publishers not to print residential books. This decision is currently under regulatory analysis.

Market share in the region was stable when compared to 2001. Combined with the partly owned company NorskeCanada, Norske Skog has a 65% share of the South American market for this grade. Historically more stable, in 2002 however, telephone directory paper prices followed the same downturn as newsprint prices. Excess supply and the decision of some publishers to migrate to higher basis weight were the main causes of such reduction.

DOWNGRADING FROM MAGAZINE PAPER

In 2002, magazine grades demand in South America declined by approximately 15%. In many countries, especially Brazil and Argentina, publishers have to a certain degree replaced magazine paper with less expensive and improved newsprint. Market size was around 350 000 tonnes with no regional capacity changes. In 2002, Norske Skog initiated the commercialization of magazine grades to the region from its global operations. Domestic production and sales of improved newsprint grades increased by 45%, reaching approximately 20 000 tonnes.

IMPROVED PRODUCTION EFFICIENCY

Total production was 385 000 tonnes at the three mills, including our participation in the joint venture Norske Skog Klabin (50% ownership). During the first half year there was a three week market related downtime at the three mills. Both Bio Bio and Pisa increased their total efficiency in 2002. Operation at Pisa was partially affected by lack of thermo-mechanical pulp and some technical under-performance until September. After implementation of improvement initiatives, the performance achieved is showing good opportunities for production improvement in the next year.

LOW INVESTMENTS

Investments have been reduced to a minimum during the last year. The most significant project is a Primary Effluent Treatment Plant at Bio Bio that will be completed by April of 2003. The greatest challenge in Pisa will be to increase capacity at the TMP plant by removing bottlenecks, and by this decrease kraft pulp cost.

Focus on safety, training and organisation

Health and safety performance improved, compared with the previous year, and in 2002 the region's H-value was 3.1. Because of the efforts made in this area, further improvements are expected. At Pisa a continuous improvement initiative conducted in co-operation with employees, has resulted in just one accident a year and a target is zero lost time injuries.

At the end of the year the mill at Bio Bio was restructured, anticipating the organisational requirements of Norske Skog's Improvement 2003 programme. The number of employees at the South American mills was reduced by 46, following the organisational changes implemented at Pisa. There are 561 employees in Norske Skog South America.

During the last eight years 80% - 114 persons – employed at Pisa has taken a course in forest industry and are now being educated to increase their competence in mechanic, electronic and instruments.

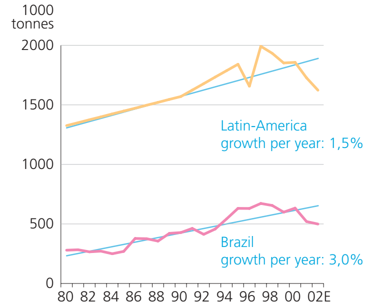
Future prospects

In 2003 the weak Brazilian real, coupled with the slow pace of growth and economic improvement generally, will limit any significant increase in newsprint consumption in the region's largest market. Other markets in the region are not expected to show significant demand improvement in 2003. Currently, Chile and Peru are the countries with the most promising outlook in this region.

In South America, no significant price increase is foreseen in the short term. If local prices are to rise, there will have to be improvements in regional economic fundamentals, as well as a more balanced market in North America.

By the end of March 2003, Norske Skog's joint venture with Brazilian paper manufacturer Klabin will end, as part of the original agreement, removing 130 000 tonnes of local capacity. Norske Skog will continue to serve its Brazilian customers by sourcing newsprint from its European plants.

Newsprint demand in Latin America 1980 - 2002



Main figures

South America		2002	2001	2000
Operating revenue	NOK million	1 107	1 939	1 035
Operating profit	NOK million	-9	473	231
Gross operating margin %		25.4	42.5	38.3

Complicated distribution in a long country: Newspaper delivered by horse in the southern part of Chile.

Australasia

Stable markets and increased production

MARKET CONDITIONS

Market conditions in 2002 were stable, compared with 2001. Publication paper demand was up 2% in New Zealand, reflecting the country's sound economic climate. Newsprint grade demand in Australia remained flat, with a small shift in demand from improved to standard grade, as publishers sought to cut costs.

Supply to the region also remained stable. Norske Skog Australasia's mills retained their market share and downtime amounted to less than 2% of annual capacity during the first half-year, with full utilisation during the latter half.

In their local currencies, New Zealand prices increased at the beginning of 2002 by 6%. Australian prices were reduced by 7% from 1 July, bringing the two markets into line. Australian pricing remains fixed until mid-2003, while New Zealand prices increased by 3% from 1 January 2003.

INCREASED OUTPUT

Australasia increased output by 15 000 tonnes to 832 387 tonnes compared with 2001, owing to reduced market-related downtime and productivity improvements on Albury and Boyer machines. Tasman reduced paper machine speeds to achieve the market-related downtime as well as lowering costs through reduced need for chemical pulp.

At Albury production increased, owing to higher average machine speeds. Boyer had a steady year, with improvements in productivity, through increased machine speeds and efficiency. Tasman took the region's market-related downtime as an opportunity to increase focus on reducing operating costs.

Reduction of input costs was a focus area. This was in response both to short term economic pressures and to the long term goal of reducing real prices for our products.

SEVERAL IMPROVEMENT INITIATIVES

The year saw the launch of "Project One", due for completion in May 2003. This project is a necessary replacement for the legacy of regional business systems including, among others, finance, maintenance and procurement systems – which are no longer viable. It will deliver a step change in the efficiency of the regional operation, by aligning the company's various systems within a "One Company One System" strategy.

Allocation of capital to the three mills has been tightly controlled. During the year, the productivity of the Albury paper machine was improved, and further work will be done in 2003 to improve the machine's production performance. Upgrading of Tasman PM3 improved stability, reduced fibre loss and increased efficiency. A project aimed at improving paper quality on the Tasman PM2 is scheduled for March/April 2003. Another project aimed at improving quality and operating efficiency will be completed in May 2003. At Boyer, modifications to PM2 will start in February. They will enable the machine to produce a high brightness paper, for which there is growing demand.

"The HUB" is an innovative e-business development project that supports the region's principal competitive strategy, which is "Customer Intimacy". It is a web-based portal for use by customers and employees, on which they can place and change orders, lodge feedback/complaints and enquiries, and exchange and share documents. Customers have given the project strong support.

Proudly displaying the Safety Award as it toured the mill are: from far left, Anthony Turner, Warehouse Operator; Bill Phillips, Machine Tender and Ray Kean, Winderman; Patrick Kelly, Mechanical Apprentice with Mechanical Tradesmen, Roger Geard and Kelvin Daley; and Mechanical Tradesman, David Mann.

Strong focus on health and safety

The focus on Health and Safety remained strong. H-value at the year's end was 3.7. Several new initiatives have been implemented, using Norske Skog's new Global Health and Safety standards.

Major resources were committed to the NSOS (Norske Skog Operating Standards) project and to the employee development programme "SPIRIT of Norske Skog", which was implemented at all employee levels across all sites. A number of leaders participated in an intensive Regional Leadership Development Programme.

With the encouragement of the Chief Shop Steward, Kåre Leira, a Regional Employee Forum was established to further improve communication and co-operation between workers and management.

There are 1 490 employees in Norske Skog Australasia.

Consultation began at all sites about potential employee reduction numbers required to implement the regional redevelopment strategy. In the latter part of the year this process will be overtaken by the corporate programme "Improvement 2003".

Future prospects

Demand for publication paper in both Australia and New Zealand began to revive in the 4th quarter of 2002 as advertising spendings improved, and the outlook for 2003 – assuming no significant shocks – is for a slight overall increase, perhaps 2%. The main factors determining this outcome will be global conditions, particularly the economic performance of our major trade partners, and the potential impact on the overall economy of current drought conditions in parts of Australia.

Ongoing investment in print equipment by publishers and printers during 2003 will continue to drive quality requirements.

Main figures

Australasia		2002	2001	2000
Operating revenue	NOK million	3 807	4 473	2 801
Operating profit	NOK million	546	725	545
Gross operating margin %		31.4	32.5	32.0

Asia

PanAsia

MARKET CONDITIONS

Newsprint demand in Asia increased by about 6% in 2002, from a low level in 2001. About 90% of PanAsia's total newsprint deliveries go to the domestic markets China, Korea, and Thailand. The level of activity was high in China and Korea during 2002. In Korea, the world Football Championship contributed to increased demand for publication paper – an effect maintained through the remaining months of the year. In Korea and China, newsprint price levels have been steady at USD 500 per tonne and above. Thailand experienced weaker market trends, as regards both prices and volumes.

On export markets price levels are considerably lower, owing to weaker demand and spot deliveries from overseas suppliers. In September 2002 the major newsprint suppliers in Asia announced a price increase of USD 50 per tonne for spot deliveries. In the course of the fourth quarter this increase partially took effect.

At end-2002 market conditions were stable, with comparatively good activity in China and Korea, while other Asian markets remained, on the whole, quite soft.

PRODUCTION

PanAsia's four mills maintained high productivity in 2002, too. Reduced demand on export markets necessitated production cutbacks corresponding to 174 000 tonnes. The combined output of the four mills was 1 270 000 tonnes of newsprint and other publication paper grades, compared with 1 178 000 tonnes in 2001 and 1 444 000 tonnes in 2000. In addition, PanAsia distributed a total of 342 000 tonnes from its shareholders in 2002, compared with 229 000 tonnes in 2001. Despite temporary increases in the price of return fibre in Europe and USA, cost trends were satisfactory. No major investments were carried out during 2002.

HUMAN RESOURCES, ORGANISATION AND ENVIRONMENT

PanAsia has 2 065 employees. The company maintains excellent health and safety results, and in 2002 its H-value was 1.5. The mills maintain high environmental standards. All discharges to air and water are within the limits set by the national authorities.

FUTURE PROSPECTS

The Asian publication paper market is a heterogeneous one. The comparatively satisfactory level of activity on PanAsia's domestic markets, China and Korea, is expected to continue. In Thailand markets remain soft, and floods have complicated both the distribution of newsprint and customers' newspaper production. On the other markets, developments will be affected by the general economic situation and by the need of overseas suppliers to channel volumes to markets outside their traditional ones. In 2003 some 500-600 000 tonnes of new publication paper capacity will come on stream in China. Some of this is "swing capacity", able to produce both newsprint and magazine paper.

Malaysian Newsprint Industries

Malaysian Newsprint Industries (MNI) competes mainly in Malaysia and Singapore, where markets are suffering from low prices and consumption. Even though the market situation was stable, MNI succeeded in increasing both production of newsprint and sales. Total newsprint output in 2002 was 231 754 tonnes, against 214 073 tonnes in 2001. MNI has improved production in 2002 from previous years through continued improvement initiatives. MNI is now being benchmarked against Norske Skog mills.

MNI employs 351 people. The mill has greatly improved its health and safety performance, and had an H-value of 2.2 in 2002, an improvement of 0.8 from last year. All discharges were within the limits set by the authorities.

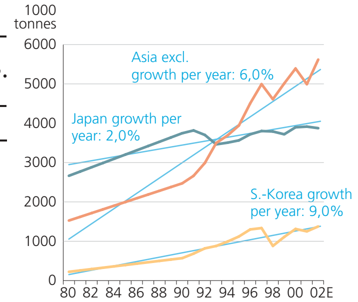
MNI's main priorities are to increase the speed and efficiency of its paper machine, to ensure stable operation and satisfactory sales. At the end of the year, there were no significant signs of a recovery on MNI's domestic and export markets.

MNI's profitability is highly influenced by the newsprint prices in North America.

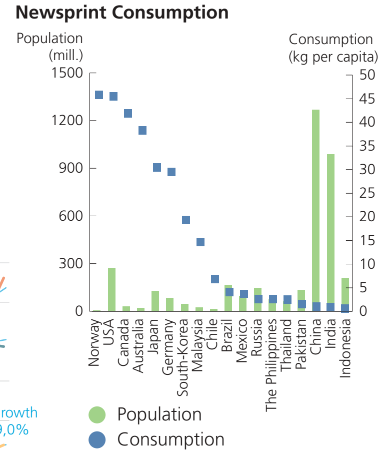
Main figures

Asia		2002	2001	2000
Operating revenue	NOK million	2 688	2 434	2 572
Operating profit	NOK million	562	616	526
Gross operating margin	%	32.2	35.7	28.1

Newsprint demand in Asia 1980 - 2002



Per Capita Newsprint Consumption



Source: Newsprint: PPI International Fact and Price Book Population: International Finanacial Statistics September 2000, IMF.

NorskeCanada

MARKET CONDITIONS

Newsprint demand in North America fell by 2.5% in 2002, compared with 2001, and is still affected by reduced advertising and consequently lower usage. December 2002 saw – for the first time since 2000 – a rise in demand. The markets for uncoated magazine paper and telephone catalogue grade have been more stable, while the market for coated magazine paper is weak owing to low demand and consequent overcapacity. Prices remain low, for all grades. For newsprint, an increase of USD 50 per tonne was announced from August 2002. This was partly achieved during the autumn.

PRODUCTION

NorskeCanada implemented market-related production stoppages totalling 200 000 tonnes in 2002, with most of them taking place during the first half of the year. NorskeCanada's output in 2002 reached 746 000 tonnes of newsprint and 870 000 tonnes of special grades, compared with 593 000 tonnes and 471 000 tonnes, respectively in 2001. Production capacity for newsprint and special grades was almost doubled by the acquisition of Pacifica Papers in August 2001. In addition, NorskeCanada produced 488 000 tonnes of pulp and cardboard in 2002, against 640,000 tonnes in 2001. The marked fall in output reflects the sale in June 2001 of the Mackenzie pulp mill, and the closure of a production line at the Powell River mill in November of the same year. Cost trends for both newsprint and special grades were favourable during the year, mainly owing to synergies resulting from the acquisition of Pacifica. Investments were 11% lower in 2002 than in 2001.

HUMAN RESOURCES, ORGANISATION AND ENVIRONMENT

NorskeCanada significantly improved its health and working environment performance, achieving a 55% reduction in lost-time injuries during 2002, compared with 2001. The environmental situation showed improvement during 2002.

FUTURE PROSPECTS

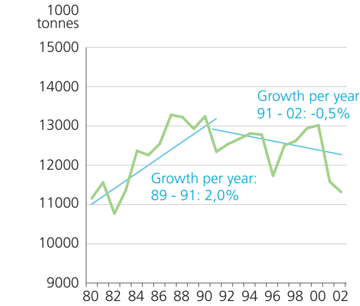
The largest producers in North America announced a new price increase of USD 50 per tonne from 1 March, 2003. The possibility of a war in Iraq creates economic and political uncertainty that is reflected in the demand for publication paper in North America. The first quarter is normally marked by seasonally weak demand, but a proposed tax cut in the US, and a continued decline in the exchange rate of the USD could have a favourable effect.

Main figures

NorskeCanada[1]		2002	2001	2000
Operating revenue	CAD	1 482	1 389	1 408
Operating profit	CAD	-123	80	187
Gross operating margin	%	3.8	15.2	21.6

[1] Shows 100% of NorskeCanada according to Canadian accounting principles.

Demand newsprint in North America 1980 - 2002



BROTHERS IN NEWSPRINT:
Huang Shong Lin and Steven Shi (brown jacket) say they are like brothers. Personal relations are crucial in doing business in China.

– We are like brothers

Huang Shong Lin is the Purchasing Manager of one of Shanghai's largest publishers. Steven Shi is Marketing Manager of SPP (Shanghai PanAsia-Potential Paper). Far from being relatives they still claim brotherhood. Doing business in China is something very personal.

Text and photo: Håvard Solerød

On rare occasions things come to a halt in newspapers. Normally deadlines are "dead serious" and terribly expensive to postpone, but today the sign "Stop the Press" is it in Shanghai's largest newsprint-shop.

They have reason enough; photos of the new generation of Chinese leaders are about to come through from the 16th Congress of the Communist Party in Beijing. This historic event is of course to be documented in the evening newspaper.

CLOSE TIES

Machine-operators are walking restlessly around while fine-tuning during the wait. In the office Purchasing Manager Huang Shong Lin takes time to talk about the everyday of Chinese newspapers, and his relations to the sales representative of SPP.

"We are very close; we are like brothers", Lin (41) says.

Steven Shi (28) from SPP is obviously not surprised to hear these words from his customer. He nods with a smile to confirm the close ties they have established over three years.

"We talked on random occasions for a year without him buying any newsprint from me. Today we make contact a couple of times a week to discuss issues of different nature; everything from logistics to invoice-details", Steven Shi explains.

Far from being strictly about business, social meetings between the two occur once or twice a month. They get together over a meal, and sometimes go on to sing karaoke afterwards. While avoiding to comment on their musical talent, they say it is important to meet outside the office.

"In China business is very personal. You have to like and trust people you are doing business with. We regard it as necessary to meet face to face in informal settings, and develop a friendship. Good relations facilitate communication under situations of stress when decisions must be swift", says Steven.

3.5 MILLION COPIES

On a normal working day the newsprint-shop produces nine newspapers and an impressive total of 3.5 million copies. Newsprint from several mills tower in the storage room.

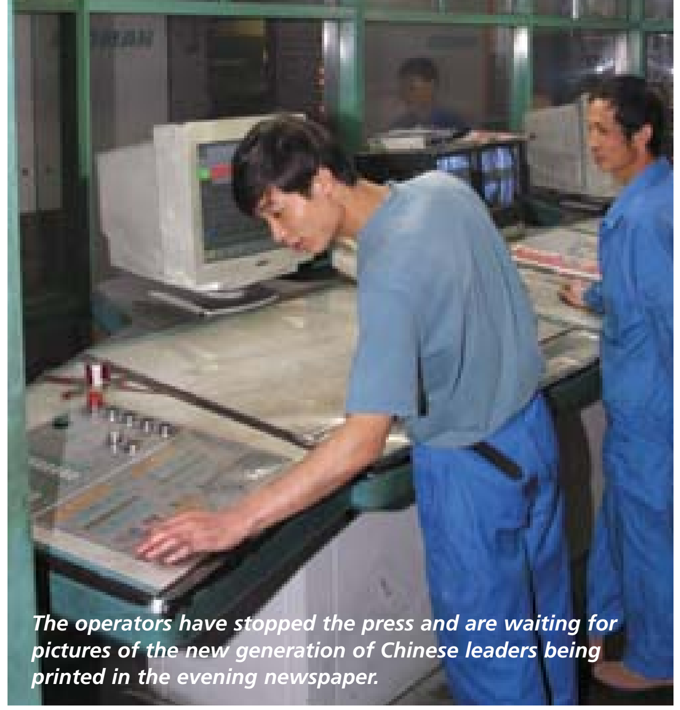
"We buy newsprint from SPP because of the smoothness. This quality gives better print of photos. There are about three mills in China capable of delivering this level of quality today", says the purchasing manager.

The start of the Jiefang Group, that today contains 9 newspapers, was the official Communist Party newspaper of Shanghai. By looking at the photos of the new publications one can tell that the times are changing. The party newspaper is still very much the same, but the new ones are definitely different. One includes photos of celebrities that hide nothing more than in European life-style magazines. Non-subscription sales are going well.

A closer look at the selection of newspapers reveals a newspaper for children, and a teenage newspaper, both of which are being printed in significant volumes. One of the latest siblings of the publisher group, The Shanghai Morning Post, is the fastest growing. In three years it has reached 400 000 sold newspapers per day. It costs about 25 cents. The larger part of the profit is from advertising.

"Before there was no morning newspaper in Shanghai. We are developing a new market. The Shanghai Morning Post has a bit of everything; sport, politics, economics and leisure. Most of our readers buy a copy on their way to work and read it on the bus or at the office", says Lin.

The two are not afraid that internet-news will give them a hard time. Advertisers today prefer newspapers. The trend is that young people of the emerging Chinese cities both buy newspapers and check out the news on the internet.



The operators have stopped the press and are waiting for pictures of the new generation of Chinese leaders being printed in the evening newspaper.

BIG POTENTIAL FOR FURTHER GROWTH

"Chinese newspapers have a big potential for further growth, but it will take time. It is not easy to start a new newspaper today. One needs approval from the government, which is not easy to get. Economic growth is to a large extent limited to certain parts of China. At the same time our nation has the fastest growing economy in the world. According to predictions, China will outsize the US-economy within 10 years", they say.

Headlines from the newsstand on our visiting days in Shanghai are mostly in the positive; reports of space explorations, new growth, brighter job prospects and photos of world tennis-stars ending their Tennis Masters Cup in Shanghai.

As we leave the building green postal trucks are waiting in line outside. Ready to distribute newspapers that smell of good news in fresh ink, printed on paper from SPP.

FACTS ABOUT PANASIA:

- Pan Asia Paper is a 50/50 joint venture between the two largest newsprint manufacturers in the world; Abitibi Consolidated and Norske Skog. The company was established in 1999. The headquarters is located in Singapore.
- Annual sales of approximately 1 billion USD and 2 100 employees.
- Pan Asia Paper is Asia's leading (non Japan) publication paper supplier. The newsprint market share is 25%.
- Pan Asia Paper has two mills in Korea, one in China and one mill in Thailand. The four mills have a total capacity of 1.5 million tonnes. Separately they have all been profitable since the start up of Pan Asia Paper four years ago.

Improvement 2003 encompasses tough measures for the whole Company. The improvements will strengthen Norske Skog.

New organisation strengthens competitiveness

Norske Skog is shaping a new more functionally oriented organisation. The new organisation has been created to meet the new challenges - consolidation, cost reductions and improvements within our core area.

Norske Skog has well functioning internal governance and control mechanisms (corporate governance), based on integrity and independence

Company bodies and management

GENERAL MEETING

The Company's supreme body is the general meeting, which – among other things – elects the shareholders' members of the Corporate Assembly and their deputies. In 2002 the ordinary General Meeting was held on 29 April in Oslo. Present at that meeting, in person or by proxy, were shareholders representing 60 962 148 shares, or 45,79% of share capital. The Company has only one share class, and consequently uniform shareholder rights.

The Company's election committee proposes candidates for office to the Corporate Assembly and the Board, in addition to determining the appropriate renumeration rates for non-executive positions in the Company's supreme body. The election committee consists of the Corporate Assembly's chairman and three members chosen by the General Meeting. It makes its decisions on an in-dept analysis of the Company's needs combined with the desire to ensure the broadest possible representation of the Company's shareholder groups.

The election committee includes:
Ivar Korsbakken (chairman Corporate Assembly) – CEO of the Norwegian Forestowner Association
Idar Kreutzer – CEO of Storebrand ASA
Bjørn Kristoffersen – CEO of KLP – National Municipal Pension Fund
Helge Evju – Forest owner

THE CORPORATE ASSEMBLY

The Corporate Assembly has twelve shareholder-elected members (four deputy members) and six members elected by and among employees (personal deputy members). The Corporate Assembly constitutes itself through the election of chairman and deputy chairman, both for one year at a time. In 2002, the Corporate Assembly held three ordinary meetings.

The shareholder-elected members of the Corporate Assembly elects the shareholder members to the Board and are also responsible for monitoring the Board's and the CEO's management of the Company. The Corporate Assembly takes decisions on matters concerning major investments, as well as on rationalisation or operational restructuring measures that have significant effects on the workforce.

THE BOARD

The Board is responsible for the Company's proper organisation and management. It determines overall plans and approves the budget, and shall keep itself informed about the attainment of these goals and otherwise see to it that the business is subject to satisfactory control. The Board lay great stress on minimising risk connected with the Company's business.

The Board appoints the Company's CEO and determines his remuneration, in accordance with the proposal put forward by the Board's permanent compensation committee. This committee comprises the Board's chairman, deputy chairman and one Board member.

Norske Skog's Articles state that the Company's Board shall consist of minimum eight, maximum eleven members. Following the election in April 2002 the Board has nine members, of which six are nominated by the shareholder members of the Corporate Assembly and three are elected by the Company's employees. Lars W. Grøholt was elected chairman of the Board in April 2002 following Lage Westerbø, who resigned at his own wish, after 13 years as chairman. The Board normally holds seven to eight meetings a year. In 2002 six ordinary and two extraordinary Board meetings were held.

Neither the CEO nor other members of the Corporate Management are members of the Board, but the CEO regularly attends their meetings.

Under Norwegian law, the members of the Board shall act independently and in such a way that no one, shareholder or otherwise, should obtain unreasonable advantages. In cases where the Board is due to debate a matter in which an individual member - or someone closely related to that member – has a particular interest, that member must absent him/herself from the debate. In practice this type of situation seldom occurs, because the Board does not often concern itself with the Company's contracts.

Three of Norske Skog's Board members are Company employees, elected by the employees in accordance with Norwegian law. Of the other Board members, Grøholt and Bjørken are forest owners, who occasionally supply wood to the Company – but on general, standardised terms. Bjørken holds office in Skogeierforeninga Nord (a forest owners' association), which is a shareholder in the Company, and which – in agreement with other forest owners' associations – votes with these, as a block, at Norske Skog's General Meeting. This enables the forest owners' associations to exercise a significant influence. No Board member receives remuneration for his/her work for the Board from any other source than the Company itself.

CHIEF EXECUTIVE OFFICER

Jan A. Reinås has been Chief Executive Officer (CEO) since 1994. The CEO is responsible for the day-to-day management of the Company's activities, and for ensuring that it is run and organised in accordance with shareholders' wishes and the Board's decisions. He is also responsible for the Group accounts, ensuring that they conform with laws and regulations, and that assets are managed in a sound manner.

CORPORATE GOVERNANCE MODEL

Norske Skog's organisational structure and governance model are designed to concentrate on consolidation, stronger market positions, maximum productivity, high product quality and significant cost reductions. The CEO and the rest of corporate management will, in addition, focus on the Company's long-term strategic development.

Norske Skog has a "flat" structure, with direct lines between the corporate management and the operative units. The corporate management consists of the CEO and nine other members. The Senior Vice President with responsibility for strategy is also deputy CEO. This role also includes responsibility for following up Norske Skog's partly owned companies and companies with operations outside Norske Skog's core area. Members of Norske Skog's corporate management are also board members in the partly owned companies PanAsia and NorskeCanada.

The Senior Vice Presidents/Executive Directors responsible for:
- Production,
- Sales & Marketing,
- Supply & Logistics,
- South America and
- Australasia

have responsibility for results. The three first-mentioned shall also be able to implement measures to extract synergies and launch efficiency measures on a global basis.

Corporate management also includes Senior Vice Presidents with responsibility for:
- Finance (Chief Financial Officer),
- Corporate communications and
- Human resources and organisation.

For biographical information about the members of corporate management, see page 50.

AUDITING

Norske Skog's internal auditing department (Internrevisjon) is responsible for co-ordinating internal and external auditing. The internal auditing department undertakes operational auditing. It evaluates the units' management and control systems, and ascertains whether these systems serve their purpose. It draws up annual auditing plans based on risk evaluations made in co-operation with management, and the result of this work is followed up locally and at Group level.

Other internal and external auditors undertake operational auditing of health and safety, certification maintenance, production processes and environmental reporting.

Ernst & Young is responsible for the financial auditing of the parent company and the Group accounts. Independent auditors have been appointed for all companies where local legislation, or internal guidelines, require financial auditing.

Remuneration of Norske Skog's elected officials and senior staff

1. CORPORATE ASSEMBLY
The remuneration is fixed annually by the Shareholders Meeting. The chairman of the Corporate Assembly receives a fixed fee of NOK 130 000 per year. Each of the other members receives NOK 4 500 for each meeting. The total paid to members of the Corporate Assembly in 2002 was NOK 337 500.

2. THE BOARD
The remuneration is fixed annually by the Corporate Assembly. The chairman of the Board receives a fixed fee of NOK 240 000, the deputy chairman receives NOK 175 000, and the Board's other members NOK 140 000 per year. The total paid out to the Board, including NOK 4 500 per meeting for deputies who attended such meetings, was NOK 1 824 000 in 2001.

3. CEO
The CEO's salary and other terms are negotiated by the compensation committee and determined by the Board. Salary and other remuneration to the CEO and other information concerning pension schemes and wage guarantee scheme may be found in Note 3 to the Group accounts.

4. CORPORATE MANAGEMENT
The compensation committee will review the principles applying to wages and other terms for the rest of corporate management.

5. INTERNAL BOARD REMUNERATION
No fees are paid to Norske Skog employees who serve on the boards of Group companies. Similarly, fees for appointed office holders in companies in which Norske Skog holds shares, will be payable to Norske Skog. This applies in cases where the employee has been appointed as a result of his/her position with Norske Skog.

6. OTHER
Information concerning option schemes, bonus schemes and loans to senior staff may be found in Note 3 to the accounts.

7. EMPLOYEE SHARE PURCHASE SCHEME
All employees of Norske Skogindustrier ASA and its subsidiaries in and outside Norway are offered the opportunity, once a year, to buy shares at a rebate on the market price. Employees in Norway may buy shares at a 20% rebate on the stock exchange price during a specified period. The total tax-free rebate for a single year may not exceed NOK 1 500. Payment for the shares is made by deductions from wages over a period of twelve months and purchases cannot exceed a value of NOK 30 816 (3/5 of "G" – the basic Norwegian social security pension). This is the upper limit of the amount employees may have in the form of an interest-free loan from their employer. In the year 2001, the share purchase scheme applied to all employees in Europe, South America and Australasia and to members of the Board and the Corporate Assembly.

The scheme is based on favourable Norwegian tax rules; such rules often differ widely from country to country, so that a number of special arrangements have been introduced. The upper limit for share purchases is, however, the same for all countries.

8. ELECTED OFFICIALS' AND CORPORATE MANAGEMENT'S SHAREHOLDINGS IN NORSKE SKOG
The Corporate Assembly's members held, as of 31 December 2002, a total of 22 770 shares in Norske Skog. On the same date, the members of the Board held a total of 4 154 shares. Corporate management's total holdings comprised 55 312 shares. Additional details may be found on page 47.

Members of company bodies

CORPORATE ASSEMBLY
Nominated by the shareholders:
Ivar B. Korsbakken, Oslo, Chairman (917)
Idar Kreutzer, Oslo, Deputy Chairman (0)
Emil Aubert, Porsgrunn (14 383)
Ole H. Bakke, Trondheim (53)
Svein Haare, Hokksund (555)
Olav Hørsdal, Frolands Verk (2 975)
Bjørn Kristoffersen, Oslo (0)
Tore Lindholt, Skjetten (0)
Dieter Oswald, Bø i Telemark (67)
Halvard Sæther, Lillehammer (2 182)
Helge Urstrømmen, Elverum (1 163)
Svein Aaser, Drøbak (475)

Deputy Members:
1. Ann Kristin Brautaset, Oslo (0)
2. Åse Marie Bue, Marnardal (0)
3. Kirsten C. Idebøen, Høvik (0)
4. Turid Fluge Svenneby, Spydeberg (0)

Nominated by the employees:
Steinar Voldseth, Skogn (0)
Bjørn Olav Hanssen, Skogn (100)
Roy Eilertsen, Saugbrugs (0)
Magnus Straume, Union (3)
Terje Bråten, Follum (0)
Ove Magne Anseth, Forestia Braskereidfoss (50)

Deputy members:
Kåre A. Haugen, Skogn (1 014)
Steinar Langåssve, Skogn (0)
Per Kristian Dahl, Saugbrugs (220)
Udmund Viflot, Union (636)
Steffen Mørtvedt, Follum (1 527)
Terje Andersen, Forestia Agnes (0)

Observers from the employees:
Trond Andersen, Saugbrugs (0)
Eigil Fredriksen, Union (0)
Rolf Bråthen, Follum (782)

Deputy observers:
Kjell Aspestrand, Saugbrugs (0)
Jarle Halvorsen, Union (0)
Roy Helgerud, Follum (0)

BOARD OF DIRECTORS
Lars Wilhelm Grøholt, Hov, chairman (1 145)
Jon R. Gundersen, Oslo, deputy chairman (694)
Stig Johansen, Forestia Braskereidfoss (125)
Kåre Leira, Skogn (485)
Halvor Bjørken, Verdal (1 155)
Øivind Lund, Drammen (432)
Jan Vidar Grini, Union (118)
Egil Myklebust, Oslo (0)
Giséle Marchand, Oslo (0)

Deputy members for the employees:
Harald Christiansen, Union (0)
Rolf Randen, Forestia Kvam (168)
Kjetil Bakkan, Skogn (98)

Observer:
Amund Saxrud, Follum (0)

CORPORATE MANAGEMENT, 15 FEBRUARY 2003
President and Chief Executive Officer,
Jan Reinås (23 100)
Senior Vice President and Deputy CEO,
Jan A. Oksum (6 239)
Senior Vice President,
Jan Lars Kildal (10 006)
Senior Vice President,
Rolf Negård (377)
Senior Vice President,
Hanne K. Aaberg (900)
Senior Vice President,
Claes-Inge Isacson (6 020)
Senior Vice President
Jarle Dragvik (1 521)
Senior Vice President,
Ketil Lyng (2 535)
Executive Vice President,
David Kirk (1 624)
Executive Vice President,
Vidar Lerstad (2 972)

(numbers of shares owned in parenthesis)

The Board of Norske Skog

Lars W. Grøholt

Jon R. Gundersen

Stig Johansen

Kåre Leira

Halvor Bjørken

Øivind Lund

Jan Vidar Grini

Egil Myklebust

Giséle Marchand

Amund Saxrud

LARS WILHELM GRØHOLT
Chairman of the Board since 2002, Board member since 2001. Farmer and forest owner. Engineering and forestry graduate. Chairman of the board of the Norwegian Forest Owners' Association 1998-02, chairman of the board of Viken Skog 1999-02. Deputy chairman of the board of the Norwegian Forestry Research Institute, member of the board of Pan European Forest Certification (PEFC).
Shares in Norske Skog: 1 145

JON R. GUNDERSEN
Deputy chairman since 1995, Board member since 1989. Member of the board of Tofte Industrier 1982-1989. Barrister, partner in law firm of Wikborg Rein. Chairman of the board of Arendals Fossekompani ASA, Norsk Vekst ASA, Gambaco AS, Glamox ASA, Sigval Bergesen D.Y. and Hustru Nanki's Almennyttige Stiftelse, OPAK AS, Eiendomsspar AS, Victoria Eiendom AS, SensoGen AS and the Research Foundation of the Norwegian Radium Hospital. Member of the board of Norgesgruppen ASA.
Shares in Norske Skog: 694

STIG JOHANSEN
Board member (elected by the employees) since 1999. Employed with Norske Skog since 1986, now HES engineer with subsidiary company Forestia. Former member of the regional board of Hedmark county branch of the Norwegian United Federation of Trade Unions.
Shares in Norske Skog: 125

KÅRE LEIRA
Board member (elected by the employees) since 1999. Employed with Norske Skog since 1975, Group shop steward and chairman of the Company's European Works Committee (EWC) since 1997. Member of the board of the Norwegian United Federation of Trade Unions.
Shares in Norske Skog: 485

HALVOR BJØRKEN
Board member since 2000. Forest owner. Chairman of the board of Skogeierforeningen Nord, deputy chairman of the Norwegian Forest Owners' Association, Industriflis and Din Tur AS. Member of the board of Midt-Norske Tømmerimport and member of the corporate assembly of the Skogbrand insurance company.
Shares in Norske Skog: 1 155

ØIVIND LUND
Board member since 2000. Engineering and business studies graduate, leading positions with ABB since 1994, managing director ABB AS 1998- , head of the ABB group's global quality and productivity improvement programme. Several board positions in the ABB group.
Shares in Norske Skog: 432

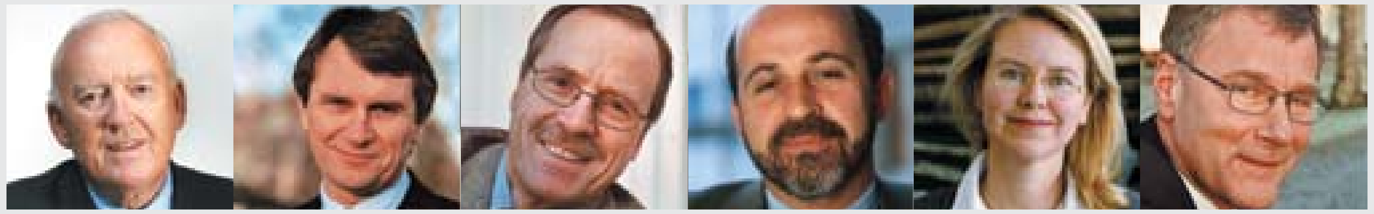
JAN VIDAR GRINI
Board member (elected by the employees) since 2001. Employed with Norske Skog since 1960, now appointed leader of the workers trade union at Norske Skog Union. On the board of Vekst i Grenland since 1997. Deputy chairman of the board of Grenland Port Authority since 2001.
Shares in Norske Skog: 118

EGIL MYKLEBUST
Board member since 2001. Lawyer with legal firm Wikborg Rein. Formerly managing director of the Confederation of Norwegian Business and Industry and president of Norsk Hydro. Chairman of the board of Norsk Hydro and SAS.
Shares in Norske Skog: 0

GISÉLE MARCHAND
Board member since 2002. Business studies graduate, managing director of the state pension fund. Managing director of the public relations firm Batesgruppen AS, leading positions in Norwegian banks, most recently as Senior Vice President with Den norske Bank. Board member of Hafslund ASA, Bank 1 Oslo AS and GK Kredittforsikring AS.
Shares in Norske Skog: 0

AMUND SAXRUD
Observer since 2001 (elected by the employees). Employed with Norske Skog since 1996, production manager raw materials/energy, Norske Skog Follum.
Shares in Norske Skog: 0

Norske Skog's Corporate management



Jan Reinås *Jan A. Oksum* *Jan Lars Kildal* *Rolf Negård* *Hanne K. Aaberg* *Claes-Inge Isacson*

Jarle Dragvik *Ketil Lyng* *David Kirk* *Vidar Lerstad*

JAN REINÅS (58),
PRESIDENT AND CEO
With Norske Skog since 1994. Holds a degree in economics, with further studies in planning, rationalisation, logistics and market-oriented management. INSEAD's executive MBA. Manager of several transport companies, managing director SAS Norway 1990, president and CEO SAS 1993-94. Member of the board of directors Schibsted ASA, the Federation of Norwegian Process Industries, the Confederation of Norwegian Business and Industry, and the Confederation of European Paper Industries (CEPI). Formerly chairman of the board of directors of Sparebanken Midt-Norge, the national Postal Administration and the Norwegian State Railways.

JAN A. OKSUM (52),
SENIOR VICE PRESIDENT, STRATEGY, AND DEPUTY CEO
With Norske Skog since 1979. Civil engineering degree from Norwegian Technical University. Research associate, Pulp and Paper Research Institute of Norway 1974-1979. Process engineer and production manager Norske Skog Skogn 1979-88. Technical manager and then general manager Norske Skog Golbey 1989-96. Vice President R & D 1997. Vice President area pulp and magazine paper 1997-1999. Vice president business development 1999-00.

JAN LARS KILDAL (52),
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
With Norske Skog since 1995. Graduate, Norwegian School of Economics and Business Administration. Chief accountant, finance manager, human resources manager, Glomfjord Fabrikker, Norsk Hydro, 1976-83. Department manager, Hydro Agri, Norsk Hydro, 1983-85. Chief financial officer Denofa-Lilleborg 1985-89, chief financial officer, Orkla, 1989-95. Member of the board of Storebrand Liv, deputy member of the shareholders commitee of Storebrand and Supervisory Council of Den norske Bank.

ROLF NEGÅRD (45),
SENIOR VICE PRESIDENT, HUMAN RESOURCES AND ORGANISATION
With Norske Skog since 1994. Law degree from Oslo University. Consultant, ministry of local government and labour 1986-88, police intendant II 1988-90, lawyer and negotiating manager with Federation of Norwegian Process Industries 1990-94, human resources manager Norske Skog 1994-96, human resources director 1996-2002.

HANNE AABERG (43),
SENIOR VICE PRESIDENT, CORPORATE COMMUNICATIONS
With Norske Skog since 1997. Bachelor degree, journalism and public affairs, San Diego State University, science studies at Oslo University. Editor Skarland Press AS 1986-88, chief information officer, Norwegian Shipowners' Association 1988-97, chief information officer Norske Skog 1997-2000, Senior Vice President, corporate communications, Norske Skog 2000-02.

CLAES-INGE ISACSON (57),
SENIOR VICE PRESIDENT, PRODUCTION
With Norske Skog 1989-97 and since 1999. Civil engineering graduate from Chalmers Tekniske Høyskole, Gothenburg. Stora 1972-82, consultant Jaakko Pøyry in the USA and Sweden 1982-89, project manager Norske Skog Golbey, France, 1989-92, mill manager Norske Skog Tofte 1992-96, Executive Vice President area fibre 1994-96, Vice President, Stora's production of publication paper 1998, Vice President business development, Norske Skog, 1998-99, Vice President region Europe 2000-03.

JARLE DRAGVIK (43),
SENIOR VICE PRESIDENT, SALES & MARKETING
With Norske Skog since 1986. Graduate, Norwegian School of Management. Marketing manager Singer Products Co., USA, 1985-86, director of administration Norske Skog (USA) Inc., 1986-89, sales manager and sales director, publication paper, with Norske Skog 1989-95, area director and managing director of Visma ASA 1995-98, mill manager Hurum Papirfabrikk 1998-99, mill manager Norske Skog Bruck 1999-2002.

KETIL LYNG (47),
SENIOR VICE PRESIDENT SUPPLY & LOGISTICS
With Norske Skog since 1985. Law degree from Oslo University. Consumer Council 1983-85. Group legal advisor, Board secretary and deputy managing director Norske Skog 1985-89, Vice President, commercial and administrative functions 1989-95, Vice President, human relations and organisation 1995-96, Managing director Norske Skog Golbey 1996-00, director, strategy and business development 2000-02.

DAVID KIRK (42),
EXECUTIVE VICE PRESIDENT NORSKE SKOG AUSTRALASIA
With Norske Skog since 2000. Graduate in medicine, Otago University, New Zealand, BA, Philosophy, Politics and Economics, Oxford, England. With Fletcher Challenge, New Zealand, 1985-87, consultant McKinsey & Co., London, 1989-92, assistant and policy advisor to prime minister of New Zealand 1992-95, Manager, Fletcher Challenge Energy's sales and marketing 1995-98, Director of Fletcher Challenge Paper's global Marketing and customer relations 1998-99, Managing director Fletcher Challenge Paper Australia 1999-2000. Kirk resigned his position in Norske Skog with effect from 3 March 2003.[1)]

VIDAR LERSTAD (58),
EXECUTIVE VICE PRESIDENT NORSKE SKOG SOUTH AMERICA
With Norske Skog since 1989. MBA Norwegian School of Economics and Business Adminstration. Norsk Hydro 1970-74, Export Council of Norway as counsellor and trade attaché in Oslo and Brussels, 1975-80, Tandberg 1980-84, Managing director Scancem's cement factory in Togo, Africa, 1984-89, Managing director Norske Skog Golbey, France, 1989-94, Managing director Norske Skog Sales 1994-96, Vice President, sales and marketing, Norske Skog, 1996-99, Managing director area international, 1999-2000.

1) Rob Lord replaces Kirk in the Corporate management, starting 3 March 2003.

Norske Skog assumes responsibility

At Norske Skog Bio Bio, Chile, some 80 families live in housing provided by the Company, which also runs a kindergarten and youth clubs for the children of employees.

For Norske Skog it is important to achieve results not only with regard to the traditional, financial bottom line, but also with regard to environmental and social conditions.

In 2002 Norske Skog achieved an H-value of 4 (lost time injuries per million hours worked). This is a big step further compared to 2001.

The company also signed an agreement that guarantees worker's rights at mills around the world.

To Norske Skog, economic achievements mean developing a robust business, which secures jobs and generates economic activity which also provides work in the wider community. By focusing on our core strengths, and through our commitment to being a long term player in this sector, Norske Skog will continue to build the capabilities of its operations, its people and the community.

Building a sound business also means being a lean and efficient organisation during periods of economic downturn. For Norske Skog, in 2003, this entails a need for restructuring and reorganising, as detailed in "Improvement 2003", in order to place the Company on a sound footing for the future. The Improvement 2003 project has identified the need for reduced manning in 2003, and Norske Skog will provide support for those people who have to leave the Company.

SOCIAL PROGRESS

Although Norske Skog is a truly global company, it is highly aware of its local presence, and it aims to be a good corporate citizen, especially in the communities within which it operates. Being socially responsible means not only fulfilling legal obligations, but also going beyond compliance and investing more in its relationships with all stakeholders. Where Norske Skog employees are concerned, this means a sustained focus on safety, personal development, working conditions, and management-employee and -union relations.

Social responsibility

Social responsibility has to start with Norske Skog's own people. The Company shall care for the health and safety of its employees, foster their development and involvement in the business, and reward their performance.

HEALTH AND SAFETY (H&S)

Norske Skog's health and safety vision is: "A safe environment and healthy people". To achieve this vision, the Company's goals are:

- no employee, contractor or visitor should be injured as a result of Norske Skog's activities.
- Norske Skog believes that all injuries are preventable, and will strive for a healthy lifestyle.

By giving health and safety the highest priority on all agendas, and by involving everyone in health and safety initiatives, Norske Skog has achieved a 57% reduction in H-value during 2002 lost time injuries per million hour worked. In 2002 a new health and safety policy was introduced and communicated throughout the organisation. This policy is also an integral part of a new Norske Skog health and safety training programme. The aim of the programme is to heighten employees' awareness and lead them to accept the policy it promotes as their own.

During 2002, all the Company's mills in Europe and Australasia conducted self-assessments in relation to Norske Skog health and safety standards. This exercise helps units to identify their largest performance gaps, and to plan activities to bridge such gaps. They also help raise awareness of what good health and safety management systems are.

The health and safety performance varies by mill, and Norske Skog actively seeks to identify and share best practice to improve the company's overall performance.

The Bruck mill was awarded "The President's Health and Safety Award 2002". This award is presented to the unit or individual which – over the preceding twelve months – has achieved a significant improvement in H&S performance. Bruck has continuously focused on attaining such improvement; initially, by ensuring the safety of its equipment and systems, and – more recently – by focusing on employee behaviour and eliminating unsafe acts. There has been a consistent improvement in health and safety, while productivity has also improved consistently.

H&S performance highlights:

- Rolling 12-month H-value for the Group in 2002 was 4, against 9.3 in 2001.
- A 50% reduction in the number of Lost Time Injuries, compared with 2001.
- A 29% reduction in the number of Medical Treatment injuries, compared with 2001.
- Region Europe's 2002 H-value of 4.3 was its best ever safety performance. It will continue to focus on risk identification and focus reporting in 2003.

HUMAN RIGHTS

In June 2002 Norske Skog became the first pulp and paper company in the world to sign an agreement that guarantees workers' rights at its mills around the globe. The agreement was reached between the International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM), Fellesforbundet (the Norwegian United Federation of Trade Unions) and Norske Skog.

UN Secretary General Kofi Annan launched the concept of cooperation between unions and business in 1998, through an initiative called The Global Compact. This project contains nine principles that cover most of the relevant points in the Declaration of Human Rights and ILO's conventions on workers' basic rights.

The agreement – adhering to these principles – will secure for all Norske Skog employees basic rights such as the right to establish trade unions, the right to collective bargaining, the right to information and minimum health and safety standards. The agreement confirms Norske Skog's core values openness, honesty and co-operation.

TRAINING AND DEVELOPMENT

Norske Skog's People Development Policy embodies commitments to its people to, among other things:

- Provide targeted and excellent professional training and development.
- Stretch its people with new challenges, through extensive delegation, increased responsibility and new opportunities within their respective units, regions or globally.
- Conduct appraisal dialogues and establish development plans for all employees.

All Norske Skog people have, at least once a year, a dialogue with their immediate supervisor to discuss their particular development and training needs. The Company believes that "learning by doing" is the best and most challenging way for people to learn and develop.

Norske Skog believes in developing its own people to achieve their ultimate potential. Annually, management teams at all levels within the Group shall review the organisation to identify and develop plans for future leaders. This succession planning and leadership review process not only assists with the development of future leaders, but also identifies skill gaps and allows time to address these gaps.

The Spirit of Norske Skog continued to be rolled out in 2002. This training and discussion programme is typically facilitated by the unit's manager, and is a forum in which the team discusses and builds ownership to Norske Skog's values, the Company's strategies, and organisational and leadership principles.

Some time ago, Norske Skog Follum initiated a successful programme to improve the literacy of employees who had problems with reading and writing. The programme is an open offer to employees who feel that they need help.

MANAGEMENT AND EMPLOYEE RELATIONS

Norske Skog's business has always involved employee representatives, along with management, in decision making. As well as having employee representatives on the Board and Corporate Assembly, a European Workers' Council (EWC) has existed since 1966.

Over the past two years, since the acquisition of Fletcher Challenge Paper, employees from Australasia and South America have discussed their participation in a global forum. The Company is positive and very supportive towards the development of EWC as a global forum. Although employees in these two regions have shared a good relationship with management, they have not yet been brought together collectively to discuss this matter. During 2002, employee representatives from Australasia held the first meeting of their Regional Works Council.

Employee representatives from Australasia and South America met with their European colleagues for the first time at CORE 2001. The CORE conference is an annual leadership meeting at which 100 core managers and employee representatives explore the Company's strategy, goals and values. Since this meeting there have been open lines of communication between the different regional members, as Kåre Leira, Global Chief Shop Steward, has worked diligently to form a Global Workers Council. During 2002, Kåre Leira visited his colleagues in Australasia and South America to discuss the Council's formation.

COMMUNITY INVOLVEMENT

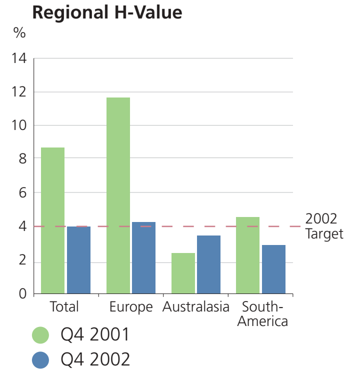
Where communities are concerned, social responsibility involves remaining sensitive to the needs of local communities and aware of the impact which Norske Skog's operations have upon them. It means maintaining an open dialogue and responding with local measures. It also means showing respect for, and building upon, local culture and traditions.

Norske Skog mills are often the cornerstone of local communities; many of them are the largest employer in their particular region. As well as providing both direct and indirect employment, the Company works closely at the local level with communities, to assist with other needs.

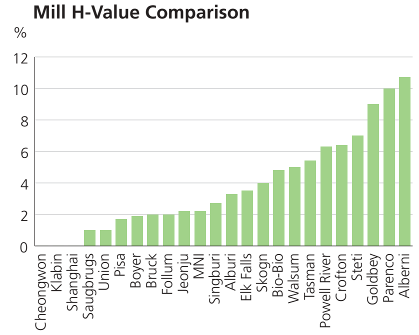
At Norske Skog Bio Bio in Chile Norske Skog contributes towards the establishment and development of nursery schools, housing facilities and youth clubs. After the flood in the Czech Republic in 2002, the company and employees at other mills contributed provided financial support to those employed at Steti who where affected by the damages. At Norske Skog Tasman, New Zealand, a council has been created to manage the relationship between the native population, the Maori. In Australia, Norske Skog's employees have assisted in fire-fighting efforts.


In Australia, Norske Skog's employees have assisted in fire-fighting efforts.

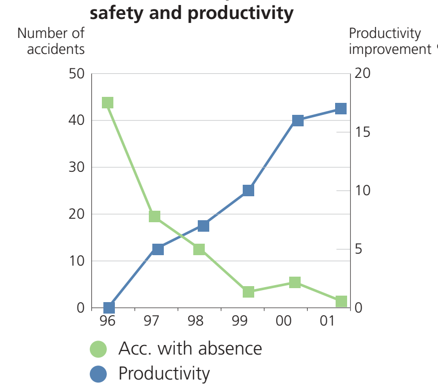
Regional H-Value



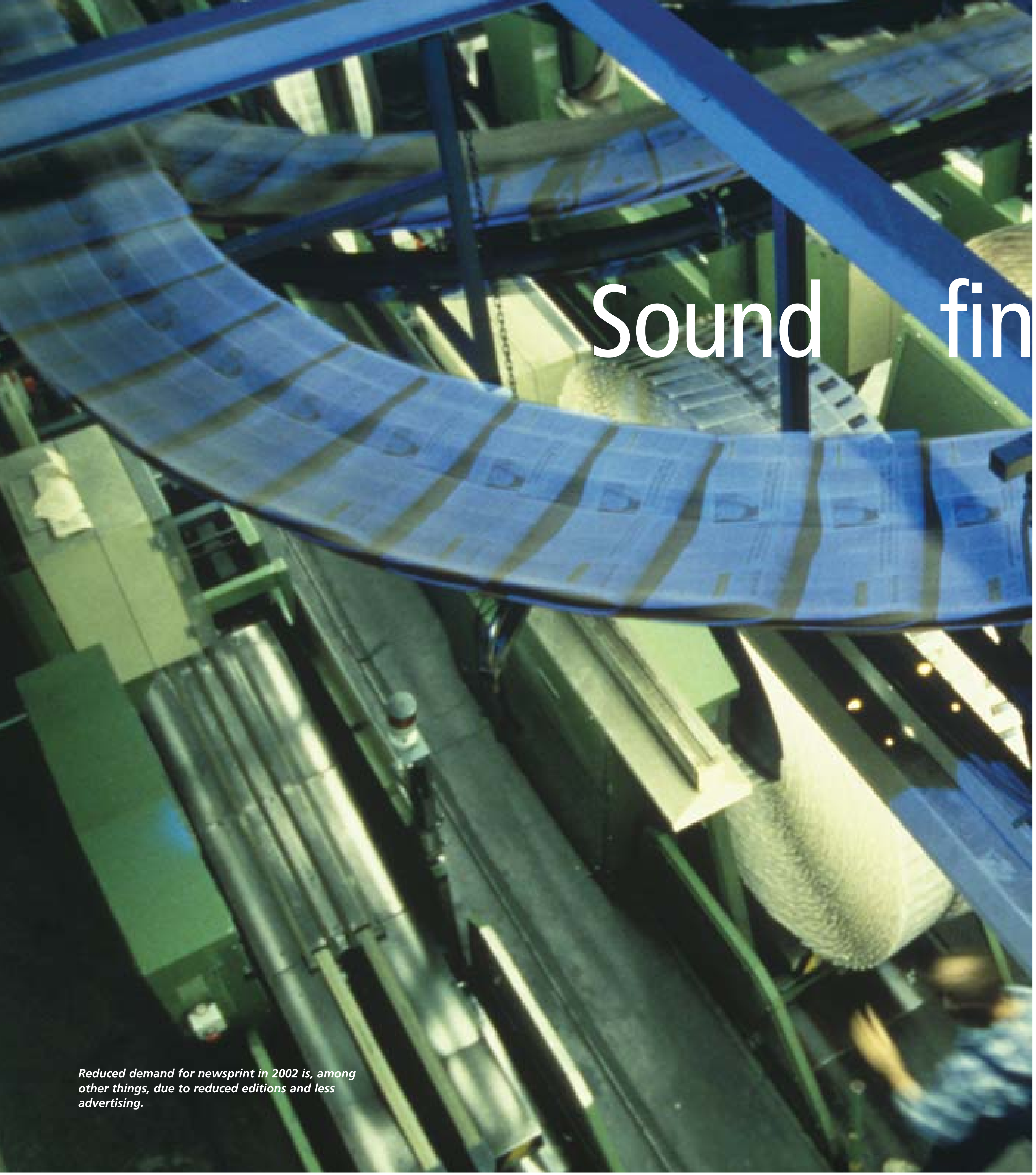
Mill H-Value Comparison



Bruck – Development of safety and productivity



Sound financial position



Despite weak results in 2002, Norske Skog has a sound financial position at the beginning of 2003 due to strong cash flow, stringent capital management and financial restructuring.

Weak demand and the strong Norwegian krone had a significant negative effect on Norske Skog's result. The result in 2002, and a relatively conservative outlook for the world economy, demands comprehensive improvement measures to strengthen competitiveness.

Reduced demand for newsprint in 2002 is, among other things, due to reduced editions and less advertising.

Weak markets for publication paper in 2002

Financial restructuring completed after acquisitions in 2000-2002

The weak trend of publication paper markets during the latter part of 2001 persisted and grew more marked in 2002. Nor is any general improvement expected, during the first part of 2003, in the market situation for newsprint and magazine paper. Norske Skog's result for 2002 was affected by these weak markets, and the strong Norwegian krone. Earnings per share amounted to NOK 8.79, against NOK 20.68 in 2001. Norske Skog generated a satisfactory cash flow from operations, and NOK 2.4 billion debt was paid off during 2002. Combined with financial restructuring, this gives the Company a sound financial position at the start of 2003.

Norske Skog has expanded and restructured significantly in recent years, and the Company now holds a strong position in important markets. The Group continues to give priority to restructuring and significant streamlining, in order to strengthen its competitiveness in its core area. The result yielded by the improvement programme in 2002 was NOK 875 million. This is being carried further in a comprehensive programme for 2003-2004, Improvement 2003. Its goal is to improve the profitability of current operations by a further NOK 2 billion, compared with 2002 cost levels. NOK 600 million of restructuring costs which the programme is expected to entail were charged to the accounts for the fourth quarter of 2002. The strong Norwegian krone reduced operating earnings in 2002 by just about NOK 1 billion.

The world's stock markets performed poorly in 2002, and the value of Norske Skog shares fell from NOK 167.50 per share on 2 January to NOK 98.00 on 30 December. Norske Skog wishes to maintain a stable dividend level, and the Board therefore proposes, according to its strategy, a dividend of NOK 6.00 per share for 2002 (NOK 6.00).

Lower volumes and prices

With few exceptions, publication paper markets were marked by weak demand and low prices throughout the whole year, and Norske Skog adapted its output accordingly, in order to reduce costs. Temporary production shutdowns implemented at the Group's wholly-owned mills reduced output by 480 000 tonnes, or 10% of total capacity.

Activity in Europe accounts for 60% of the Group's revenue, and average prices in NOK for newsprint and magazine paper were, respectively, 19% and 16% lower than in 2001. Low price levels in the US, too, affected price trends in South America, Australasia and South-East Asia. Even so, the partly-owned company Pan Asia Paper Co. achieved high margins, owing to high demand in its largest markets, Korea and China. In the US a price increase of USD 50/tonne was announced, to take effect from 1 August, and an increase of USD 35 was achieved during the autumn.

CONTINUED STRONG CASH FLOW FROM OPERATIONS

Norske Skog's operating revenue in 2002 reached NOK 23 471 million (NOK 30 354 million), and operating earnings were NOK 1 906 million (NOK 5 096 million) before restructuring costs of NOK 600 million. The strong Norwegian krone had a negative effect, corresponding to around NOK 1 billion, on operating earnings; apart from that the lower figure in 2002 reflects lower prices and volumes. An allocation of NOK 600 million, in connection with Improvement 2003, is intended to cover de-manning costs. Cash flow from operations was NOK 3 687 million (NOK 7 052 million), and gross operating margin, before restructuring costs, was NOK 22.1% (27.7%).

Earnings before taxation was NOK 806 million (NOK 3 894 million). Earnings per share, after tax, was NOK 8.79 (NOK 20.68), and cash flow from operations, per share, was NOK 27.89 (NOK 58.47). Calculated on the basis of the share's price on 2 January 2003, this gives price/earnings and price/cash flow ratios of 11.7 and 3.7, respectively.

The tax cost figure was favourably affected by one-off items amounting to NOK 650 million. The main items concerned were the clarification of tax circumstances in connection with acquisitions during recent years, and changed tax rules in Australia.

Earnings for the year reached NOK 1 168 million (NOK 2 660 million).

In making comparisons with 2001 it must be remembered that NorskeCanada was consolidated in the Group accounts up to 28 August 2001, and that two pulp mills were sold in 2001. Tasman Pulp in New Zealand was wholly-owned up to 30 April 2001, and Mackenzie was wholly-owned by NorskeCanada up to 15 June 2001. On 16 August 2001, Norske Skog increased its ownership stake in PanAsia from 33% to 50%, while the publication paper mills Walsum and Parenco were taken over on 30 November 2001.

Included under affiliated companies is minus NOK 245 million as the Company's share of NorskeCanada's after-tax result and minus NOK 58 million as its share of Malaysian Newsprint Industries' after-tax result.

Return on capital employed, before restructuring costs, was 4.7% in 2002, while the Group's long-term goal is an average return of 14%.

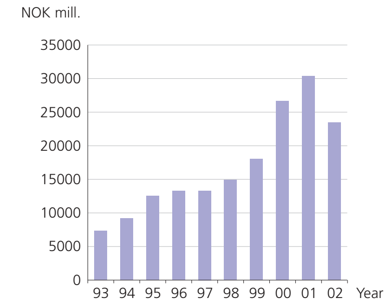
Net financial items (financial income minus financial costs) were minus NOK 405 million (minus NOK 1 376 million) after crediting to the accounts currency gains on hedging of NOK 884 million.

The tax cost figure for the year was positive, at NOK 362 million (minus NOK 1 234 million).

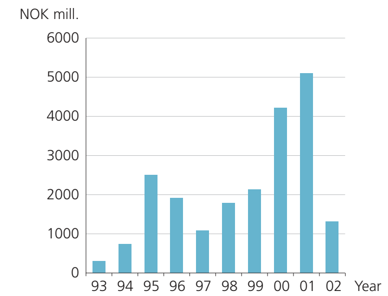
The Board proposes a dividend of NOK 6.00 per share (NOK 6.00), corresponding to 68% (29%) of earnings per share.

The Board confirms that the annual accounts have been prepared under the going concern assumption.

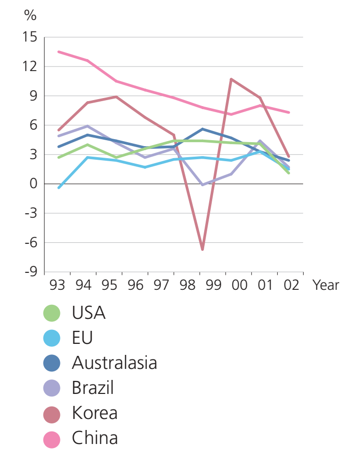
Operating revenue 1993 - 2002



Operating profit 1993 - 2002



Growth in gross national product



Source: Consensus Forecasts

Goal of better debt to equity ratio achieved

Norske Skog has achieved its target figures for equity capital and the debt to equity ratio. The ratio of net interest-bearing debt to equity capital (gearing) was 1.02 as of 31 December 2002, while the corresponding figure at the end of 2001 was 1.17. The Group's equity at the end of the year stood at NOK 17 921 million. This corresponds to NOK 136 per share and gives an equity capital ratio of 39.9%. Corresponding figures as of 31 December 2001, were NOK 19 526 million, NOK 148 and 34.7%, respectively.

Strict management of capital and the effect of the stronger Norwegian krone reduced Norske Skog's balance sheet during 2002 from NOK 56 272 million to NOK 44 966 million.

RISK MANAGEMENT

Among the risks faced by Norske Skog, currency fluctuations represent the greatest challenge. The company is more exposed to such fluctuations than competitors that are based in North America or the Eurozone. During 2002 the value of the NOK rose against the USD, GBP and EURO by, respectively, 23%, 14% and 9%.

This meant that the value of the Group's current cash flow was reduced by over NOK 1 billion in 2002, compared with average exchange rates in 2002. Of this, about NOK 850 million reflected lower revenue from Norwegian mills, and the lower value, when converted into NOK, of the profits made by mills outside Norway, while the reduction in value in converting foreign receivables to NOK was about NOK 150 million. For newsprint deliveries from Norway to Europe there were – in addition to a price decline of about 10% in local currencies – a negative currency translation effect of about the same order. The NOK price achieved for deliveries from Norway was thus almost 20% lower than in 2001. Efforts are made to limit this transaction risk by hedging from 50-100% of expected cash flow at all times. Hedge transactions yielded a gain of NOK 884 million in 2002, and this has been booked under financial items.

Because the Group has both assets and debt outside Norway, its balance sheet is also affected by currency rate changes. The rise in the value of the NOK during 2002 meant that Norske Skog's assets outside Norway had a booked value, at the end of the year, which was about NOK 4.4 billion less than at the end of 2001. Correspondingly, net interest-bearing debt in foreign currencies was reduced by NOK 2.4 billion, so that the decline in equity capital was about NOK 2 billion. In hedging balance sheet risk, the main focus is on hedging the ratio between net interest-bearing debt and equity (gearing).

Norske Skog has established central functions to monitor and reveal risks such as interest rate risks, liquidity, credit and project risks, and insurance risks. The aim is to limit the effects on the Group of unforeseen losses, and to ensure stable and more predictable revenue that will create added value for Norske Skog's shareholders. A more detailed account of the Company's overall risk management policy may be found on page 20-21, in the section of the annual report devoted to the capital market.

EXPANSION FULLY FINANCED – HIGH PROPORTION FROM CURRENT OPERATIONS

The acquisition of Walsum and Parenco, and the increase of Norske Skog's ownership stake in PanAsia have been fully financed through long term borrowing agreements. In February Norske Skog concluded an agreement with a bank syndicate regarding a seven-year, EUR 340 million loan. In October Norske Skog established a new long term drawing facility of EUR 400 million. About EUR 300 million of the total runs for seven years, while the rest runs for five years.

This means that investments in expansion of NOK 32.3 billion in 2000 and 2001 have been financed as follows: NOK 12.1 billion by borrowing (37.5%), NOK 3.5 billion from new equity, dividend subtracted capital (11%), NOK 4.7 billion from the sale of activities (14.5%) and NOK 12 billion from current operations (37%).

Ordinary investments in new plant were subject to strict prioritisation and in 2002 amounted to NOK 1 146 million, corresponding to 34.8% of ordinary depreciation and 4.9% of operating revenue.

Net interest-bearing debt at the end of 2002 was NOK 18 204 million (NOK 22 820 million). Average loan interest rate in 2002 was 5.7% and average amortisation period 5.1 years. Of the Group's borrowing portfolio, 75% is at floating interest rates.

As of 31.12.2002 the Group's liquidity reserve was about NOK 6 billion, including unutilised drawing rights. Early in January 2003, moreover, NOK 1.3 billion was received from the sale of power plants. Amortisation payments/refinancing will account for NOK 1.7 billion in 2003 and barely NOK 400 million in 2004.

WEAK STOCK MARKETS IN 2002

The world's stock markets were weak in 2002. The Oslo Stock Exchange overall index declined by 32% from 31 December 2001 to 31 December 2002. Norske Skog shares, including dividend, fell in value by 38% during 2002. Measured against a relevant reference group of indices and companies the shares yielded a return, during the period 31 December 2000 - 31 December 2002, which was 11 percentage points poorer than the reference group. The shares' traded price, after touching a low for the year of NOK 82.50 in October, rose by 19% to NOK 98.00 at the close of 2002. Norske Skog shares were in 2002 among the ten most traded on the Oslo Stock Exchange, and are followed by a number of Norwegian and foreign analysts.

At the end of the year Norske Skog's market capitalisation was NOK 13 000 million (NOK 22 400 million), corresponding to 73% of booked equity capital. During 2002 107.6 million shares were traded, corresponding to 81% of the total number of shares. At year-end 57% of the shares were owned by persons or institutions registered in Norway.

At the end of 2002 Norske Skog held 888 247 of its own shares, corresponding to 0.7% of the total number of shares. The Company's general meeting on 29 April 2002, authorised the Board to buy back up to 10% of outstanding shares. This authorisation is valid for 18 months.

Share capital was unchanged during 2002 and at the turn of the year amounted to NOK 1 331 million, consisting of 133 137 088 shares with a par value of NOK 10 each.

New programme and new organisation tailored to boost competitiveness

Compared with the rest of the paper and pulp industry, consolidation within the publication paper industry has come relatively far. Five manufacturers account for 45% of the world newsprint market, while five magazine paper producers cover 60% of global demand. Norske Skog has 13% and 8%, respectively, of the total world market for newsprint and magazine paper, including the Group's share of partly owned companies. During the past ten years, the real price of newsprint has dropped by about 10%, because new structures, larger units and new technology have increased cost efficiency at all stages of the value chain, from fibre to delivered finished product. Norske Skog believes that this trend will continue, driven additionally by the printed media's competition with – primarily – television and electronic media.

For Norske Skog this means continuous pressure for adaptability and renewal. At the close of 2002 the Group has completed restructuring outside its core area, while its structure within the publication paper business is unchanged, following its acquisitions. Consequently, the Group is now entering a new phase in which both financial and administrative resources will be concentrated on strengthening competitiveness within its core area. In the future, Norske Skog's production structure shall consist of larger and more cost-efficient plants serving the Group's global customer base.

NOK 2 BILLION IMPROVEMENT

The programme covers all business areas and companies controlled by Norske Skog and all the factors that affect profitability, capital commitments and investments. All activities will be evaluated in terms of their contribution to customer satisfaction and value creation. The goal is to improve the profitability of Norske Skog's day to day operations by NOK 2 billion by the end of 2004, compared with cost levels in 2002.

Until the turn of the year, the Group's organisation was tailored to achieve global growth. A new and different phase demands other ways of working and other priorities. A new organisation adapted to this has been established. This is a flat organisational structure in which corporate management focuses its attention on the operative parts of the business; sales, production and procurement.

CHANGES AT PANASIA

Hansol Paper sold its ownership stake in PanAsia in 2001, and in May 2002 Norske Skog and Abitibi Consolidated – who now own 50% each of PanAsia – signed a revised shareholder agreement. PanAsia's option to buy Norske Skog's mills in Australasia no longer applies. PanAsia retains its option to buy Norske Skog's ownership stake in Malaysian Newsprint Industries. At the same time, the owners confirmed their intention to use PanAsia as their vehicle for growth in Asia.

POWER PLANTS AND FOREST PROPERTIES SOLD

In the autumn of 2001 Norske Skog concluded an agreement with Vifor AS (the Norwegian Forest Owners' Association) and a charitable fund (Opplysningsvesenets Fond) concerning the sale of the Group's forest properties in south Norway, for just under NOK 200 million. After the authorities had granted a concession for the sale on 28 November 2002, the agreement was put into effect on 6 December 2002. The transaction yielded a book profit for Norske Skog of NOK 159 million.

Norske Skog's agreement on the sale of its 13 power plants was implemented on 3 January 2003. The transaction yields a pre-tax gain in 2003 of NOK 900 million and one of about NOK 450 million after tax, and increases the Company's liquidity by just over NOK 800 million after tax – which is due payable in 2004.

The board of Norske Skog's subsidiary Forestia decided in October that production at the company's Agnes plant, in Stavern, should close down from May 2003. This closure reduces the workforce by about 60 persons.

Lower demand for publication paper led to production cuts

The economic slowdown in Europe in 2002, coupled with continuing low economic growth in the US, aggravated the weak trend that had started to affect publication paper markets in 2001. Despite an increase in Asia, and a reasonably stable situation in Australasia, global newsprint consumption fell by a further 1.5% during the year, following a decline of almost 7% in 2001. Reacting to reduced demand, Norske Skog's wholly owned mills therefore implemented output cuts corresponding to 480 000 tonnes in 2002. This is 10% of total capacity.

Global newsprint capacity growth is set to remain relatively low – by about 1% in both 2003 and 2004. For magazine paper, capacity growth will be somewhat larger, due both to new paper machines and to the fact that some suppliers are converting part of their capacity from newsprint to magazine paper. An economic trend that triggers increased demand will provide satisfactory capacity utilisation for newsprint relatively rapidly, while magazine paper markets will need somewhat longer to absorb the new volumes. Annual contracts for deliveries to Europe in 2003 involve an average price decline of 7 – 11 % for newsprint and 4 – 5 % for magazine paper, in terms of local currencies.

PRICE DECLINE IN EUROPE IN 2002

Economic growth in the EU area in 2002 was only 0.9%, and European markets for most publication paper products featured imbalance and pressure on prices throughout the whole year. At the end of June there was, for a time, a steep rise in the prices of recovered paper and purchased chemical pulp, but these prices fell again during the autumn. Parenco in the Netherlands contributed unfavourably to the 2002 financial results. Activities in Europe in 2002 yielded operating revenue of NOK 14 087 million and operating earnings of NOK 1 189 million. Gross operating margin was 21.1% (31.3%).

NEWSPRINT

Negotiations with European customers regarding deliveries in 2002 resulted in an average price decline of about 10%. Some spot deliveries from both North American and European producers led, at times, to some pressure on prices, but even so the price level was maintained, through annual agreements. Lower advertising volumes in the daily press led to a gradual weakening of demand during the year, and total demand in 2002 was 6% lower than in 2001. This necessitated periodic production shutdowns.

During 2002 one new newsprint machine came on line in Europe. Owing to other structural changes, however, total European capacity was roughly unchanged.

MAGAZINE PAPER

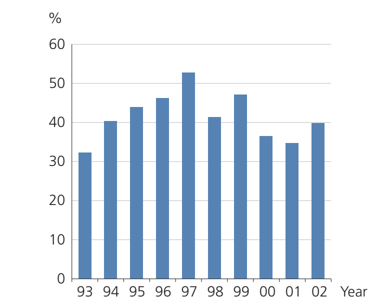
Magazine paper markets have not been hit by lower advertising volumes to the same extent as the newspapers. For uncoated (SC) and coated (LWC) magazine paper the order situation was relatively good throughout the whole year. Total deliveries of both SC and LWC were about unchanged from 2001 to 2002. The SC price level of EUR 630 per tonne was maintained, while the price of LWC was reduced from EUR 730 per tonne to EUR 700-715 per tonne, owing to overcapacity after the building of several new paper machines in 2000 and 2001. Deliveries of magazine paper from Europe to other regions increased by 7% from 2001.

European capacity for SC increased by 200 000 tonnes, or 4.2%, in 2002, while capacity for LWC rose by 500 000 tonnes, or 5.6%. Magazine paper capacity at European mills is expected to increase far less in 2003.

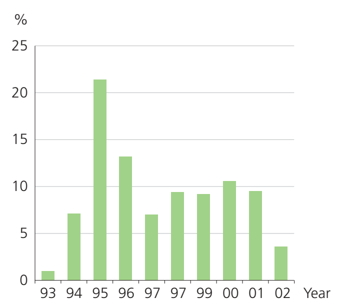
LOWER DEMAND IN SOUTH AMERICA

Activity in South America in 2002 was strongly affected by the fact that economic growth in the region's largest market, Brazil, was only 1.3%, and by uncertainty following the financial crisis in Argentina. Region South America had operating revenue in 2002 of NOK 1 107 million and an operating result of minus NOK 9 million. Gross operating margin was 25.4% (42.5%).

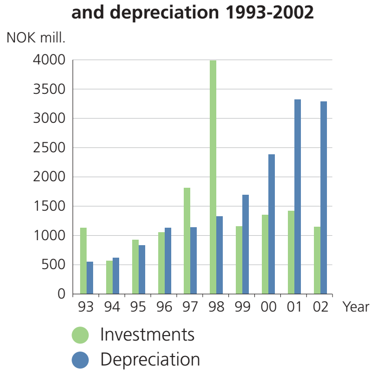
Equity to assets ratio



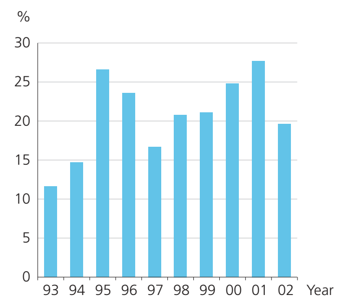
Return on assets



Operational investments and depreciation 1993-2002



Gross operating margin



Newsprint demand in South America fell by 8% in 2002, compared with 2001. Combined with increased competition from North American producers, this pushed prices in Brazil down to USD 390 per tonne in the fourth quarter of 2002, from USD 500 per tonne in the same period of 2001.

RELATIVELY STABLE IN AUSTRALASIA

Economic growth in Australasia in 2002 was 3.8%, and demand for publication paper rose by 2%. Region Australasia's operating revenue in 2002 was NOK 3 807 million, and its operating earnings NOK 546 million. Gross operating margin was 31.4% (32.5%).

In accordance with the price formula in the long-term newsprint supply agreement with most of the company's customers in Australia, prices were reduced by 7% with effect from 1 July 2002. In New Zealand, a price increase of 3% took effect from 1 January 2003. The trend of raw material costs was favourable.

A stronger Australian dollar led to increased competition from suppliers in Asia, while newsprint exports from Australasia to Asia declined.

Partly owned companies

CONTINUED HIGH MARGINS AT PANASIA

Even in a year of weak newsprint markets, globally, PanAsia maintained a strong result, with high margins. Norske Skog's 50% shares of PanAsia's operating revenue and operating earnings in 2002 were, respectively, NOK 2 688 million and NOK 562 million. Gross operating margin was 32.2% (35.7%).

The satisfactory result mainly reflects high demand and stable prices in South Korea and China, high productivity at the mills and a favourable production cost trend. PanAsia's home markets are South Korea, China and Thailand, which account for more than 90% of the company's newsprint sales. Other markets were still affected by low demand and pressure on prices. In Asia as a whole, newsprint consumption rose by 6% in 2002.

Malaysian Newsprint Industries (MNI), in which Norske Skog has an ownership stake of 34%, competes mainly on the weak south east Asian markets, and both productivity and results were affected by a highly unstable market situation.

During 2003 three new newsprint machines with a combined capacity of 560 000 tonnes will come on line in China.

STILL WEAK IN NORTH AMERICA

The North American newsprint market was very weak at the start of the year, but showed signs of improving during the second half year. NorskeCanada, in which Norske Skog has an ownership stake of 30.6%, had operating revenue in 2002 of CAD 1 482 million and an operating result of minus CAD 123 million.

The price of standard newsprint on the US west coast fell from USD 520 per tonne at the end of 2001 to USD 450 per tonne in June – the lowest price for eight years. During the autumn several suppliers announced a price rise of USD 50 per tonne. At the end of 2002 the price was USD 485 per tonne.

US demand for newsprint gradually revived during the second half year, but for the year as a whole newsprint consumption in the country fell by 3%. Deliveries from North America to other regions fell by 4%. NorskeCanada's publication paper output includes special grades, catalogue paper and coated (LWC) magazine paper, and at the year's end demand for the company's products was generally satisfactory.

No new paper machines are due to come on line in North America in 2003, and newsprint capacity in the region will decline somewhat, because a few older machines are being converted to produce other grades of publication paper.

Environment

Norske Skog is committed to running its activities in a manner that supports the sustainable development of the environment and natural resources. Its goal is to reduce the impact on the environment to a minimum. The Group's environmental strategy embraces all of the Company's activities, and Norske Skog strives to promote the same environmental values in its partly owned companies, too.

No incidents occurred at Norske Skog's mills in 2002 that involved significant infringements of permits or regulations.

Of the fibre required to produce paper at Norske Skog's wholly owned mills in 2002, 24% came from recycled paper, 20% from chips from the sawn timber industry, 47% from roundwood and 9% from pulp purchased in the market. Consumption of recycled paper totalled 1 240 000 tonnes.

Norske Skog supports certified forestry throughout the whole world. Certifiable and internationally accepted environmental management systems shall, moreover, be actively applied at all production units. Seven of 14 wholly owned mills were certified at the end of 2002.

Norske Skog strives actively to conserve energy and reduce waste. More than 80% of the waste at the Group's European and South American mills was utilised as bio-energy in 2002. This corresponds to 2 250 GWh or nearly 200 000 tonnes of oil. In Australasia more of the waste is used in agriculture or deposited in waste tips.

Discharges to water per tonne of produced unit have been significantly reduced during the past few years. During 2002, discharges of dissolved organic matter were cut by 17%. Apart from BioBio in Chile and Boyer in Australia, all the mills have biological waste treatment plants. At the mill in Chile, a new treatment plant will come on line in May 2003. This will cut discharges of fibre by 85%. At Boyer, the authorities have set

1 January 2007, as the deadline for implementing further measures to reduce discharges.

Dust from boilers is the main cause of local emissions to air from the Company's paper mills. Apart from Bio Bio, in Chile, all the mills now have filters that keep these dust emissions to a minimum. At present, BioBio is not subject to requirements limiting boiler dust emissions, but work is in hand on a project that will cut these emissions by more than 90%.

Environmental investments at Norske Skog's mills in 2002 totalled NOK 175 million.

Health and Safety

Norske Skog's health and safety policy aims at creating a "zero injury attitude". This is based on the conviction that all accidents are preventable, and that all injuries, accidents and illness shall be taken seriously. In 2002 all employees have continued to be highly alert about identifying hazards and near-accidents, before they cause injury. The focus on health has sharpened by encouraging employees to adopt the same attitudes to health and safety in their leisure activities and at home as they do at work.

Norske Skog's goal for 2002, an H-value of 4, was an ambitious one, considering that the point of departure was 9.3 at the end of 2001 (H-value = lost-time injuries per million hours worked). The result at the end of 2002 was 4, right on target and a very satisfactory achievement.

While the H-values recorded by the different companies in the group varied in 2001 from 0 to 33, the range in 2002 was from 0 to 10. The Company lays great stress on transferring best practice among its units. An example of this are the excellent results achieved at Norske Skog Walsum and Norske Skog Parenco. When their integration in Norske Skog started, in December 2001, their H-values were 24 and 33, respectively, compared with 5 and 10, respectively, in December 2002.

The improvements achieved in 2002 are due mainly to the great emphasis laid on health and safety, which has received the highest priority on every agenda. Measures have included a uniform system for health and safety reporting and management in Region Europe, the development of standards and systems for evaluating achievements against this system, and increased efforts to identify hazards and near-accidents before they lead to injuries. The sharpened focus on health, and the slogan "Take care 24 hours" raises awareness about safety, while encouraging employees to take better care of their own health.

Norske Skog has set itself the goal of achieving an H-value of 3 in 2003. This is very ambitious, and the Company will continue adopting measures that further improve health and safety.

Human resources and organisation

2002 was a year of consolidation for Norske Skog, offering opportunities to further develop the Group's human resources policies. Launching the restructuring of the Group's organisation, and the Improvement 2003 programme, represented significant challenges during the latter part of the year.

The "leader evaluation" process covers identification, development and career planning for potential leaders, and has high priority with corporate management. The process is being applied at several levels within the organisation, in order to find candidates and prepare future leaders as rapidly as possible.

Norske Skog continues to develop the relationship between management and employees. In 2002 Kåre Leira, the employees' global shop steward, visited Australasia and South America in order to work on the creation of a global Employees' Council, on the lines of the one which has functioned for several years in Europe. In 2002, employees in Australasia held the first meeting of their Employees' Council.

In June Norske Skog became the first paper and pulp company in the world to sign an agreement that guarantees the rights of Norske Skog employees throughout the world. The agreement is between the International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM), Fellesforbundet and Norske Skog. It covers all the relevant points in the UN policy document Global Compact.

As of 31 December, 2002, Norske Skog had 9 213 employees (9 708), including a proportional share of the employees of PanAsia and Malaysian Newsprint Industries.

Wages and social costs in 2002 totalled NOK 3 514 million (NOK 3 909 million).

The Board thanks all employees for their valuable efforts for Norske Skog during 2002 and would particularly like to emphasise their satisfaction with the developments within the health and safety area.

Changes in the Company's governing bodies

On 29 April the Corporate Assembly elected forest owner Lars Wilhelm Grøholt new chairman of the Board. He succeeds Lage Westerbø, who has been chairman since 1989. At the same time Jan Reinås left the Board, for reasons of principle, in order to avoid the double role of CEO and Board member. Giséle Marchand was elected a new member of the Board. Since April 29, 2002, the Company's Board has thus had nine members. During 2002 six ordinary and two extraordinary Board meetings were held. Attendance at these meetings in 2002 averaged about 90%.

Norske Skog's activity is concentrated around one product area, wood-containing publication paper, and the Group's structure is simple and straightforward. This enables the Board to tackle its tasks in a targeted, concentrated manner. In December the Board carried out its annual self-evaluation, which is its tool for analysing its own work with a view to improvements. Openness, honesty and commitment to the Company's best interests mark relationships within the Board, and between the Board and corporate management.

The Company's selection committee strives to achieve the best possible make-up of the Board's bodies, based on the Company's needs and with a view to attaining the broadest possible representation of the Company's shareholder groups.

The Board's remuneration committee held three meetings, and is working to enhance the Company's pay and incentive systems.

Markets set to continue weak in 2003

Norske Skog assumes that publication paper markets will continue weak through the first half of 2003. The Norwegian krone is expected to remain strong.

Sales volumes are expected to remain stable in 2003, compared with 2002. In Europe, newsprint prices decline further. In North America a USD 50 per tonne increase in newsprint prices has been announced, to take effect from 1 March 2003. Magazine paper prices are expected to be under some pressure during the first half year.

In consequence, Norske Skog expects a weak result in 2003. As the year progresses, however, the effects of the improvement programme will make a positive contribution.

Distribution of result

Norske Skogindustrier ASA's accounts show a profit for the year of NOK 1 031 million.

It is proposed to distribute this profit as follows:

Transferred to other equity capital	NOK	236 million
Dividend to shareholders	NOK	795 million
Total disposals	NOK	1 031 million

It is suggested that group contribution amounting to NOK 381 million (NOK 274 million after tax) should be given.

Distributable equity in Norske Skogindustrier ASA after these disposals is NOK 5 181 million.

Lysaker, 5 March 2003

Lars Wilhelm Grøholt
Chairman

Jon R. Gundersen
Deputy chairman

Halvor Bjørken

Jan Vidar Grini

Stig Johansen

Kåre Leira

Øivind Lund

Egil Myklebust

Giséle Marchand

Jan Reinås
President and CEO

Profit and Loss Account

NOK million	Notes	2002	2001	2000
Operating revenue	2	**23 471**	**30 354**	**26 635**
Changes in inventory		-206	230	-38
Cost of materials		10 559	11 679	11 559
Wages, salaries and personnel expenses	3, 4	3 514	3 909	3 290
Other operating expenses	5	4 406	6 117	5 225
Depreciation and amortisation	12	3 292	3 323	2 388
Operating expenses		**21 565**	**25 258**	**22 424**
Operating earnings before restructuring costs		**1 906**	**5 096**	**4 211**
Restructuring costs	7	-600	–	–
Operating earnings		**1 306**	**5 096**	**4 211**
Earnings from affiliated companies	15	-290	16	34
Financial items	6	-405	-1 376	-1 394
Other items	7	195	158	170
Earnings before taxation		**806**	**3 894**	**3 021**
Taxation	8	362	-1 234	-837
Earnings		**1 168**	**2 660**	**2 184**
The minority's share of the earnings		6	166	226
The majority's share of the earnings		**1 162**	**2 494**	**1 958**
Earnings per share / Earnings per share fully diluted	9	8.79	20.68	19.17

Statement of Cash Flow

NOK million	Notes	2002	2001	2000
Cash flow from operating activities				
Cash generated from operations		23 575	31 165	26 386
Cash used in operations		-18 290	-22 141	-19 620
Cash from net financial items		-625	-1 435	-1 428
Taxes paid		-973	-537	-416
Net cash flow from operating activities	10	3 687	7 052	4 922
Cash flow from investment activities				
Investments in operational fixed assets	12	-1 146	-1 422	-1 351
Adjustment for investments with deferred cash-effect		–	197	–
Sales of operational fixed assets		44	26	69
Other investments		170	286	-299
Dividend received [1]		–	4 372	–
Net cash from sold shares and activities [2]		498	3 075	1 534
Net cash used for acquisitions of companies [3]		-6	-11 113	-18 644
Net cash flow from investment activities		-440	-4 579	-18 691
Cash flow from financial activities				
Net change in long-term liabilities		-6 411	-2 550	20 739
Net change in short-term liabilities		884	-121	-165
Dividend paid		-792	-671	-554
New equity		–	3 327	1 463
Net cash flow from financial activities		-6 319	-15	21 483
Translation difference		-218	44	111
Total change in liquid assets [4]		**-3 290**	**2 502**	**7 825**
Liquid assets as at 1 January. [4]		4 158	8 628	803
Net change in liquid assets from deconsolidation of NorskeCanada		–	-6 972	–
Adjusted liquid assets as at 1 January.		–	1 656	–
Liquid assets as at 31 December.	11	868	4 158	8 628

[1] Dividend received in 2001 is from NorskeCanada.

[2] In 2002 the amount consists of sale of forests in Southern Norway, forests in Sweden, and settlement for Flooring AS. In 2001 the amount consists of sale of Mackenzie Pulp and Tasman Pulp, sale of shipping activities in Australasia and Norway, sale of headquarter building and sale of the forests in Brazil. In 2000 the amount consists of Norske Skog Tofte and Norske Skog Folla AS.

[3] In 2001 the amount consists of increased ownership in Pan Asia Paper Co., increased ownership in Pisa Papel de Imprensa, and the acquisition of Walsum and Parenco. For 2000 the amount consists of the acquisition of Fletcher Paper.

[4] Total change in liquid assets has been adjusted for the deconsolidation of NorskeCanada at 28 August 2001. Liquid assets in the company at the time of deconsolidation was NOK 6 972 million. The amount has been adjusted against the opening cash-balance (Liquid assets as at 1 January 2001)

Balance Sheet

NOK million	Notes	2002	2001	2000
Assets				
Intangible fixed assets	12	**4 682**	**4 549**	**3 430**
Operational fixed assets	12	**31 127**	**36 889**	**38 049**
Other long-term receivables	13	401	672	968
Shares in other companies and partnerships	14	40	45	201
Shares in affiliated companies	15	1 947	3 262	1 069
Securities and long-term financial assets		**2 388**	**3 979**	**2 238**
Fixed assets		**38 197**	**45 417**	**43 717**
Inventory	16	2 080	2 172	2 967
Other short-term receivables		889	1 019	917
Accounts receivable		2 932	3 506	4 998
Short-term investments	11, 17	381	1 769	7 417
Liquid assets	11	487	2 389	1 211
Current assets		**6 769**	**10 855**	**17 510**
Total assets		**44 966**	**56 272**	**61 227**
Shareholders' equity and liabilities				
Share capital		1 331	1 331	931
Own shareholding		-9	-10	-15
Share premium reserve		7 116	7 088	4 161
Paid in equity		**8 438**	**8 409**	**5 077**
Other consolidated equity		9 326	10 912	9 413
Minority interests	20	157	205	7 861
Shareholders' equity	19	**17 921**	**19 526**	**22 351**
Deferred taxes	8	2 021	3 174	2 012
Pension obligations	4	352	329	718
Provisions		**2 373**	**3 503**	**2 730**
Interest free long-term liabilities		537	674	367
Interest bearing long-term liabilities	21, 25	17 925	26 681	28 809
Long-term liabilities		**18 462**	**27 355**	**29 176**
Interest bearing current liabilities	22	1 147	297	355
Interest free current liabilities	23	5 063	5 591	6 615
Current liabilities		**6 210**	**5 889**	**6 970**
Total shareholders' equity and liabilities		**44 966**	**56 272**	**61 227**

Lysaker, 5 March 2003

Lars Wilhelm Grøholt
Chairman

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Deputy chairman

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Kåre Leira

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Egil Myklebust

Giséle Marchand

Jan Reinås
President and CEO

1. Accounting principles

Consolidated accounts

The consolidated accounts are presented in accordance with Norwegian Generally Accepted Accounting Principles, and are presented in NOK million if not stated otherwise.

The consolidated accounts include the activities of the parent company, Norske Skogindustrier ASA, and its subsidiaries as one financial unit based on the accounting principles as described below. All intercompany transactions are eliminated from the consolidated accounts. Gains and losses arising from transactions between group companies are also eliminated.

Companies in which Norske Skog has a controlling interest are fully included in the consolidated accounts. In the case where subsidiaries are not wholly owned, minority interests are deducted and shown as separate items in the profit & loss account and in the balance sheet. The subsidiaries are consolidated into the consolidated accounts from the date Norske Skog obtains control over the subsidiary. Shares in subsidiaries are eliminated according to the purchase method. That is, the cost of the acquisition of the shares is allocated to the subsidiary's assets and liabilities, which are entered in the consolidated accounts at the fair value at the time of purchase. Cost of acquisition in excess of the fair value of identifiable assets and liabilities is entered as goodwill in the balance sheet.

The equity method is used for affiliated companies. Affiliates are those companies in which Norske Skog has a substantial, but not a controlling interest. The equity method requires that the Group's share of the affiliate's profit or loss after tax is shown on a separate line in the profit & loss account, whilst its share of the affiliate's equity, adjusted for fair value, is classified as a fixed asset in the balance sheet.

Interests in joint ventures are accounted for using proportionate consolidation. The share of income, expenses, assets, liabilities and cash-flow is recognised line by line in the consolidated accounts. Joint ventures are business activities that Norske Skog runs in co-operation with one or more participants. The business is regulated by an agreement between the participants. Joint venture implies that no participant has a majority interest in the business.

Most of the foreign subsidiaries in the Group's accounts are classified as independent entities. On consolidation of the independent foreign subsidiaries, balance sheet items are translated at the year-end exchange rate. Profit & loss items are translated at the average exchange rate for the year. The translation difference is entered as an adjustment to consolidated equity.

Other foreign subsidiaries are classified as an integral part of the parent company's operations. On consolidation of foreign subsidiaries that are regarded as an integral part of the parent company's activities, monetary items are translated at the year-end exchange rate. Non-monetary items are translated at the exchange rate on the transaction date. Profit & loss account items are translated at the average exchange rate for the year, except for cost of materials and depreciation, which are translated at the rate on the transaction date. The translation difference is presented as a financial item in the profit & loss account.

Operating revenues

All sales are recognised as revenues at the time of delivery to the customer. Operating revenue is the gross operating revenue less commissions, rebates and other direct price reductions.

Classifications in the balance sheet

Assets and liabilities linked with the flow of goods are classified as current assets and liabilities. Other assets are classified as fixed assets when the company intends to keep them for continued use or ownership. Liabilities that fall due for payment later than one year after the balance sheet date are classified as long term liabilities. Other assets and liabilities are classified as current assets and current liabilities.

Assets and liabilities in foreign currencies

Unhedged assets and liabilities in foreign currencies are translated into NOK at the year-end exchange rate. Balance sheet items in foreign currencies that are hedged by financial instruments are entered at the hedging exchange rate. Balance sheet items in foreign currencies that hedge against each other are entered at the year-end exchange rate. Gain and loss due to changes in currency rates on debt in foreign currency that is regarded as a hedge of the value of an independent subsidiary in foreign currency is booked against equity, together with the translation difference arising from the translation of the subsidiary. Gain and loss due to changes in currency rates on balance sheet items related to operations is included in the operating profit. Gain and loss due to changes in currency rates on other balance sheet items is classified as financial item.

Financial instruments

Treatment of financial instruments for accounting purposes follows the intentions underlying the associated contract. At the time a contract is entered, it is defined either as a hedging or as a trading contract.

The various types of financial instruments used for hedging interest risks are assessed as separate portfolios. The portfolios are then assessed at cost price or market value, whichever is the lower. In cases where the contracts entered are classified as hedging transactions, revenues and costs are accrued and classified in the same way as the underlying balance sheet items.

Financial instruments in foreign currencies that are not classified as hedging for accounting purposes are assessed at market value.

Shares, bonds, certificates, bills etc.

Shares, bonds and certificates classified as current assets and which are regarded as part of a trading portfolio are valued at market value.

Shares classified as fixed assets that are not attributed to affiliated companies are strategic investments where the Group cannot be said to have any significant influence. These share holdings are valued at cost price, or possibly the fair value when a drop in value is of a permanent nature.

Inventory

Raw materials and other purchased goods are valued at purchase cost according to the FIFO principle. Finished goods are valued at production cost, which includes raw materials, energy, direct wages and a share of indirect costs, including ordinary maintenance and depreciation. The net selling value at a future selling date will be used if that is lower.

Fixed assets and depreciation

Fixed assets are valued at historical cost. Acquisition cost for tangible assets having long term future economic benefits are capitalised and classified as assets in the balance sheet. Spare parts are capitalised with the asset to which they pertain. For major investments with a long production time, interest is capitalised as part of the acquisition cost. Expenditure to increase capacity or improve quality that represents a future increase in earnings is capitalised in the balance sheet. Maintenance costs are expensed as an operating cost.

Ordinary depreciation is calculated from the time the use of the tangible asset commences and is calculated on the basis of the economic life of the asset.

Norske Skog has implemented the preliminary Norwegian accounting standard on impairment of assets in 2002.

Research & Development

Research and development costs are expensed as they are incurred and are classified as operating costs.

Leasing

Leasing contracts are assessed as financial or operational leasing after an assessment is made of each contract. Leasing contracts that are associated with tangible assets and classified as a financial lease are capitalised in the balance sheet and depreciation is charged as for ordinary tangible assets. The tangible assets are capitalised at the present value of the lease payment. If the fair value of the fixed asset are lower than the present value of the lease payments on the contract date, the fair value is capitalised. The amortisation portion of the leasing obligation is entered as long-term debt. The amount of debt is reduced by the rental paid after deduction of the calculated interest cost. Leasing agreements that are classified as an operational lease are not capitalised in the balance sheet. The leasing charge is expensed.

Pension costs and obligations

Pension obligations are calculated as the discounted value of the future pension benefits deemed to have accrued at year-end, based on the employees earning pension rights steadily throughout the working period. Funds belonging to the pension scheme are assessed at their fair value and are entered net against pension obligations in the balance sheet. Each individual pension plan is assessed separately, but the value of over-financing in one plan and under-financing in another is entered net in the balance sheet, provided that pension scheme funds are transferable between the plans. Net pension scheme funds are entered as long-term receivables and net pension obligations as long-term debt. Pension obligations and pension scheme funds are calculated on the basis of financial and actuarial assumptions as explained in note 4.

Net pension costs for the period are included in "wages and personnel expenses" and consist of the present value of pension earned in the year, interest expenses on the pension obligation, anticipated returns on pension scheme funds, expensed portion of differences in estimates and pension plans, expensed portion of difference between actual and anticipated returns, and accrued national insurance.

The effect of changes in estimates and pension plans and the difference between actual and anticipated returns are accrued over the remaining pension-earning period or expected life when the cumulated effect exceeds 10% of whichever is highest of the pension scheme funds or the pension obligations.

Bond loans

The value of bond loans in the balance sheet is reduced by holdings of the company's own bonds. Value above/below par is expensed when purchasing own bonds.

Taxes

The tax cost consists of payable tax and the change in deferred tax. Payable tax is calculated on the basis of the taxable earnings and the change in deferred tax is calculated on the basis of the year's change in temporary differences.

Deferred tax in the balance sheet is calculated based on temporary timing differences between financial accounts and tax accounts and any tax losses that can be carried forward at the end of the financial year. Tax-reducing temporary differences and losses to be carried forward are set off against tax-increasing temporary differences reversed during the same period. Full provision is normally made according to the debt method without discounting to present value. Deferred tax in acquired companies is valued at present value when this provides a true reflection of the underlying transaction.

Cash flow

The cash flow is reported using the direct method. The direct method provides cash flow from operational-, investment- and financing activities on a gross basis. Liquid assets contains bank deposits and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes to the value.

Contingent liabilities

Contingent liabilities are provided for if the possibility of their settlement are more than 50 %. Best estimate are used when calculating the value of the settlement. See note 27 where other material issues are commented on.

Changes in the Group structure

2002

Norske Skog's forest properties in the southern part of Norway were sold in December. Total value on the balance sheet of the forest properties was NOK 36 million.

In May 2002 NorskeCanada made a share issue. Norske Skog did not participate in this share issue. This resulted in a reduction of Norske Skog's share in NorskeCanada. After the share issue, Norske Skog's share was reduced from 36.1 % to 30.6 %.

2001

Forest properties in Sweden and Brazil were sold in 2001. Total book value of the properties in Sweden was NOK 40 million. The book value of the properties in Brazil was NOK 712 million.

The joint venture Pan Asia Paper Company was originally owned by Norske Skog, Abitibi Consolidated in Canada, and Hansol in Korea, each holding 1/3 of the share in the company. During spring 2001 Hansol offered the other two participants to take over Hansol's 33% share of Pan Asia Paper Company. The transaction date was 16 August, resulting in a share ownership of 50% for both Norske Skog and Abitibi. The transaction increased the total assets in the balance sheet by NOK 2 600 million.

30 November 2001 Norske Skog acquired the two publication paper mills Walsum in Germany and Parenco in the Netherlands. The German Haindl Group formerly owned the two mills. The acquisition increased Norske Skog's capacity for production of publication paper with 880 000 tonnes. The customer base of the two mills was also taken over by Norske Skog. The mills were consolidated from 1 December. The transaction increased the total assets on the balance sheet by NOK 10 100 million.

The two pulp mills Tasman Pulp in New Zealand and Mackenzie Pulp in Canada were sold 30 April and 15 June respectively. Tasman Pulp had an annual turnover of NOK 1 500 million, and Mackenzie Pulp had an annual turnover of NOK 900 million. The two mills' contribution to total assets on the balance sheet was NOK 1 300 million and NOK 850 million respectively.

In August NorskeCanada acquired Pacifica Papers. The acquisition was partly financed by a share issue in NorskeCanada. The share issue resulted in a reduction of Norske Skog's ownership in NorskeCanada from 50.8 % to 36.1 %. Therefore from September 2001 NorskeCanada is presented as an affiliated company in the consolidated accounts of Norske Skog. In relation to the deconsolidation of NorskeCanada the minority interests in the consolidated accounts were reduced by NOK 7 057 million.

2000

Fletcher Challenge Paper, with annual revenues of NOK 15 billion and total assets of NOK 27 billion, consisting of nine wholly and partly owned mills in New Zealand, Australia, Malaysia, Brazil, Chile and Canada was consolidated in the Norske Skog accounts from 28 July 2000. Deferred taxes for the acquisition of FCP are calculated at present value.

Norske Skog Klabin, where Norske Skog holds 50%, was consolidated proportionate as of 1 April 2000.

The sawn timber business of Forestia and Norske Skog Flooring AS Lyngdal was taken out of the consolidation as of 1 January and 1 May respectively. The operations had annual operating revenues of NOK 2 100 million and total assets of NOK 1 800 million and were included in business area Other Activities until the date of sale. Norske Skog Tofte and Norske Skog Folla AS were taken out of the consolidated accounts as of 30 June 2000. The operations had annual operating revenues of NOK 1 600 million and total assets of NOK 1 200 million and were included in business area Other Activities until the date of sale. Norske Skog Hurum was sold as of 1 February 2000 and was included in business area "Other Activities" until the date of sale.

Proforma profit and loss account

NOK million	2001	2000
Operating revenue	**28 634**	**30 808**
Operating expenses	-20 048	-23 356
Operating earnings before depreciation	**8 586**	**7 452**
Depreciation and amortisation	-3 475	-3 395
Operating earnings	**5 111**	**4 057**
Earnings from affiliated companies	118	221
Financial items	-2 010	-3 051
Other items	158	-63
Earnings before taxation	3 377	1 164
Taxation	-1 073	-264
Earnings	**2 304**	**900**
The minority's share of the earnings	35	23
The majority's share of the earnings	**2 269**	**877**
Earnings per share	18.81	8.59
Earning per share fully diluted	18.81	8.59

Basis for the composition of proforma figures

Due to the significant structural changes in the Group in 2000 and 2001 a proforma profit & loss has been prepared. The figures include the effect of the following transactions as though they occurred on 1 January 2000.

- Acquisition of Fletcher Challenge Paper
- Sale of the two Norwegian pulp mills Tofte and Folla
- Sale of the pulp mill Tasman Pulp, New Zealand
- Restructuring of Norske Skog Canada Ltd., including the acquisition of Pacifica Papers, sale of Mackenzie Pulp and distribution of extraordinary dividend. Norske Skog Canada Ltd. is included as affiliated company in the proforma figures with a share of ownership of 30.6 %
- Acquisition of minority interest in PISA, Brazil
- Increased share of ownership in Pan Asia Paper to 50 %
- Acquisition of Walsum, Germany and Parenco, The Netherlands

When calculating the interest costs related to acquisitions, the average interest rate for the Group at the relevant periods is used. Interest income related to divestments and dividends received are calculated in the same manner. Depreciation on excess values is based on a depreciation period of 15 years for fixed assets and 20 years for goodwill. Tax cost is calculated based on a tax rate of 28 % or the tax rate in the relevant countries.

2. Business regions

Key figures from the Profit & Loss per region

	Operating revenue			Depreciation			Operating earnings		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Europe									
Newsprint	7 556	8 850	7 905	961	751	726	643	2 271	1 243
Magazine paper	6 531	5 369	5 324	817	457	429	546	976	1 023
Total Europe	14 087	14 219	13 229	1 778	1 208	1 155	1 189	3 247	2 266
South America									
Newsprint	1 107	1 784	986	290	312	145	-9	432	220
Forests	–	171	57	–	40	20	–	41	11
Eliminations	–	-16	-8	–	–	–	–	–	–
Total South America	1 107	1 939	1 035	290	352	165	-9	473	231
Australasia									
Newsprint	3 807	4 110	1 817	651	687	260	546	563	291
Pulp	–	458	676	–	42	58	–	162	290
Shipping	–	–	404	–	–	3	–	–	-5
Eliminations	–	-95	-96	–	–	31	–	–	-31
Total Australasia	3 807	4 473	2 801	651	729	352	546	725	545
Asia									
Newsprint	2 688	2 434	2 572	303	253	198	562	616	526
North America [1]									
Newsprint	–	3 323	2 371	–	282	193	–	367	223
Pulp	–	2 434	1 981	–	176	115	–	-43	304
Eliminations	–	-302	-195	–	–	–	–	5	2
Total North America	–	5 455	4 157	–	458	308	–	329	529
Other activities									
Other industry in Norway [2]	682	930	2 200	58	68	112	47	98	372
Other revenues [3]	1 249	1 389	1 681	–	–	–	–	–	–
Total Other activities	1 931	2 319	3 881	58	68	112	47	98	372
Staff/Eliminations [4]	-149	-485	-1 040	212	255	98	-429	-392	-258
Restructuring costs	–	–	–	–	–	–	-600	–	–
Total Group	**23 471**	**30 354**	**26 635**	**3 292**	**3 323**	**2 388**	**1 306**	**5 096**	**4 211**

[1] North America is included up until the deconsolidation of NorskeCanada 28 August 2001.

[2] Other industry in Norway includes particleboards, Scandinavian forests, Hydro Power, historical figures for Norwegian Pulp mills and some other minor activities.

[3] Other revenues include revenue from non-manufactured paper from PanAsia and revenues from wood and energy sold to external parties from European activities.

[4] Includes depreciation of goodwill related to the acquisition of Fletcher Challenge Paper. This amounts to NOK 204 million in 2002, NOK 234 million in 2001 and NOK 58 million in 2000.

Operating revenue per market

	2002	2001	2000
Norway	1 745	1 598	2 629
Rest of Europe	11 588	12 080	10 434
North-America	1 688	4 558	5 151
South-America	1 185	2 461	1 320
Australasia	2 980	4 413	2 475
Asia	4 100	5 185	4 409
Africa	185	59	217
Total operating revenue	23 471	30 354	26 635

Investments per region

	2002	2001	2000
Europe	705	477	608
South-America	79	111	57
Australasia	251	305	130
Asia	68	197	97
North-America	-	285	337
Other activities	31	11	102
Staff/elim.	12	36	20
Total Group	1 146	1 422	1 351

Key figures from the Balance sheet per region

	Fixed assets			Interest-free current assets			Interest-free current liabilities		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Europe									
Newsprint	8 594	10 258	7 282	2 102	2 642	2 172	1 139	1 254	1 096
Magazine paper	8 207	9 011	4 295	1 629	2 221	1 289	819	988	754
Total Europe	16 801	19 269	11 577	3 731	4 863	3 461	1 958	2 242	1 850
South America									
Newsprint	2 343	3 380	3 359	506	698	608	170	670	650
Forests	–	–	636	–	–	253	–	–	56
Eliminations	45	–	–	1	–	–	2	–	–
Total South America	2 388	3 380	3 995	507	698	861	172	670	706
Australasia									
Newsprint	6 901	8 054	8 696	567	1 370	531	625	333	579
Pulp	–	–	1 316	–	–	285	–	–	160
Shipping	–	–	170	–	–	107	–	–	776
Total Australasia	6 901	8 054	10 182	567	1 370	923	625	333	1 515
Asia									
Newsprint	4 320	5 517	3 195	760	947	689	395	404	260
North America									
Newsprint	–	–	4 562	–	–	1 376	–	–	412
Pulp	–	–	3 286	–	–	1 331	–	–	744
Total North America	–	–	7 848	–	–	2 707	–	–	1 156
Other activities									
Other industry in Norway	719	788	832	141	672	187	215	191	132
Staff/Eliminations	-2	-119	420	195	-1 853	54	1 698	1 751	996
Total Group	**31 127**	**36 889**	**38 049**	**5 901**	**6 697**	**8 882**	**5 063**	**5 591**	**6 615**

Employees per region

	2002	2001	2000
Europe	5 664	5 943	4 056
South-America	561	579	660
Australasia	1 490	1 471	1 750
Asia	1 033	1 043	775
North-America	–	–	2 444
Other activities	352	559	619
Staff	113	113	100
Total Group	9 213	9 708	10 404

3. Wages, salaries and personnel expenses

	2002	2001	2000
Wages/salaries incl. holiday allowance	2 799	3 419	2 661
National insurance, pensions and other social costs (see note 4)	715	490	629
Total	3 514	3 909	3 290

The CEO's basic wage for 2002 was NOK 3 070 000 compared to NOK 2 950 000 in 2001. In 2002 the CEO received a bonus of NOK 693 250 related to the Group's return on capital employed for 2001. A similar payment of NOK 574 000 was made in 2001 for the Group's return on capital employed for 2000. In addition to the basic wage the CEO received payments in kind of NOK 579 099. A similar payment for 2001 was NOK 550 483. The CEO's retirement age is 62 years, the CEO may choose to retire at the age of 60. The early retirement pension plan amounts to 90% of the CEO's wage the first year of retirement, and is reduced to 80% thereafter. The ordinary pension plan amounts to 70% of CEO's wage including disablement pension. Annual cost for the CEO's pension plan for 2002 is NOK 2 224 683 for the secured part, and NOK 1 042 207 for the unsecured part. The CEO also has a severance payment agreement which runs for three years independent of the pension plan. The pension payments will commence at the end of the severance payment period. Payments from other employers in the severance payment period will be deducted from the severance payments from Norske Skog.

Remuneration to the Corporate Assembly and Board members amounted to NOK 337 500 and NOK 1 824 000 respectively.
The CEO's share of the Board remuneration was NOK 140 000.

Disclosure related to the Corporate Management:

	Termination Salary	Bonus [1]	Loans	Loan terms
Jan Reinås	see above	60 %	NOK 2 747 175	Exempt from interest and repayment. Repayment is due 3 years after resignation as CEO.
Jan Oksum	1.5 years	50 %	NOK 4 000 000	2 000 000 as of 30 January 1997 - exempt from interest and repayment for 6 years, 6% interest for 20 years thereafter. 2 000 000 as of 26 July 2001, 6% interest, 3 years exempt from repayment, payment period 20 years.
Jan Kildal	1.5 years	50 %	NOK 1 805 833	Exempt from interest, payment period 10 years.
			NOK 253 000	Exempt from interest, payment period 5 years.
Claes Inge Isacson	1.5 years	50 %	EUR 119 236	Exempt from repayment for 8 years or at retirement, at present 6% interest.
David Kirk [2]	1.5 years	50 %		
Vidar Lerstad	1.5 years	50 %	NOK 345 833	Exempt from interest, payment period 7 years.
Rolf Negård	1.5 years	50 %		
Hanne Aaberg	1.5 years	50 %		
Ketil Lyng	1.5 years	50 %	NOK 598 199	At present 6% interest, payment period 6 years.
Jarle Dragvik	1.5 years	50 %		

[1] The bonus is stated as a percentage of annual salary, and represents the maximum bonus payable.
[2] David Kirk resigned from his position in Norske Skog with effect from 3 March 2003.

For Corporate Management excluding the CEO, the termination salary is yield for dischargement from the company's side. For the CEO the basis for calculating the bonus is tied to the Group's return on capital employed. For the other Corporate Management the basis for calculating the bonus is tied to the Groups earnings, return on capital employed, and the earnings within the respective area.

The company had a share option scheme for the executive staff and a small number of other employees from December 1999 with a right to purchase a number of shares at a stipulated rate of NOK 152 in the period from 1 October 2002 until 31 December 2002. None of these rights have been exercised. No new agreements of option schemes have been made in 2002.

The Group had an average of 9 469 employees for 2002 including a proportional part of Pan Asia. In addition there are employees in partly owned companies.

Audit fee:

(in NOK 1 000)	Totalt	Parent company	Subsidiaries audited by group auditors	Other auditors
Audit fee	9 272	2 240	2 666	4 366
Audit related assistance	1 644	1 322	46	276
Tax assistance	3 453	1 805	523	1 125
Other fees	3 981	1 216	941	1 824
Total	18 350	6 583	4 176	7 591

Audit related assistance includes services that only auditors can provide. This includes limited audit of interim financial statements, assurance services related to prospectus for share issues and bond loans.

4. Pension costs and pension obligations

Norske Skog have various pension schemes. The contributions to the pension schemes are according to local agreements. In total 8 685 persons are covered through pension schemes, of these are 7 119 persons covered by defined benefit plans and 1 566 persons covered through defined contribution plans.

Description of the Defined Benefit Plans

Norske Skog have two major defined benefit plans:	% of pensionable earnings	Years in service	Pensionable age	Early retirement	Number of members
Norske Skogindustrier ASA	65 %	30	67	62	5 320
Norske Skog Parenco	70 %	40/37	65/62	60	670

The plan assets for the pension scheme in Norske Skogindustrier ASA is managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. The plan assets in Norske Skog Parenco are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands. In addition to the two described schemes there are several smaller schemes. In evaluating plan assets their estimated value at year end is used. This estimated value is corrected every year in accordance with the figures provided by the life insurance company regarding the market value of the assets.

In measuring incurred obligations the projected obligation at year end is used. This projected obligation is corrected every year in accordance with the figures provided by the actuary concerning incurred pension obligations.

In addition to the benefit obligations covered through insurance arrangements the Group has uninsured benefit obligations. The uninsured benefit obliations includes estimated future obligations connected with the AFP arrangements. Uninsured schemes also include obligations concerning former owners of subsidiaries, and pensions of top management and Board members. Obligations relating to top management pensions are partly insured through a supplementary retirement plan with a life insurance company.

In addition to the benefit schemes there are several defined contribution schemes.

Net periodic pension cost in consolidated accounts

	2002	2001	2000
Benefits earned during the year	93	66	94
Interest cost on prior period benefits	133	63	64
Pensions cost contribution schemes	25	7	–
Expected return on plan assets	-146	-75	-75
Periodic employer tax	3	–	1
Expensed portion of changes in AFP-plan	2	3	3
Expensed portion of diff. in estimates	16	10	12
Net periodic pension cost	126	74	99

Changes in the Pension Liability during the Year

	2002	2001	2000
Balance 1 January	2 518	1 900	1 414
Changes due to bought/sold entities	–	642	322
Benefits earned during the year	93	66	94
Interest cost on prior period benefits	133	63	64
Pensions paid	-72	-47	-48
Actuarial gains and losses	-80	-103	74
Currency translation effects	-96	-3	-20
Balance 31 December	2 496	2 518	1 900

Status of the pension plans reconciled to the consolidated balance sheet

	Plan assets exceed PBO			PBO exceed plan assets		
	2002	2001	2000	2002	2001	2000
Projected Benefit Obligations (PBO)	-2 018	-2 052	-1 089	-478	-466	-811
Plan assets at fair value	2 140	2 318	1 145	88	92	41
Plan assets in excess of / less than (-) PBO	122	266	56	-390	-374	-770
Unamortized changes in AFP-plans	–	–	–	-1	25	22
Differences in estimates not taken into income/expense	59	-137	131	47	30	37
Net plan assets / pension obligations	181	129	187	-344	-319	-711
Accrual employer tax	-4	–	-4	-8	-10	-7
Plan assets/pension obligations (-) in the balance sheet	177	129	183	-352	-329	-718

Calculation of future benefit obligations is based on the following assumptions:

	2002	2001	2000
Discount rate	5.5 %	5.5 %	5.5 %
Expected return on plan assets	6.5 %	6.5 %	6.5 %
Salary adjustment	3.0 %	3.0 %	3.0 %
Social security increase/inflation	2.0 %	2.0 %	2.0 %
Pension increase	2.0 %	1.6 %	1.6 %

For 2002 return on plan assets of NOK 146 million is estimated. Actual return on the plan assets for 2001 was NOK 30 million, compared to an estimated return of NOK 75 million. The difference between the booked return and the estimated return in 2001 is treated as an estimate difference.

5. Other operating expenses

	2002	2001	2000
Distribution costs	1 865	2 499	2 213
Packaging	373	419	343
Maintenance materials, maintenance service and spare parts	1 082	1 776	962
Marketing costs	45	48	41
Administration costs	688	905	974
Losses on bad debt *)	29	36	17
Other costs	324	434	675
Total other operating expenses	4 406	6 117	5 225

***) Losses on bad debts are included as follows:**

	2002	2001	2000
Amounts written off during the year	15	5	39
Received amounts previously written off	–	-1	-2
Changes in bad debt reserves	14	32	-20
Total	29	36	17

6. Financial Items

	2002	2001	2000
Dividends received	–	6	6
Interest revenue	164	465	330
Profit on securities	–	23	–
Realised / unrealised profit on foreign currency	893	–	–
Other financial income	–	106	27
Total financial income	1 057	600	363
Interest cost	1 367	1 696	1 245
Loss on securities	–	–	3
Realised / unrealised loss on foreign currency	–	30	325
Other financial expenses	95	250	184
Total financial expenses	1 462	1 976	1 757
Net financial items	-405	-1 376	-1 394

7. Special items

Items that are non recurring from one period to another are presented here. These primarily includes sale of property and divestments of entities.

2002	Operating earnings	Other items
Sale of forests in Southern Norway	–	159
Sale of forests in Sweden	–	16
Restructuring costs [1]	-600	–
Other adjustments [2]	–	20
Total	-600	195

2001	Operating earnings	Other items
Sale of headquarter offices Oxenøen 80	115	–
Sale of Nornews Express ANS	43	–
Sale of Tasman Shipping	43	–
Sale of forests in Sweden	–	208
Other adjustments [3]	–	-50
Total	201	158

2000	Operating earnings	Other items
Sale of Norske Skog Tofte	–	228
Sale of Norske Skog Folla AS	–	5
Sale of Forestia AS	–	-36
Sale of Norske Skog Flooring AS	–	-27
Total	–	170

All items are listed with pre tax values.

[1] The figure includes provisions to meet costs in connection with demanning. See also note 27.
[2] Reversal of provision for loss related to Norske Skog Flooring Holding AS
[3] Adjustment of gain / loss on sales of Norske Skog Flooring Holding AS, Norske Skog Flooring AS and Forestia AS.

8. Taxes

The Group's tax cost has the following distribution

	2002	2001	2000
Taxes payable			
Norway	-53	-32	-235
Foreign countries	-258	-633	-325
Total	-311	-665	-560
Change in deferred tax			
Norway	-74	-283	-23
Foreign countries	747	-286	-254
Total	673	-569	-277
Total tax expenses*	362	-1 234	-837
Tax payable related to result	-311	-665	-560
Tax payable posted to other equity	–	–	120
Tax payable	-311	-665	-440

Deferred tax

Specification of temporary differences, losses to be brought forward and deferred tax is shown below:

	2002	2001	2000
Short-term items	-121	-17	-215
Long-term items	8 559	11 636	14 695
Taxable losses to be brought forward [1]	-1 776	-1 707	-1 821
Total	6 662	9 912	12 659
Deferred tax	2 021	3 174	2 012

[1] Tax losses to be brought forward are NOK 1 776 million of which NOK 1 679 million has no time limit. Remaining losses, NOK 97 million, expires in year 2005.

Reconciliation of effective tax rate against nominal tax rate, in %

	2002	2001	2000
Nominal tax rate Norway	28.0	28.0	28.0
Different tax rates abroad	2.5	3.9	2.3
Result affiliated companies	10.4	-0.1	-0.3
Depreciation goodwill	6.1	1.7	1.0
Profit and Loss effect of present value on deferred tax	2.4	2.7	–
New tax rules and new income tax rates	-37.7	-3.2	–
Permanent differences	-16.9	-0.5	-2.4
Other items	-39.7	-0.9	-0.9
Effective tax rate *	-44.9	31.7	27.7

* This years tax cost is positively effected with NOK 650 million due to new valuation of tax positions related to last years acquisitions and new tax rules in Australia.

9. Earnings per share

	2002	2001	2000
Earnings in NOK million	1 162	2 494	1 958
Average number of shares in 1 000	132 194	120 604	102 159
Earnings per share in NOK	8.79	20.68	19.17

During spring 2001 it was decided to merge the A-shares and B-shares to one class of shares. In connection with the merger of the share classes there was a split of the shares, and the number of shares doubled. In addition the initial A-share holders were given the opportunity to take part in a share issue of 17 million shares for NOK 10 per share. 23 million new shares were issued in the international share issue in June 2001. The historical figures are adjusted for the changes in the number of shares.

10. Net cash flow from operations

The connection between earnings and cash flow from operations is shown below:

	2002	2001	2000
Earnings before taxes	806	3 894	3 021
Depreciation and amortisation	3 292	3 323	2 388
Share of profit in affiliated companies	290	-16	-34
Taxes paid	-973	-537	-416
Changes in receivables [1]	715	1 012	-336
Changes in inventory [1]	93	389	43
Changes in current liabilities [1]	39	-596	-442
Adjustments for changes in working capital without cash-effect	-575	-417	698
Net cash flow from operating activities	3 687	7 052	4 922

[1] Changes in balance sheet items are not directly comparable to changes in the consolidated balance sheet for 2001 and 2000 due to acquisitions and sales of companies.

11. Liquid Assets

	2002	2001	2000
Cash and bank deposits	487	2 389	1 211
Short term investments	381	1 769	7 417
Total liquid assets	868	4 158	8 628

The large cash-reserve in 2001 is partly a result of a divestment of forest in Brazil. This divestment took place late in 2001, and the cash was not utilised before 2002. A considerable part of the cash-reserve at 31 December 2001 was used for downpayment of debt in the first quarter of 2002. In addition the Group has reduced its requirement related to a strategic cash reserve. This reserve is placed in interest bearing securities.

The Group has limited access to liquid assets in joint ventures and in companies with large minority interests. In 2002 this amounts to NOK 141 million. In 2001 this amounts to NOK 151 million and in 2000 NOK 5 624 million where NorskeCanada amount to NOK 5 481 million. Restricted bank deposits in 2002 amounts to NOK 18 million. Corresponding amounts for 2001 was NOK 2 million and for 2000 NOK 2 million.

12. Operational fixed assets

	Goodwill and other exclusive rights	Buildings, plant and real property	Machinery and equipment	Fixtures and fittings, tools, office machinery	Plant under construction	Total
Acquisition cost						
Acquisition cost 31.12.2001	4 988	9 106	40 902	494	758	56 248
Adjustments [1]	419	–	-291	–	–	128
Addition 2002 at cost	9	124	552	37	424	1 146
Sales 2002 at cost	–	-52	-71	-19	–	-142
Reclassifications	22	–	505	198	-725	–
Translation differences	-53	-1 143	-2 231	-28	-71	-3 526
Acquisition cost 31.12.2002	5 385	8 035	39 366	682	386	53 854
Depreciation and write-downs						
Accumulated depreciation and write-downs 31.12.2001	439	1 935	12 134	302	–	14 810
Depreciation 2002	264	395	2 515	113	–	3 287
Write-downs 2002	–	–	5	–	–	5
Depreciation and write-downs on fixed assets sold in 2002	–	-10	-44	-3	–	-57
Reclassifications		–	-4	4	–	–
Accumulated depreciation and write-downs 31.12.2002	703	2 320	14 606	416	–	18 045
Book value						
Book value 31.12.2001	4 549	7 171	28 768	192	758	41 438
Book value 31.12.2002	4 682	5 715	24 760	266	386	35 809
Depreciation plan	5 - 20 years	10 - 33 years	10 - 20 years	3 - 5 years		

Real property and plants under construction are not depreciated.

[1] Opening balance from the acquisition of Parenco and Walsum is adjusted.

Goodwill specification on each acquisition	Year	Depreciation-plan/years	Depreciation 2002	Book value 31.12.2002
Golbey	1995	20	5	63
PanAsia	1999	20	3	48
Union	1999	20	6	66
Fletcher	2000	20	204	3 791
Walsum and Parenco	2001	20	34	599

Goodwill is amortised according to expected useful life based on regional and global synergies.

Fixed assets - acquisition and disposal last 5 years

		Goodwill and other exclusive rights	Buildings, plant and real property	Machinery and equipment	Fixtures and fittings, tools, office machinery	Plant under construction	Total
1998	Acquisition	10	265	631	–	3 077	3 983
	Disposal	–	–	12	17	–	29
1999	Acquisition	37	84	331	50	652	1 154
	Disposal	–	53	179	5	–	237
2000	Acquisition	–	207	818	29	297	1 351
	Disposal	–	56	7	6	–	69
2001	Acquisition	91	86	888	23	334	1 422
	Disposal	–	497	3	–	33	533
2002	Acquisition	9	124	552	37	424	1 146
	Disposal	–	204	29	7	–	240
Total 5 years	Acquisition	147	766	3 220	139	4 784	9 056
	Disposal	–	810	230	35	33	1 108

Impairment review

In relation to the implementation of the preliminary Norwegian Accounting Standard on impairment of assets, an impairment review has been performed on the Group´s assets according to the standard. No impairment loss has been identified.

13. Other long-term receivables

	2002	2001	2000
Loans to employees	41	44	46
Sundry long-term receivables	183	499	739
Pension plan assets	177	129	183
Total	401	672	968

14. Shares

Shares included as financial assets

	Currency	Share capital NOK 1 000	Ownership %	Book Value NOK 1 000
Shares owned by the parent company				
Norsk Avfallshåndtering AS, Norway	NOK	131 400	2.3	3 000
Sikon Øst ASA, Norway	NOK	50 000	2.0	2 000
Industrikraft Midt-Norge AS, Norway	NOK	296	10.0	7 650
Camfore AB, Sweden	SEK	3 200	11.1	13 014
Nordic Paper AS, Norway	NOK	40 100	45.0	29 845
Holmen Eiendom AS, Norway	NOK	8 000	43.8	3 500
Other shares, each with book value less than NOK 1 million				3 183
Total				62 192
Shares owned by group companies (book value in the consolidated accounts)				
Shares in non consolidated companies				3 770
Elimination between parent company and group of shares in Nordic Paper AS				-29 845
Other shares				3 477
Total				39 594

Shares in subsidiaries and joint ventures

	Currency	Share capital NOK 1 000	Ownership %	Book Value NOK 1 000
Shares in Norwegian subsidiaries owned by the parent company				
Nornews AS, Lysaker	NOK	50	100.0	50
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100.0	14 144 860
Lysaker Invest AS, Lysaker	NOK	2 914	100.0	2 914
Norske Skog Holding AS, Lysaker	NOK	5 000	100.0	5 000
Norske Skog Flooring Holding AS, Lysaker	NOK	200 000	100.0	20 880
Embretsfos Fabrikker AS, Skien	NOK	908	100.0	32 214
Union Paper & Co AS, Skien	NOK	10 000	100.0	500
Forestia AS, Braskereidfoss	NOK	139 960	90.1	126 004
Wood and Logistics AS, Drammen	NOK	3 000	76.0	2 295
Oksenøyveien 80 AS, Lysaker	NOK	100	100.0	100
Total				14 334 817

		Currency	Share capital NOK 1 000	Ownership %	Book Value NOK 1 000
Shares in foreign subsidiaries and joint ventures owned by the parent company					
Norske Skog Golbey, Golbey, France		EUR	470 667	100,0	3 376 242
Pan Asia Paper Company Ltd, Singapore		USD	600	50,0	3 111 206
Pan Asia Paper Company Ltd, Singapore		SGD	–	50,0	–
Norske Skog Bruck GmbH, Bruck, Austria		EUR	1 817	99,9	165 918
Norske Skog Steti, Steti, Czech Republic		CZK	883 100	100,0	184 476
Norske Skog Østerreich GmbH, Graz, Austria		EUR	150	100,0	1 292
Markproject Ltd., London, England		GBP	300	100,0	3 105
Norske Skog Deutschland GmbH, Hamburg, Germany		EUR	1 000	100,0	10 063
Norske Skog (UK) Ltd., London, England		GBP	100	100,0	2
Norske Skog Holland B.V., Amsterdam, The Netherlands		EUR	100	100,0	401
Norske Skog Belgium NV, Brussels, Belgium		EUR	19 375	100,0	3 235
Nornews Portugal, Lisbo, Portugal		EUR	400	75,0	17
Norske Skog Espana S.A., Madrid, Spain		EUR	90	100,0	3 607
Norske Skog (Irland) Ltd., Dublin, Irland		EUR	2	100,0	22
Norske Skog (Schweiz) AG, Zürich, Switzerland		CHF	–	100,0	193
Norske Skog Danmark ApS, Værløse, Denmark		DKK	27	100,0	25
Norske Skog Italia S.R.L., Milan, Italy		EUR	10	95,0	84
Norske Skog France S.A.R.L., Paris, France		EUR	235	100,0	7 939
Norske Skog Japan Co. Ltd., Tokyo, Japan		JPY	3 000	100,0	94
Norske Skog AB, Järpen, Sweden		SEK	100	100,0	58
Norske Skog (Cypros) Ltd., Paphos, Cyprus		CYP	1	95,0	2
Norske Skog Asia Pacific Pte Ltd., Singapore		SGD	100	100,0	441
AB Lee Bruk, Töckfors, Sweden		SEK	150	100,0	11 089
Norske Skog Czech & Slovak Republic spol. s.r.o., Steti, Czech Republic		CZK	400	100,0	112
Norske Skog Polska Sp. z.o.o. ,Warsaw, Poland		PML	50	100,0	110
Norske Skog Hungary Trading and Service Limited, Budapest, Hungary		HUF	3 000	100,0	110
Norske Skog Logistics NV, Antwerp, Belgium		EUR	2 500	100,0	540
THP Paper Company, Vancouver, Canada		USD	–	100,0	–
Munkedalen Skog AB, Munkedal, Sweden		SEK	1 000	100,0	600
Norske Skog Chile Industrial Limitada, Concepcion, Chile		USD	15 000	0,1	524
Norske Skog Europe Recovered Paper N.V. Antwerp, Belgium		EUR	62	99,8	493
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia		MYR	382 855	100,0	894 595
Norske Skog Tasman Limited, Auckland, New Zealand	Ordinary	NZD	–	100,0	700
Norske Skog Tasman Limited, Auckland, New Zealand	Preference	NZD	600 000	100,0	3 103 542
NSI Forsikring A/S, Hvidovre, Denmark		DKK	5 000	100,0	5 353
Norske Skog Walsum GMBH, Wiesbaden, Germany		EUR	25	100,0	1 950 577
Norske Skog Pisa SA, Rio De Janeiro, Brazil	Preference	BRL	24 550	100,0	–
Norske Skog Pisa SA, Rio De Janeiro, Brazil	Ordinary	BRL	113 768	100,0	1 137 704
Norske Skog Adria d.o.o., Ljubljana, Slovenia		SIT	164	100,0	164
Norske Skog Holdings BV, Amsterdam, The Netherlands		EUR	18	100,0	835 807
Total					14 810 442
Total shares owned by the parent company					29 207 451

	Currency	Share capital NOK 1 000	Ownership %
Shares in Norwegian subsidiaries and joint ventures owned by group companies			
Norsk Trepellets AS, Brumunddal	NOK	14 500	50,0
Oxenøen Eiendom AS, Oslo	NOK	100	100,0

	Currency	Share capital NOK 1 000	Ownership %
Shares in foreign subsidiaries and joint ventures owned by group companies			
Norske Skog Italia s.r.l., Milan, Italy	EUR	10	5.0
Norske Skog Paper (Schweiz) AG, Zug, Switzerland	CHF	130 100	100.0
Norske Skog Holdings (Schweiz) AG, Zug, Switzerland	CHF	1 001 100	100.0
Norske Skog (USA) Inc.Southport, USA	USD	–	100.0
MV Verkstad AB, Mariestad, Sweden	SEK	9 340	100.0
Norske Skog Publicationspapier GmbH, Graz, Austria	EUR	380 000	100.0
Norske Skog Industries Australia Limited, Sydney, Australia	AUD	–	100.0
Norske Skog Australia Limited, Sydney, Australia	AUD	104 023	100.0
Norske Skog Capital (Australia) Pty Ltd, Sydney, Australia	AUD	4	100.0
Norske Skog Discounts (Australia) Pty Ltd, Sydney, Australia	AUD	332 325	100.0
Norske Skog Finance (Australia) Pty Limited, Sydney, Australia	AUD	20	100.0
Tasman Kerbside Paper Collections Pty Limited, Sydney, Australia	AUD	–	100.0
Tasman Paper Merchants Pty Limited, Sydney, Australia	AUD	6 400	100.0
Endeavour Papers Pty Limited, Sydney, Australia	AUD	–	100.0
Norske Skog (Australasia) Pty Limited, Sydney, Australia	AUD	1 000	100.0
Velfro Pty Limited, Sydney, Australia	AUD	118 300	100.0
Norske Skog Paper Mills Holdings (Australia) Limited, Tasmania, Australia	AUD	56 746	100.0
Norske Skog Paper Mills (Australia) Limited, Tasmania, Australia	AUD	7 539	100.0
Norske Skog Investments (Australia) Pty Ltd, Tasmania, Australia	AUD	1	100.0
Norske Skog Forests (Australia) Pty Ltd, Tasmania, Australia	AUD	2 000	100.0
Norske Skog Capital NZ Ltd, Auckland, New Zealand	NZD	1	100.0
FC Asia Paper Sales Pte Ltd, Auckland New Zealand	SGD	100	50.0
Crown Forest Holdings (1995) Inc., Whitehorse, Canada	CAD	964 360	100.0
Tasman Equipment Ltd, Vancouver, Canada	CAD	1	100.0
Crown Forest Industries Limited, Whitehorse, Canada	CAD	10 664 289	100.0
NS Industries Canada Limited, BC, Canada	CAD	246 625	100.0
Samambaia Agricola E Florestal S.A., Sao Paulo, Brazil	BRL	143	100.0
Norske Skog do Brazil, Curitiba, Brazil	BRL	11 905	100.0
Norske Skog Florestal S.A., Brazil	BRL	13 659	100.0
Papeles Bio Bio SA, San Pedro, Chile	CLP	77 715	100.0
Norske Skog Klabin Comercio E Industria LTDA, Parana, Brasil	BRL	34 741	50.0
Norske Skog CI Ltd, Georgetown, Cayman Islands	CHF	1 300 000	100.0
32929 YUKON INC., Yukon, Canada	CAD	1 747 450	100.0
Norske Skog North America LLC, Delaware USA	USD	1 000	50.0
Watts Development Division PTY, Victoria, Australia	AUD	25	100.0
Watts Holdings LTD, Victoria, Australia	AUD	4 240	100.0
P-Logistic GMBH, Vienna, Austria	EUR	500	100.0
33028 YUKON INC, Vancouver, Canada	CAD	19 245	100.0
Norske Skog Overseas Holdings AG, Zurich, Switzerland	CHF	546 234	100.0
Norske Skog Finance (UK), Cardiff, England	GBP	100	100.0
Swale Speciality Papers Limited, Edinburgh, Skotland	GBP	14 000	100.0
Norske Skog Australia Limited, N.S.W., Australia	AUD	5	100.0
Norske Skog Industries (UK) Limited, Cardiff, England	GBP	569 065	100.0
Norske Skog Forest Holdings AG, Zurich, Switzerland	CHF	63 173	100.0
Parenco Assurantien BV, Renkum, The Netherlands	EUR	–	100.0
Parenco Finance BV, Renkum, The Netherlands	EUR	40	100.0
Parenco Hout BV, Renkum, The Netherlands	EUR	50	90.0
Parenco Van Gelder GMBH, Dusseldorf, Germany	EUR	200	100.0
Reparco Nederland BV. Arnhem, The Netherlands	EUR	227	100.0
Sapin SA, Harze, Belgium	EUR	8 125	100.0
Geosilica Nominees LTD, Auckland, New Zealand	NZD	1	50.0
Norske Skog Holdings (NO.1) Limited, Auckland, New Zealand	NZD	–	100.0
Norske Skog Holdings (NO.2) Limited, Auckland, New Zealand	NZD	–	100.0
Norske Skog Holdings (NO.3) Limited, Auckland, New Zealand	NZD	1	100.0

	Currency	Share capital NOK 1 000	Ownership %
Norske Skog Chile Industrial Limitada, Concepcion, Chile	USD	15 000	99.9
Norske Skog Welfare Fund Nominees Limited, Auckland, New Zealand	NZD	–	100.0
33039 YUKON INC, British Columbia, Canada	USD	27 382	100.0
Paroco GMBH, Essen, Germany	EUR	200	51.0
Reparco Nijmegen BV, Arnhem, The Netherlands	EUR	18	100.0
Reparco Randstad BV, The Hague, The Netherlands	EUR	14	100.0
Reparco Renkum BV, Arnhem, The Netherlands	EUR	18	100.0
Reparco Trading BV, Nijmegen, The Netherlands	EUR	386	100.0
Reparco Zutphen BV, Zutphen, The Netherlands	EUR	1 134	100.0
Simon Daadler Winterswijk BV, Zutphen, The Netherlands	EUR	35	100.0
Fletcher Paper Sales North America, Inc, Delaware, USA	USD	10	100.0
Forest Terminals Corporation, California, USA	USD	5	100.0
Nornews Portugal, LDA, Portugal	EUR	400	25.0
Norske Skog Bruck GMBH, Bruck, Austria	EUR	1 817	0.1
Norske Skog (USA) Holdings Inc., Southport, USA	USD	–	100.0
Norske Skog Parenco BV, Renkum, The Netherlands	EUR	166 282	100.0

15. Affiliated companies and Joint Ventures

In the consolidated accounts, shares in affiliated companies are included according to the equity method.
Joint ventures are consolidated proportionally.

	Ownership	Book value 01.01.02	Acquisitions/ divestments	Share of profit for the year	Dividend/ other equity corrections	Book value 31.12.02
Affiliated companies						
Malaysian Newsprint Industries SDN BHD, Kuala Lumpur, Malaysia	33.7 %	627	–	-58	-186[1]	383
Nordic Paper AS, Greaker, Norway	45.0 %	5	–	12	-9	8
Norske Skog Canada Ltd., Vancouver, Canada	30.6 %	2 630	–	-245	-834[2]	1 551
Other Affiliated Companies		–	4	1	–	5
Total		3 262	4	-290	-1 029	1 947
Joint Ventures						
Norske Skog Klabin Comercio E Industria LTDA, Parana, Brazil	50.0 %	86	–	-45	-14	27
Pan Asia Paper Co. Pte Ltd, Singapore	50.0 %	3 720	–	327	-740[3]	3 307
Total		3 806	–	282	-754	3 334

[1] Currency translation differences MYR/NOK.
[2] Currency translation differences CAD/NOK.
[3] Including received dividend of NOK -209 million and currency translation differences USD/NOK of NOK -640 million.

Norske Skog Canada Ltd. has a total equity as of 31.12.2002 of CAD 1 125 million.

16. Inventory

	2002	2001	2000
Raw materials and other production materials	955	1 135	1 488
Semi manufactured materials	34	37	66
Finished goods	1 091	1 000	1 413
Total	2 080	2 172	2 967

17. Short-term investments

	Average interest rate 2002	2002	2001	2000
Bank/Insurance		–	229	103
Other Financial institutions		–	183	180
Industry/Commerce/Shipping	7.68 %	196	92	87
Total bonds		196	504	370
Commercial papers		165	620	6 557
Short-term investments		20	645	490
Total		381	1 769	7 417

Commercial papers classified as current assets are valued as a trading portfolio. Net unrealised loss on the portfolio was NOK 0.02 million. The equivalent value for 2001 was unrealised profit of NOK 3 million, and for 2000 there was an unrealised loss of NOK 8 million. NOK 146 million of total investments has a floating interest rate with interest fixing at 5 February 2003. The rest of the bond portfolio has a fixed interest rate.

The bond portfolio is reduced by repurchasing of own issued bonds.

18. Joint Venture

For the year 2002 Norske Skog participates in joint ventures through Norske Skog Klabin and Pan Asia Paper Company. Norske Skog Klabin is situated in Brazil. It is owned 50% by Norske Skog and 50% by the Brazilian company Industrias Klabin de Papel e Celulose S.A. Pan Asia Paper Company is located in Singapore. It is owned 50% by Norske Skog and 50% by Abitibi Consolidated. In 2001 joint ventures were held in the same companies. Until August 2001 Norske Skog's ownership in Pan Asia Paper Company was 1/3. In August 2001 Norske Skog increased its ownership to 50 % in Pan Asia Paper Company. In 2000 joint ventures were held in the same companies, but the ownership interest in Pan Asia Paper Company was 1/3.

	2002	2001	2000
Share of the operating earnings			
Operating revenue	3 438	3 204	3 181
Operating expenses	2 907	2 566	2 609
Operating earnings	531	638	572
Share of the balance sheet			
Operational fixed assets	4 488	5 609	3 318
Long term receivables	47	71	135
Total fixed assets	4 535	5 680	3 453
Inventory	236	236	181
Short term receivables	608	699	668
Liquid assets	141	151	143
Total current assets	985	1 086	992
Deferred tax	281	305	58
Long term debt	1 235	1 998	1 854
Short term debt	670	516	448
Total debt	2 186	2 819	2 360

19. Shareholders' equity

	2002	2001	2000
Consolidated equity			
Share capital NSI ASA [1]	1331	1331	931
Own shares NSI ASA	-9	-10	-15
Share premium reserve NSI ASA	7 116	7 088	4 161
Distributable reserve NSI ASA	5 247	5 015	6 173
Other consolidated equity	4 079	5 897	3 240
Total consolidated equity excluding minority interests	17 764	19 321	14 490
Shareholders' equity			
Shareholders' equity 01.01 excluding minority interests	19 321	14 490	11 559
Earnings for the year	1 162	2 494	1 958
Share issues	–	3 327	1 463
Provisions for dividend	-795	-792	-550
Change in own share holding	47	5	14
Translation difference and other	-1 971	-203	46
Shareholders' equity 31.12. excluding minority interests	17 764	19 321	14 490
Minority interests	157	205	7 861
Total shareholder's equity 31.12	17 921	19 526	22 351

1) Norske Skogindustrier ASA

As at 31 December 2002 Norske Skog had a total holdings of own shares of 888 247 shares equivalent to 0.67% of the total number of shares. The shares were aquired in the merger with Aktieselskapet Union (Union Co) in 1999, and are primarily used in the share ownership programme for the employees and settlement of bonus agreements.

At the Shareholders meeting held on 29 April 2002 the Board of Directors were given the authority to acquire up to 10 % of the company's shares on certain conditions. The authority was given for a period of 18 months.

During 2002 the shareholders' equity of Norske Skog has been reduced by NOK 1 951 million due to the strengthening of the NOK compared to the currencies of the other countries where the Group operates. The reduction of the equity is related to the translation of foreign subsidiaries from local currencies to NOK. In particular it is the strengthening of the NOK compared to USD, AUD, NZD and EUR that contributes to the negative effect on the equity.

20. Minority Interests

	2002	2001	2000
Minority 01.01.	205	7 861	168
Changes in minority due to sales/purchases	–	-760	7 305
Share of profit for the year	-6	166	226
Share of fair value adjustments	–	–	375
Paid out dividend	1	-4 323	-133
Deconsolidation of NorskeCanada	–	-2 487	–
Translation differences	-43	-252	-80
Minority 31.12	157	205	7 861

Included in Paid out dividend for 2001 is NOK 4 241 million paid to minorities in NorskeCanada.

21. Interest bearing long-term liabilities

	2002	2001	2000
Bonds	8 490	9 527	2 771
Debt to financial institutions	9 435	17 154	26 038
Total	17 925	26 681	28 809
Senior long term debt in NOK	4 949	7 205	4 771
Senior long term debt in foreign currencies	12 976	19 476	24 038
Total	17 925	26 681	28 809

Senior long term debt by currencies, current portion included:

	Currency amount (million) 2002	Currency rate 31.12.2002	NOK million 2002	Average interest rate in % 2002
USD	752	6.9657	5 238	3.6%
EUR	701	7.2910	5 111	4.2%
CAD	63	4.4180	278	3.6%
NZD	221	3.6675	811	6.6%
AUD	155	3.9443	611	5.6%
KRW	116 050	0.0061	708	4.5%
THB	67	0.1608	11	3.1%
SEK	127	0.7948	101	5.1%
CZK	433	0.2315	100	4.4%
BRL	4	1.9683	8	16.0%
Total debt in foreign currencies in NOK			12 976	
Total senior long term debt in NOK			4 949	7.8%
Total long term debt			17 925	

Repayment of debt

	Debt banks	Bonds	Total
2003	2 172	–	2 172
2004	344	242	586
2005	1 507	–	1 507
2006	845	2 681	3 526
2007	2 630	1 377	4 007
2008	1 332	–	1 332
2009	1 563	–	1 563
2010	66	–	66
2011	124	4 178	4 302
Total	10 583	8 478	19 061

Total debt listed in the repayment schedule may differ from booked debt. This is due to premium or discount on issued bonds. Premium or discount on issued bonds will be amortised through the Profit & Loss over the lifetime of the issued bonds. As of 31 December 2002 a premium of NOK 11 million is included in the balance sheet.

At year-end the holding of the company's own bonds amount to NOK 1 195 million nominal. These are deducted from interest-bearing debt in Norwegian kroner.

Norske Skog has not issued any new bond loans in 2002. There has been made draws of NOK 350 million on existing bond loans in 2002. On existing bond loans Norske Skog may issue additional NOK 1 005 million in the Norwegian market.

In October 2002 Norske Skog signed a new committed credit facility of EUR 400 million. This credit facility consists of two tranches, EUR 96 million and EUR 304 million, with tenors of 5 and 7 years respectively. The facility can be drawn in various currencies and at floating interest rates.
In February 2002 Norske Skog signed a term loan facility of EUR 340 million. This term loan has a tenor of 7 years, and matures in two equal instalments after year 6 and year 7.
Lenders for both facilites are Norwegian and international banks.

At the end of 2002 Norske Skog has NOK 4 800 million in unused long-term credit lines. Norske Skog also holds an unused credit facility of NOK 1 500 million that matures in December 2003.

Norske Skog has given declarations of negative pledge when raising long-term loans. All long-term bank loans contain the same financial covenants which are:
- Net equity capital (equity capital minus intangible assets) minimum NOK 9 million, and
- Net interest-bearing debt/equity capital maximum 1.4.

The bond loans have no requirements regarding key financial covenants. Norske Skog complies with each and all of these requirements.

22. Interest bearing current liabilities

	2002	2001	2000
Short term bank debt	681	275	355
Other short-term interest bearing liability	466	22	–
Total	1 147	297	355

The Group has unused bank overdrafts of NOK 200 million. There are no limitations to the use of the facility.

23. Interest free current liabilities

	2002	2001	2000
Public dues and holiday allowances	583	517	629
Accounts payable	1 665	1 678	2 280
Sundry interest-free current debt	899	233	517
Provisions for dividend	795	792	554
Accrued expenses	881	1 556	2 119
Taxes payable	240	815	516
Total	5 063	5 591	6 615

24. Foreign exchange and interest off-balance instruments

Foreign exchange contracts, balance sheet hedge

Currency	Purchase contracts equiv. to NOK million	Sales contracts equiv. to NOK million
AUD	59	1 587
CAD	39	904
CHF	88	113
CZK	144	72
DKK	–	158
GBP	48	1 225
JPY	0	15
NOK	5 038	331
SEK	133	191
USD	3 597	1 270
BRL	–	105
KRW	–	634
THB	–	85
NZD	389	616
EUR	55	2 074
Total	9 590	9 380

Currency options

Currency	Buy/sell	Maturity	Nominal EUR	Nominal NOK	Contract rate	Market value
EUR/NOK	B	30.01.03	-20 000	145 400	7.27	0.508
EUR/NOK	S	30.01.03	20 000	-147 200	7.36	-0.422
Total market value						0.086

Sum of principal in foreign currencies are translated into NOK at spot rates as of 31 December 2002. All forward contracts and currency options are related to hedging of net investment in subsidiaries or hedging of future cash flows in foreign currencies. All existing forward contracts and currency options will mature during 2003.

Interest rate swaps

Currency	Nominal value in currency	Market value in currency	Receives	Pays	Maturity
AUD	54.9	-2.27	Floating	Fixed	2005
AUD	145.3	-4.38	Floating	Fixed	2003
NOK	55.0	0.71	Fixed	Floating	2006
NOK	50.0	0.34	Fixed	Floating	2006
NOK	50.0	0.05	Fixed	Floating	2006
NOK	50.0	-0.62	Fixed	Floating	2006
NOK	300.0	9.26	Fixed	Floating	2006
NOK	50.0	3.20	Fixed	Floating	2004
NOK	50.0	1.35	Fixed	Floating	2003
NOK	15.0	0.66	Fixed	Floating	2004
NOK	75.0	1.37	Fixed	Floating	2006
NOK	150.0	6.29	Fixed	Floating	2004
NZD	150.0	-6.09	Floating	Fixed	2005
USD	400.0	39.38	Fixed	Floating	2011
USD	100.0	9.60	Fixed	Floating	2011
USD	100.0	9.79	Fixed	Floating	2011

If the interest rate in the market is reduced, the Group will profit from receiving fixed interest and paying floating interest. Market values are calculated by using market rate curves as of 31 December 2002. The Group uses interest rate swaps for interest rate hedging. Unrealised market to market re-valuation are not booked in the Profit & Loss. This is in line with the underlying debt being kept at cost.

For an overview of duration see table at bottom of page 21.

25. Mortgages

The following loans are secured by real estate mortgages as at 31.12.

	2002	2001	2000
Outstanding balance, mortgage debt	253	1 302	1 191
Total	253	1 302	1 191

Book value of assets securing this debt as at 31.12.

	2002	2001	2000
Machinery	293	1 770	1 751
Buildings	–	448	465
Forest, land and other real estate	–	24	1
Operating fixed assets	293	2 242	2 217

Norske Skogindustrier ASA and subsidiaries do not pledge any assets as the loan agreements contain a negative pledge clause. This is not prevailing for PanAsia which has pledged some of its assets.

26. Environment

In 2002 the environmental investments were NOK 175 million. For 2001 the amount was NOK 70 million.

The greater part of the investments were made at Walsum, Parenco and Bio Bio. Walsum has carried out an extensive reconstruction of the effluent treatment plant with the objective to reduce the discharge of organic material (COD) by at least 20%. The objective has been reached.

Parenco has completed the construction of a new central dewatering plant for sludge from the de-inking process. Construction work on a new bio fuel boiler was started in the autumn 2002. The start-up of the boiler is planned for spring 2004.

At Bio Bio a new effluent treatment plant is under construction. The start-up is planned for May 2003.

27. Other commitments

In 1998 Norske Skog finalised a lease and lease back arrangement with an American investor for PM5 and PM6 at Saugbrugsforeningen. The present value of the cost of the lease back is approximately NOK 4 000 million and is irrecoverably deposited in favour of the American investor. Although the sum has been deposited, Norske Skog is not exonerated from liability for payment. However the credit risk is extremely low as long as the funds are held in a bank with A rating. Deposited rental costs and prepaid rental earnings are entered net in the balance sheet. Should Norske Skog be unable to perform the leasing agreement it is under obligation to recompense investor for any losses. The investor's loss will vary over the term of the lease and will at most amount to USD 98 million. The possibility of Norske Skog being unable to perform the contract is extremely low. The contract could only be broken off as the result of extraordinary circumstances in the nature of force majeure.

In 1999 Norske Skog, Abitibi-Consolidated and Hansol established PanAsia joint venture. Hansol Paper exited PanAsia in 2001 and sold its one-third stake in equal parts to Norske Skog and Abitibi-Consolidated. The relationship between the remaining parties in the joint venture is regulated in a shareholder's agreement. An important condition for the joint venture is that the future expansion of the parties within PanAsia's market should take place through PanAsia, and that PanAsia should have a growth strategy. Australasia is not included in the market of PanAsia. According to the shareholder's agreement, PanAsia has an option to buy Norske Skog's 33.7 % share in Malaysian Newprint Industries at an agreed price.

Norske Skog and Klabin Fabricadora de Papel e Celulose SA each own 50 % of the shares in the joint venture Norske Skog Klabin Comercio E Industria. Norske Skog Klabin Comercio E Industria administers the means of production and the input factors for a period that expires in 2003. At the end of the period most of the company's assets will be tied to its market position. Norske Skog is commited to buy out Klabin at the termination of the joint venture agreement in March 2003. This amounts to USD 28 million. The costs will be capitalised as intangible assets. Norske Skog has an additional commitment to pay Klabin USD 18 million if Norske Skog should decide to build a new paper machine to replace the capacity of Klabin. This commitment is limited for three years.

In the annual accounts for 2002, a provision of NOK 600 million for costs related to the work force reductions in relation to the initiated improvement programme is made. The provision covers the costs of a work force reduction of approximately 1 200 employees.

28. Currency and Interest Risk

Currency Risk

Norske Skog has currency risk related to both Profit & Loss and the balance sheet.

Transaction Risk

The Group has incoming and outgoing transactions in various currencies. The most important of these being EUR, NOK, USD, GBP, AUD and NZD. Transaction risk is the potential difference in the future value of outgoing or incoming funds in the different currencies. The Group calculates a 12-month future expected cash flow in each currency on a rolling basis. 50-100% of the Group's expected cash flows should be hedged at any time using either forwards/futures or currency options. Only 100% owned subsidiaries, where we have direct access to the cash flow, are included in the hedging.

The result of the hedging is included under "Financial Items" of Profit & Loss in the group accounts. In 2002, the cash flow hedging generated a profit of NOK 884 million. Currency loss or income will, over time, hedge increased or reduced future net operational income.

Translation Risk

The group accounts are calculated in NOK. The translation risk arises when the subsidiaries' balance sheets are translated from their local currency to NOK. Norske Skog has been aiming to hedge the relationship between equity and debt (gearing) in 2002. This risk is secured at group level by group debt being drawn up in currency, as well as using short- and long forwards. This combination gives a currency spread that reflects the combination of net assets on the group balance sheet. Refer to table on page 20 which shows the composition of the debt related to the balance sheet hedge.

The currency result of the hedging is booked directly against the equity and is set off against translation differences from net equity at subsidiary level.

Use of forwards for adjusting currency allocation on debt will offer other liquidity outcomes linked to exchange rate movements, than the use of traditional currency debt.

Interest Risk

Norske Skog considers a floating interest rate on its group debt to be risk reducing. This is related to the correlation between Norske Skog's income and economic cycles where the interest rate is normally high during economic boom and low during recessions.

The Group has outstanding certificates and fixed interest rate bonds with a nominal value of NOK 8 903 million. The switch to floating interest payments on existing fixed interest loans is achieved by using interest rate swaps. The economic risk on the debt portfolio is measured by interest rate sensitivity (duration). In some cases interest rate derivatives are used in order to adjust the duration of individual currencies.

Credit risk

Norske Skog conducts credit risk analysis of all investment counterparts. The requirements is that the company must be A-rated. Requirements to key-figures are the same for non-rated companies as for A-rated companies.

29. Events after the balance sheet date

3 January 2003 13 power stations were sold for NOK 1 267 million. The sale of the power stations is expected to yield a gain of approximately NOK 450 million after tax.

Profit and Loss Account

NOK million	Notes	2002	2001	2000
Operating revenue	2	**6 979**	**9 079**	**9 893**
Changes in inventory		-66	25	330
Cost of materials		3 616	4 010	4 198
Wages, salaries and personnel expenses	3	1 337	1 317	1 339
Other operating expenses	4	979	1 214	1 588
Depreciation and amortisation	7	630	640	682
Operating expenses		**6 496**	**7 206**	**8 137**
Operating earnings before restructuring costs		**483**	**1 873**	**1 756**
Restructuring costs	4	-111	–	–
Operating earnings		**372**	**1 873**	**1 756**
Financial revenue		1 409	537	889
Financial expenses		-494	-3 287	-1 831
Financial items, net		915	-2 750	-942
Other items	10	240	115	222
Earnings before taxation		**1 527**	**-762**	**1 036**
Taxation	5	-496	359	-173
Earnings		**1 031**	**-403**	**863**
Application of profit for the year:				
Allocated from/to other equity		-236	1 195	-313
Dividend to shareholders		-795	-792	-550
Total		-1 031	403	-863
Group contribution given, after tax		274	–	–

Statement of Cash Flow

NOK million	Notes	2002	2001	2000
Cash flow from operating activities				
Cash generated from operations		7 169	8 976	10 104
Cash used in operations		-5 888	-7 008	-6 733
Financial revenue received		1 405	499	844
Financial expenses paid		-1 091	-2 124	-1 673
Taxes paid		-283	-166	-277
Net cash flow from operating activities	6	1 312	177	2 265
Cash flow from investment activities				
Investments in operational fixed assets	7	-224	-293	-557
Sales of operational fixed assets	7	35	12	43
Net change in intercompany receivables		961	2 859	-190
Net financial investments		135	-3 095	-19 391
Net cash flow from investment activities		907	-517	-20 095
Cash flow from financial activities				
Net change in long-term liabilities		-3 256	-2 228	18 024
Dividend paid		-792	-551	-443
Share issues		–	3 327	1 463
Net cash flow from financial activities		-4 048	548	19 044
Total change in liquid assets		**-1 829**	**208**	**1 214**
Liquid assets as at 1 January		2 349	2 141	927
Liquid assets as at 31 December		520	2 349	2 141

Balance Sheet

NOK Million	Notes	2002	2001	2000
Assets				
Intangible fixed assets	7	**73**	**72**	**24**
Operational fixed assets	7	**5 457**	**5 907**	**6 519**
Intercompany long term receivables		5 908	8 812	3 642
Other long-term assets		75	203	762
Pension plan assets	3	110	129	152
Shares in other companies		62	54	220
Shares in subsidiaries		29 145	28 601	24 765
Securities and long-term financial assets		**35 300**	**37 799**	**29 541**
Fixed assets		**40 830**	**43 778**	**36 084**
Finished goods		396	329	345
Raw materials and work in progress		168	236	245
Inventory		564	565	590
Intercompany short-term receivables		702	452	5 385
Other receivables		292	528	104
Accounts receivable		767	925	1 176
Provision for bad debts		-39	-43	-13
Short-term receivables		1 722	1 862	6 652
Commercial papers		105	1 100	1 197
Bonds		196	504	229
Cash and bank deposits		219	745	715
Liquid assets		520	2 349	2 141
Current assets		**2 806**	**4 776**	**9 383**
Total assets		**43 636**	**48 554**	**45 467**
Shareholders' equity and liabilities				
Share capital		1 331	1 331	931
Own shares		-9	-10	-15
Share premium reserve		7 116	7 088	4 161
Paid-in equity		8 438	8 409	5 077
Other equity		5 247	5 015	6 173
Shareholders' equity	8	**13 685**	**13 424**	**11 250**
Deferred taxes	5	373	288	774
Pension obligations	3	87	81	69
Intercompany long-term liabilities		5 479	3 793	722
Other long-term liabilities		16 851	20 689	23 641
Long-term liabilities		**22 790**	**24 851**	**25 206**
Other short-term liabilities		1 459	3 177	1 553
Intercompany short-term liabilities		4 482	5 768	6 345
Accounts payable		307	481	410
Public dues and holiday allowances		53	49	53
Provisions for dividend		795	792	550
Taxes payable		65	12	100
Current liabilities		**7 161**	**10 279**	**9 011**
Total shareholders` equity and liabilities		**43 636**	**48 554**	**45 467**
Guarantees	9	2 159	4 565	2 714

Lysaker, 5 March 2003

Lars Wilhelm Grøholt
Chairman

Jon R. Gundersen
Deputy chairman

Halvor Bjørken

Jan Vidar Grini

Stig Johansen

Kåre Leira

Øivind Lund

Egil Myklebust

Gisele Marchand

Jan Reinås
President and CEO

1. Accounting principles

The company's accounting principles are the same as those for the consolidated accounts, which are described on page 68 and 69. Only those notes which are different, are shown below. Investments in subsidiaries are valued at historical cost, in accordance with the option stated by the Department of Finance. All figures are stated in NOK million unless otherwise stated.

Monetary items that is receivable from, or payable to, a foreign subsidiary for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance an extension to, or a deduction from, the net investment in the foreign subsidiary. Foreign currency gains and losses on the receivables and payables which in substance form part of the net investment in foreign subsidiaries are not recognised until the disposal of the investments in the foreign subsidiaries. The principle also applies to exchange differences arising on foreign currency liabilities accounted for as a hedge of the net investments in foreign subsidiaries.

2. Operating revenue

Operating Revenue includes ordinary revenue from sale of goods and services to companies within the Group to the value of NOK 1 366 million, the corresponding figure in 2001 was NOK 1 858 million and in 2000 NOK 1 945 million. All intercompany deliveries, intercompany profits and intercompany debts between departments are eliminated in the accounts.

3. Pension costs and pension liabilties

Net periodic pension cost:	2002	2001	2000
Benefit earned during the year	50	49	48
Interest costs on prior period benefit	62	57	58
Expected return on plan assets	-70	-70	-69
Periodic employer tax	2	1	5
Expensed portion of changes of AFP	2	2	2
Expensed portion of differences in estimates	8	4	2
Net periodic pension cost	54	43	46

Status of pension plans reconciled with the balance sheet:

	Plan assets exceed PBO			PBO exceed plan assets		
	2002	2001	2000	2002	2001	2000
Projected Benefit Obligations (PBO)	-1 079	-985	-1 004	-142	-138	-139
Plan assets at fair value	1 121	1 111	1 043	22	22	33
Plan assets in excess of/less than (-) PBO	42	126	39	-120	-116	-106
Changed AFP plan	–	–	–	–	22	24
Unrecognized gain (-)/loss on plan assets	72	3	113	37	20	19
Net plan assets/pension obligations	114	129	152	-83	-74	-63
Employer tax accruals	-4	–	–	-4	-7	-6
Pension assets/pension obligations (-) in the balance sheet	110	129	152	-87	-81	-69

See note 4 to the consolidated accounts regarding assumptions and further information.

4. Other operating expenses and restructuring costs

Losses on bad debts amounting to NOK 7 million are included in operating expenses. A provision of NOK 111 million for restructuring costs is presented on a separate line. The provision will cover costs related to workforce reductions of approximately 500 employees.

5. Taxes

A specification of the difference between earnings before taxation and the basis for taxation is shown below:

Basis for taxation	2002	2001	2000
Earnings before taxation	1 527	-761	1 288
Permanent differences	-200	-77	-441
Group contribution	-381	153	45
Equity items	–	-133	-51
Currency items	8	464	-378
Change in temporary differences	-303	420	-180
Basis for taxation	651	66	283

Taxation	2002	2001	2000
Taxes payable including withholding tax	-234	-14	-74
Tax on currency items	–	–	-14
Tax on equity items	–	–	-106
Taxes payable former year	-263	–	–
Taxes group contribution	-107	–	–
Group contribution	193	–	–
Sum taxes payable	-411	-14	-194
Change in deferred tax	-85	373	21
Total tax expense	-496	359	-173

Norwegian tax authorities have not accepted a deduction of ca NOK 800 million for the year 2001. This has resulted in an increase of ca NOK 225 million in tax cost in 2002. The decision has been appealed.

Deferred tax

A specification of temporary differences and deferred tax is shown below. (Tax rate 28% in 2000, 2001 and 2002)

Deferred tax	2002	2001	2000
Reserve in accounts receivable	-38	-122	-26
Reserve in inventory	115	83	84
Other short-term items	-198	-214	-37
Total short-term items	-121	-253	21
Accelerated depreciation	1 379	1 525	2 026
Allocated capital gains	150	219	107
Pension plan assets	110	129	150
Pension obligations	-87	-81	-70
Other long-term items	375	-38	156
Total long-term items	1 926	1 754	2 369
Total temporary differences	1 805	1 501	2 390
Deferred tax on termporary differences	505	419	668
Deferred tax on currency items	-132	-131	106
Total deferred tax	373	288	774

6. Net cash flow from operations

The connection between earnings before tax and cash flow from operations is shown below:

	2002	2001	2000
Earnings before tax	1 287	-762	1 288
Ordinary depreciation	630	640	682
Taxes paid	-283	-166	-277
Change in receivables	395	143	150
Change in stocks	1	25	375
Change in current liabilities	-300	1 024	231
Adjustments for changes in working capital without cash effect	-418	-727	-184
Net cash flow from operating activities	1 312	177	2 265

7. Operational fixed assets

	Goodwill and other exclusive rights	Land, buildings and other property	Machinery and plant	Fixtures and fittings, tools, office equipment	Plant under construction	Total
Acquisition cost						
Acquisition cost 31.12.2001	97	2 944	10 414	305	142	13 902
Addition 2002 at cost	7	35	158	24	–	224
Sales 2002 at cost	–	-41	-33	-15	–	-89
Reclassification	–	–	14	8	-22	–
Acquisition cost 31.12.2002	104	2 938	10 553	322	120	14 037
Depreciation and write-downs						
Accumulated depreciation and write-downs 31.12.2001	25	1 251	6 422	225	–	7 923
Depreciation 2002	6	112	481	31	–	630
Depreciation on fixed assets sold 2002	–	-8	-35	-3	–	-46
Write-downs 2002	–	–	–	–	–	–
Reclassification	–	–	-4	4	–	–
Accumulated depreciation and write-downs 31.12.2002	31	1 355	6 864	257	–	8 507
Book value						
Book value 31.12.2001	72	1 693	3 992	80	142	5 979
Book value 31.12.2002	73	1 583	3 689	65	120	5 530

Goodwill specification on each acquisition	Year	Depreciation plan/years	Depreciation 2002	Book value 31.12.2002
Union	1999	20	6	66

Goodwill is amortised according to expected useful life based on regional and global synergies.

Fixed assets - acquisition and disposal last 5 years

		Goodwill and other exclusive rights	Land, buildings and other property	Machinery and plant	Fixtures and fittings, tools, office equipment	Plant under construction	Total
1998	Acquisition	–	243	454	–	618	1 315
	Disposal	–	42	3	–	–	45
1999	Acquisition	–	35	86	28	598	747
	Disposal	–	33	6	–	–	39
2000	Acquisition	–	103	265	20	169	557
	Disposal	–	20	7	5	11	43
2001	Acquisition	–	43	179	18	53	293
	Disposal	–	–	7	5	–	12
2002	Acquisition	7	35	158	24	–	224
	Disposal	–	222	7	3	–	232
Total 5 years	Acquisition	7	459	1 142	90	1 438	3 136
	Disposal	–	317	30	13	11	371

8. Shareholders' equity

	Share Capital	Share premium reserve	Other Equity	Total
Shareholders' equity 31.12.2001	1 321	7 088	5 015	13 424
Change in own shareholding	1	28	18	47
Earnings	–	–	1 031	1 031
Provision for dividend	–	–	-795	-795
Currency translation adjustments and other	–	–	-22	-22
Shareholders' equity 31.12.2002	1 322	7 116	5 247	13 685

As at 31 December 2002 the share capital was divided into 133 137 088 shares, each with a nominal value of NOK 10. Own shareholding was 882 247 shares.

Principle shareholders	Ownership in %
State Street Bank & Trust Co., USA	10.08
Folketrygdfondet, Norway	8.31
Viken Skogeierforening, Norway	8.03
JPMorgan Chase Bank, Great Britain	6.29
JPMorgan Chase Bank, USA	4.62
Agder-Telemark Skogeierforening, Norway	4.09
Skogeierforeninga Nord BA, Norway	2.60
Mjøsen Skogeierforening, Norway	2.43
Vital Forsikring ASA, Norway	1.57
Boston Safe Dep & Trust, USA	1.56
Glommen Fond AS, Norway	1.50
Rederiaktieselskapet Henneseid, Norway	1.46
Deutsche Bank Trust Co Americas, USA	1.32
Havlide A/S, Norway	1.04

Shareholders in Corporate Assembly	Number of shares
Ivar Korsbakken, Oslo, Chairman	917
Emil Aubert, Porsgrunn	14 383
Ole H. Bakke, Trondheim	53
Svein Haare, Hokksund	555
Olav Hørsdal, Frolands Verk	2 975
Dieter Oswald, Bø i Telemark	67
Halvard Sæther, Lillehammer	2 182
Helge Urstrømmen, Elverum	1 163
Svein Aaser, Drøbak	475
Nominated by the employees	
Bjørn Olav Hanssen, Skogn	100
Magnus Straume, Union	3
Ove Magne Anseth, Foresta	50
Observers from the employees	
Rolf Bråthen, Follum	782

Shareholders in Board of Directors	Number of shares
Lars Wilhelm Grøholt, Hov, Chairman	1 145
Jon R. Gundersen, Oslo, Deputy Chairman	694
Halvor Bjørken, Verdal	1 155
Øivind Lund, Drammen	432
Nominated by the employees	
Jan Vidar Grini, Union	118
Stig Johansen, Foresta	125
Kåre Leira, Skogn	485

Shareholders in Corporate Management	
Jan Reinås	23 100
Jan A. Oksum	6 239
Jan Kildal	10 006
Rolf Negård	377
Hanne Aaberg	900
Claes-Inge Isacson	6 020
Jarle Dragvik	1 521
Ketil Lyng	2 535
David Kirk [1]	1 642
Vidar Lerstad	2 972

1) David Kirk has resigned from his position in Norske Skog with effect from 3 March 2003.

9. Guarantees

The company has guaranteed debt for its subsidiaries to the total of NOK 2 150 million and for its affiliated companies to the total of NOK 9 million. See also note 27 to the group accounts.

10. Other items

Other items 2002 includes profit from the sale of forests in Norway (NOK 159 million), profit from the sale of forests in Sweden (NOK 16 million) and reversal of a provision for credit losses against Norske Skog Flooring Holding AS (NOK 64 million). Other items 2001 includes profit from the sale of forests in Sweden (NOK 194 million), provision for credit losses against Norske Skog Flooring Holding AS (NOK -64 million) and earn out costs related to the sale of Tofte and Folla (NOK -15 million). Other items in 2000 mainly includes profit from the sale of Tofte and Folla.

11.Repayment plan interest-bearing debt

The contractual obligated downpayments on the company’s total loan portfolio as of 31.12.2002

	Bank debt	Bond debt	Total debt
2003	922	–	922
2004	–	242	242
2005	982	–	982
2006	346	2 681	3 027
2007	1 436	1 377	2 813
2008	1 256	–	1 256
2009	1 489	–	1 489
2010	107	–	107
2011	250	4 178	4 429
Curency translation difference	–	1 457	1 457
Sum	6 788	9 936	16 724

Currency translation difference is a result of translation debt in the balance sheet at historical rates while the repayment plan is translated at current rates.

Auditor's report for 2002

We have audited the annual financial statements of Norske Skogindustrier ASA as of 31 December 2002, showing a profit of NOK 1 031 million for the parent company and a profit of NOK 1 168 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of profit. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Company’s Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting informa tion as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 5 March 2003
ERNST & YOUNG AS

Henning Strøm (sign.)
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

The Corporate Assembly’s Statement to the General Meeting

The Corporate Assembly recommends that the General Meeting approves the profit and loss statement and balance sheet for 2002 for Norske Skogindustrier ASA and the Group as proposed by the Board and agrees with the Board’s proposal for the appropriation of the profit for the year.

Lysaker, 5 March, 2003

Ivar B. Korsbakken
Corporate Assembly Chairman

Environment through the entire value chain

Norske Skog's products are based on renewable raw materials, coming from sustainable forestry. The production processes are operated with a high degree of recovery and recirculation, and are energy efficient. Production waste is utilised as biofuel.

Part of the effluent treatment plant at Norske Skog Golbey, France.

With sustainable development in focus

A CHANGE IN REPORT FORMAT

This year, after twelve years of publishing separate annual environmental reports, Norske Skog incorporates its environmental information in the Company's ordinary annual report. Information about health and safety work and Norske Skog's social commitment can also be found in the same report. Combined with the financial information it contains, the annual report for 2002 thus gives an overall picture of our efforts to foster sustainable development, resting on the three pillars of economic progress, environmental improvement and social responsibility.

We hope that shareholders, employees and other stakeholders will be satisfied with this change. It is important to us that we should continue to develop our environmental reporting, so that we can meet the information needs of stakeholders.

It is also important to us to emphasise that the change in format does not involve any deterioration in the substance of our environmental reporting, compared with previous practice. The factual information is just as open and comprehensive as in the past, and has been controlled and verified by an external auditor.

CHALLENGES IN THE VALUE CHAIN

Norske Skog's concern for the environment comprises the value chain and we face challenges and tasks in several areas. The main challenges are in the sustainable use of forest resources, the continued reduction of discharges to air and water, energy and resource optimalisation and climate issues. We are making progress in these areas. For 2002 we can report good results for the work we have done during the year.

ENVIRONMENT – A PRIORITY AREA

In 2003 Norske Skog will put comprehensive cost-cutting measures and changes in its organisation into effect. The Company does this to be a competitive player in its core area. Profitability is a prerequisite to be able to work in a focused way for a better environment, and to further develop our social commitment.

Neither Norske Skog's environmental efforts, nor its performance, shall suffer in this process. Environment will remain a priority area. The Company's environmental policy remains unchanged as a tool for realising the Group's strategy of supporting, through practical efforts, the sustainable development of the environment and natural resources.

PAPER – A PRODUCT FOR THE FUTURE

The paper industry has the prerequisites required to give it a sustainable future. Its renewable, main raw material comes from sustainable forestry. Its products are well suited for recycling and the degree of recovery is high. Discharges to air and water have been steeply reduced during the past years, and energy efficiency is high. Production waste is, to a large extent, utilised as biofuel.

In Norske Skog we shall continue striving to improve our performance in these areas. We shall play our part in achieving our ambition – which is that our industry shall leave an even lighter footprint in nature and the environment, and that paper shall secure its natural role in tomorrows society.

Thor H. Lobben
Vice President
Norske Skog
Environment

NORSKE SKOG'S ENVIRONMENTAL POLICY

Norske Skog's environmental policy is an integral part of the strategy to achieve the overall corporate goal. It shall support sustainable development of environment and natural resources.

The environmental commitments shall be viewed in context with the company's commitments to health, safety and corporate social responsibility.

Norske Skog's environmental strategy and policy applies to all its business units. Norske Skog will work for similar environmental values in joint ventures and partially owned companies.

• Norske Skog shall operate and develop its business units by continuously improving their environmental performance, and with a view to reducing the environmental impact to a minimum. The basic requirement is compliance with laws and regulations.

• Efficient production processes with high yield on raw material and energy utilisation shall be key objectives in all production units. Environmental aspects shall be integrated in strategic considerations and operational decisions.

• Environmental responsibilities and tasks shall be clearly defined and adhered to throughout the organisation. The business units shall educate and train their employees to know and understand the policy, its requirements and the work performance expectations.

• Certifiable, internationally acknowledged environmental management systems shall be actively applied in the management in all production units.

• Norske Skog's production units shall have environmental programs with clear objectives and annually set targets supporting the company's environmental policy and strategic ambition.

• Norske Skog shall expect the same high environmental performance from suppliers of goods and services in the value chain as maintained in its own activities. Forest certification shall be encouraged and certified wood suppliers will be given priority.

• Norske Skog shall have an environmental performance that supports its customers in reaching their environmental objectives.

• Norske Skog shall operate and develop its business units with respect for, and understanding of, the social and cultural values that exist in the countries in which it operates.

• Norske Skog shall be open to and actively engage in dialogue with stakeholders and will communicate openly on environmental matters.

Process and main figures for wholly owned mills

RAW MATERIALS >

TRANSPORT

> PRODUCTION PROSESS >

TRANSPORT

> PRODUCTS

CONSUMPTION OF RAW MATERIALS	
Roundwood	4 800 000 m^3
Sawmill chips	2 050 000 m^3
Recovered paper	1 250 000 tonnes
Purchased pulp	225 000 tonnes
Inorganic fillers	450 000 tonnes

ENERGY	
Electricity	10 100 GWh
Heat	7 300 GWh

DISCHARGE TO WATER	
Effluent	90 mill m^3
Organic material (COD)	45 800 tonnes
Suspended solids (SS)	8 700 tonnes
Phosphorous (Tot-P)	54 tonnes

AIR EMISSIONS	
CO_2	837 000 tonnes
SO_2	810 tonnes

PRODUCTION WASTE	
Sludge	700 000 tonnes
Bark	250 000 tonnes
Other	50 000 tonnes
Hazardous waste	800 tonnes

PRODUCTS	
Newsprint grades	3 036 000 tonnes
Magazine paper	1 267 000 tonnes

Recovered paper is important for Norske Skog and amounted to 26% of the total raw material consumption in 2002.

Raw material consumption

The main component of publication paper is fibre originating from wood. Fresh wood arrives at the mills either as roundwood or as chips from sawmills. Another source of fibre is recovered paper collected from households, printing houses and other sources. Recovered paper has, during the past few years, become an increasingly important raw material for Norske Skog and accounted in 2002 for 26% of the total consumption.

Raw material consumption at Norske Skog's wholly owned mills in 2002 was 6.85 million cubic metres of roundwood and chips, 1.24 million tonnes of recovered paper, 225 000 tonnes of purchased pulp and 450 000 tonnes of inorganic fillers and coating materials.

The environmental aspects of our industry's activity which today attract most attention are those connected with forests and forestry. Norske Skog will ensure that only wood harvested in sustainably managed forests is used. Norske Skog is of the opinion that certification is one of the suitable means of attaining this goal, and will promote certification systems that can document well managed forestry. Among the major systems, the FSC (Forest Stewardship Council) and the PEFC (Pan European Forest Certification) are the two which are most relevant for Norske Skog. Both systems strive for sustainable forestry, and Norske Skog accepts both for the use today. Norske Skog supports efforts to bring about mutual recognition of qualified certification systems. Of the roundwood purchased for the mills in 2002, 57% came from certified forests.

EUROPE

Total consumption of roundwood and chips at our mills in Europe was just above 4.3 million cubic metres. In addition the mills used 185 000 tonnes of purchased pulp and 440 000 tonnes of fillers and coatings. 67% of the roundwood came from certified forests. Consumption of recovered paper reached nearly 1.1 million tonnes, against 795 000 tonnes in 2001. The increase mainly reflects the acquisition of Parenco. The average share of recovered paper used as raw material in all the European mills was 31%.

SOUTH AMERICA

Raw materials for the mills in Brazil and Chile consist mainly of chips and roundwood from plantations. Consumption in 2002 reached about 750 000 cubic metres. In addition these mills used about 17 000 tonnes of purchased pulp and 1 500 tonnes of fillers. About 60% of the roundwood came from certified forests.

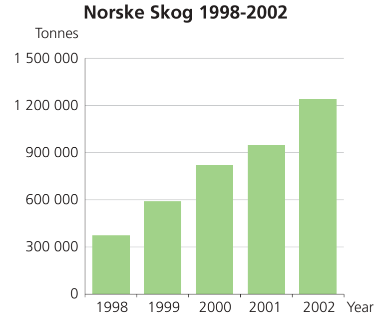
AUSTRALASIA

Consumption of chips and roundwood at the Norske Skog mills in Australasia reached about 1.8 million cubic metres, and recovered paper usage was just over 150 000 tonnes in 2002. In addition came 23 000 tonnes of purchased pulp and 9 000 tonnes of fillers. Just under 90% of the roundwood came from plantation forests, while the rest came from cultivated forests on Tasmania, which was used at Boyer. 33% of the roundwood came from certified forests. All de-inked pulp was produced at Albury, but about a third of that was shipped to Boyer and formed part of the raw material used there.

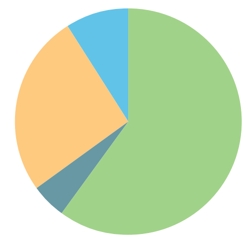
Proportion of recycled fibre in newsprint 2002

Norske Skog Albury, Australia	40 %
Norske Skog Boyer, Australia	22 %
Norske Skog Bruck, Austria	81 %
Norske Skog Golbey, France	65 %
Norske Skog Parenco, The Nederlands	69 %
Norske Skog Skogn, Norway	23 %
Norske Skog Steti, The Czech Republic	40 %

Use of recovered paper, Norske Skog 1998-2002



Consumption of raw materials, 2002



- Roundwood and chips 60%
- Purchased pulp 5%
- Recovered paper 26%
- Inorganic fillers 9%

Energy consumption

Electrical and thermal energy (heat) are significant input factors in the production of newsprint and magazine paper. A strong focus on energy use is therefore important for environmental and economical reasons.

Environmentally, the choice of energy sources is also very significant. Industry has limited influence in choosing the source of the electricity supplied from the grid. But where thermal energy is concerned, the mills do have options. Norske Skog has striven for many years to limit its use of fossil fuels through increased use of its own, and purchased biofuel, and by recovering process heat.

NORSKE SKOG'S ENERGY USE

Energy consumption at the wholly-owned mills in 2002 was 17 400 GWh, comprising:

Electric power	10 100 GWh
Heat	7 300 GWh

2 250 GWh was based on our own and purchased biofuel, and 1 500 GWh was recovered process heat. 2 500 GWh, or 15% of the total, was based on fossil fuels.

The co-generation plants at Bruck and Parenco, which burn natural gas to produce electricity and heat, and the mills in Australia, where coal and gas are largely used to produce heat, account for the greater part of the fossil fuel consumption. These mills accounted for 90% of the total use at Norske Skog's mills in 2002. The acquisition of Parenco in November 2001 is the main reason for the significant rise in our total use during the past year.

Norske Skog will continue striving to minimise its use of fossil fuels, and thereby its emissions of the greenhouse gas, CO_2. Organic waste from our own mills will be used as biofuel, in place of fossil fuel, wherever possible. Natural gas will be the preferred fossil fuel, where it is available.

ELECTRIC POWER

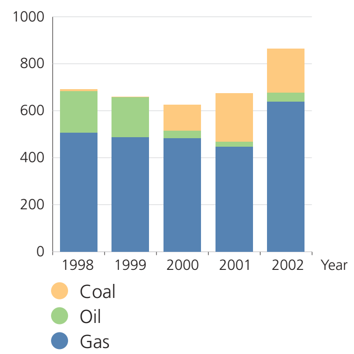
Some 92% of the electric power we used in 2002 was purchased from external suppliers, while 6% was produced by our own co-generation plants at Bruck and Parenco. Specific consumption of electric power in 2002 was 2 315 kWh per tonne of paper, while the corresponding figure in 2001 was 2 420 kWh.

HEAT

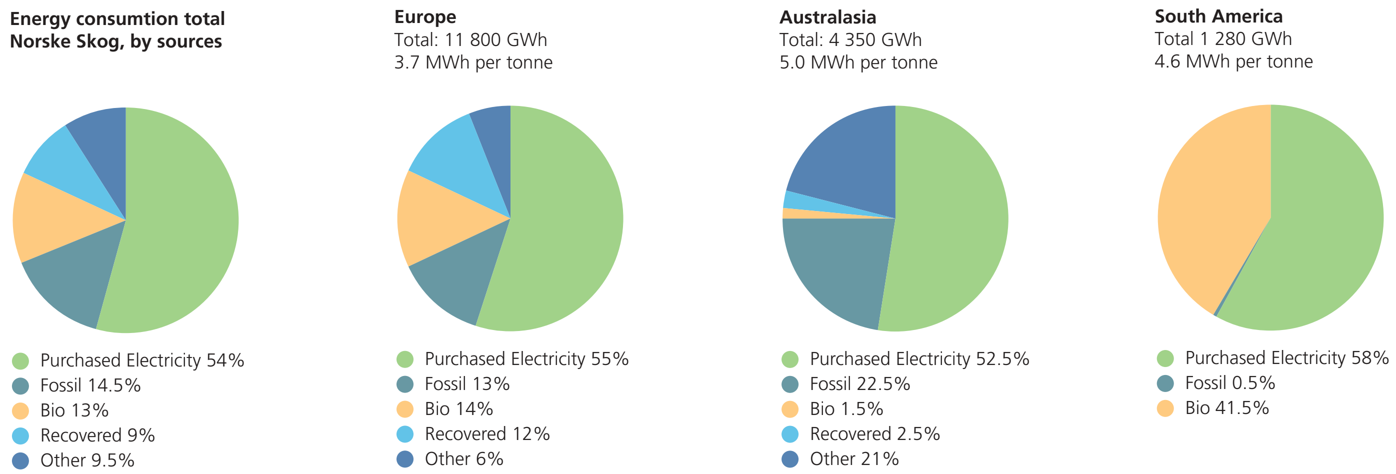
Heat is primarily used for drying in the paper machine. About 50% of the heat energy used in 2002 came from recovered energy and from own and purchased biofuel. 26% was heat produced in the mills, using fossil fuels. The rest was purchased steam from external suppliers, and geothermal heat in Tasman on New Zealand.

In the production of thermomechanical pulp (TMP) a considerable proportion of the electrical energy applied is converted to heat. In most of the Norske Skog mills based on this method, heat is recovered, for use elsewhere in the production process. More than 20% of the energy supplied as electric power at these mills in 2002 was recovered in the form of heat.

Use of fossil fuels
(kWh per tonne of paper)



Production waste is to a large extent used as biofuel in the mill's power boilers. Close to 30% of the total heat consumption at Norske Skog mills in 2002 was covered by biofuel.



A modern papermachine is high technolgy, here represented by PM2 at Norske Skog Golbey.

Discharges from production

Until the acquisition of Fletcher Challenge Paper in 2000, Norske Skog could point to a steady reduction in its specific discharges to air and water. By specific discharges we mean that they are expressed as per tonne of paper. The mills which joined the Group as a result of the acquisition contributed, however, to stagnation or increase in 2000 and 2001. But in 2002 specific discharge figures continued to improve - with the exception of CO_2 emissions, which rose by 22% compared with 2001. That increase mainly reflect the acquisition of Parenco which has its own natural gas fired co-generation plant for the production of electric power and heat, and the larger use of fossil fuels to produce thermal energy at the mills in Australia.

Specific discharges to water of dissolved organic material (COD = Chemical Oxygen Demand) fell by 17%, compared with 2001, and are now back at the same level as in 2000.

Discharges are regularly measured from all our mills. Measuring and reporting routines vary somewhat, in accordance with national requirements and regulations.

EUROPE

In general, the environmental performance of the European mills improved during 2002. Several investments were carried out that contributed to this improvement. Environment-related investments is presented on page 110. The acquisition of Walsum and Parenco contributed positively to the overall environmental performance of the Group. The process of adapting the European mills to the EU's IPPC directive (Integrated Pollution Prevention and Control) has started. In Norway, Norske Skog Saugbrugs is the first paper and pulp mill to have its permit dealt with on the basis of this EU directive. Saugbrugs expects that the new permit will be ready early in 2003.

The specific discharges of organic substances (COD) from the mills in Europe have more than halved compared with 1998 levels. Where emissions to air are concerned, the specific emissions of CO_2 have risen by nearly 40%, compared with 2001. As mentioned earlier, this mainly reflects the acquisition of Parenco, whose energy supply comes to a large extent from its own co-generation plant, which burns natural gas. At the other mills in Europe, CO_2 emissions have remained at more or less the same level for the past three years.

AUSTRALASIA

The specific CO_2 emissions from the mills in Australasia have risen during the last three years. The increase in these emissions from 2001 to 2002 amounted to 12%, and reflects – as mentioned earlier – increased use of fossil fuels to produce heat energy at the Australian mills.

Average specific discharges to water of organic matter (COD) in Australasia show a 13% decline from 2001 and are back at the same level as in 2000.

The average specific discharges to water in Australasia are significantly higher than those from the European mills, mainly owing to special conditions at Boyer. The pulp mill there employs a special production process – necessary in order to utilise eucalyptus as raw material – which results in higher discharges than the processes traditionally used to make pulp at newsprint mills. Moreover, the mill does not have a biological treatment plant. The mill is engaged in a constructive dialogue with the authorities regarding future discharge development and discharge limits. A comprehensive survey of conditions in the river into which the effluent water is released has been carried out. The conclusion of this survey is that there is no need for immediate measures. The results of the survey are central to further discussions with the authorities.

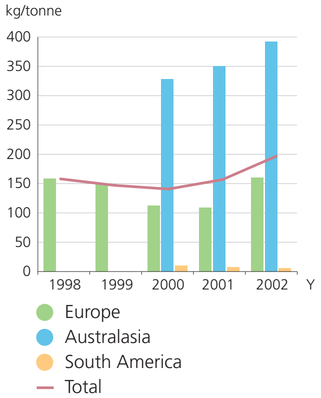
At Albury several small projects were carried out during 2002 that will affect discharges. The mill is also working on ISO 14001 certification, with the aim of attaining this during 2003. The most important projects currently in hand concern heat recovery from the pulp production process (TMP), to heat process water, and the installation of a cooling tower for effluent water, in order to improve the efficiency of the biological treatment plant.

In 2002 New Zealand ratified the Kyoto protocol and the authorities are working on the relevant legislation and regulations. One of the measures being considered is a system of negotiated climate gas agreements between the authorities and industrial undertakings that are exposed to competition. Tasman will work for such a system, in order to minimise the mill's risks and costs.

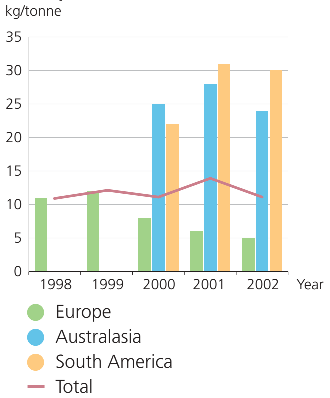
SOUTH AMERICA

At Bio Bio in Chile a new treatment plant will be brought on line in April 2003, and thereby meet new national discharge requirements well before they take effect. The mill will also make investments to reduce boiler dust emissions. The investment will cover rebuilding of the boiler and installation of an electrofilter. The project is scheduled for completion by 2005.

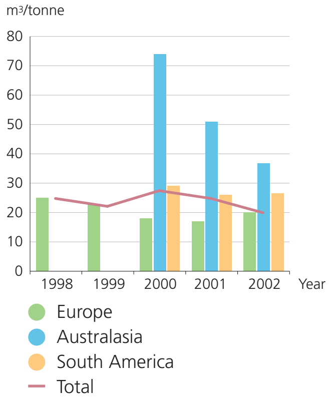
Trends in emissions of CO2 per tonne for period 1998 – 2002



Trends in discharges of organic substances (COD) per tonne for period 1998 – 2002



Trends in discharges of effluent water per tonne produced for period 1998 – 2002



Noise

Two of the mills have revealed infringements of the noise limits set by the authorities. Measures are being considered or are due to be implemented. Six of the mills have received complaints from neighbours during 2002 regarding disagreeable noise. Most of these concerned acute incidents where remedial measures were adopted immediately.

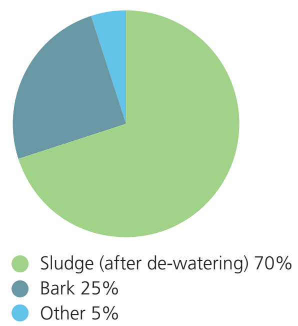
Waste

Bark and sludge from water treatment plants are, by far, the two main types of production waste our mills produce. They are recovered and reused to produce thermal energy. Burning this kind of waste and other biofuel produces considerable amounts of ash. This amounted to 150 000 tonnes in 2002. Approximately 60% of this ash was utilised by the cement industry. The remaining was mainly put on landfills. Hazardous waste comprises less than 1% of the waste produced by Norske Skog's mills.

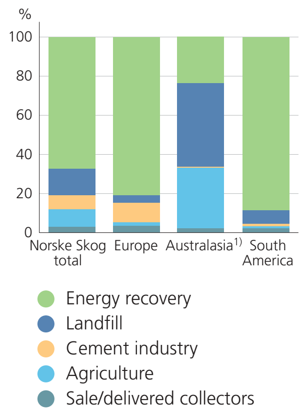
The volume of waste from the production processes has risen in line with investments in biological treatment plants, which produce large amounts of sludge. To deal with these increased waste volumes, substantial investments have been made in equipment for dewatering the sludge and burning it to produce energy. The goal is to make the greatest possible use of organic waste for energy purposes. In Europe and South America, virtually all biowaste is now used to produce energy, while the proportion is far lower in Australasia. In Australasia sludge and ash are more frequently used for soil improvement purposes.

The production processes are continuously monitored. Sampling is done regularly on the most important environmental parameters and the analysis is carried out in the mill's own laboratories.

Total production waste generated by Norske Skog mills, 2002
Total waste volume: 1.0 million tonnes



Disposal of mill waste in 2002



1) The figures do not include drained bottom sludge from maintenance of the aeration basin at Norske Skog Tasman.

Transport

TRANSPORT OF RAW MATERIALS

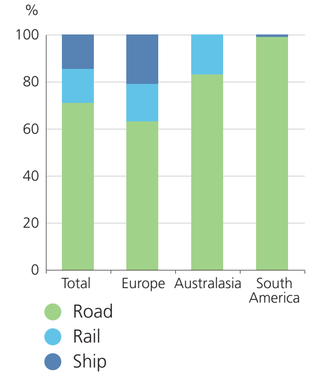
The mix of transport methods used to bring raw materials to our mills varies considerably from region to region. The differences reflect regional circumstances with regard to the mills' location, local infrastructure and established transport patterns. Road transport dominated in 2002, with a 71% share. This was followed by rail and sea transport, with shares of 14.5% each.

In Europe, the proportion of road transport rose from 60% in 2001 to 64% in 2002, and transportation by ship from 16% to 18%. Rail transport declined correspondingly, from 22% to 16%. In Australasia road transport rose from 79% to 83%, with a corresponding reduction in rail transport. In South America there was no change from 2001.

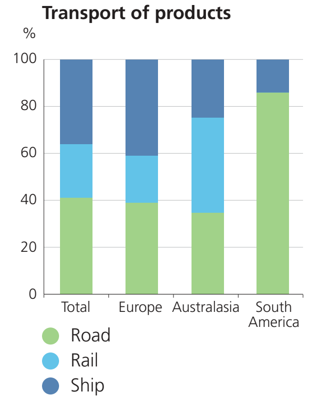
TRANSPORT OF PRODUCTS

The figures for transport of products from the mills in 2002 show an increase in road transportation at the expense of rail. In 2002 the proportions were: 41% by road, 23% by rail and 36% by ship. Corresponding figures for 2001 were 37%, 26% and 37%. This trend is representative for Europe and Australasia, while the trend in South America has been a transition from road to ship transport.

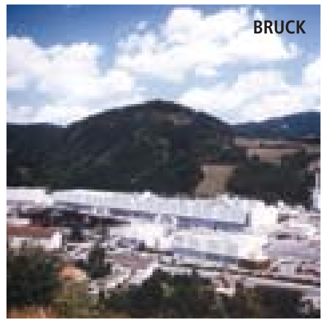
Raw materials transport

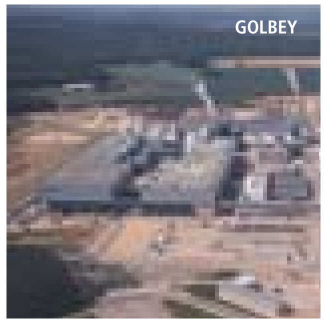


Transport of products

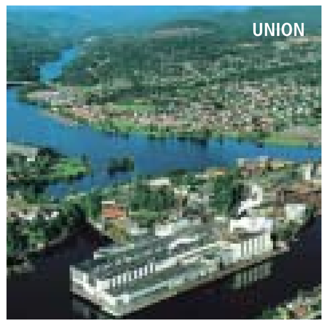


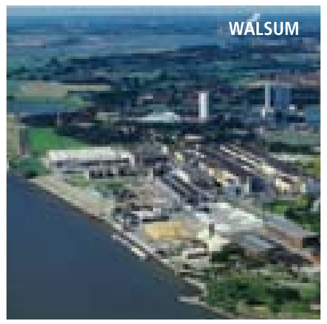
Mill figures

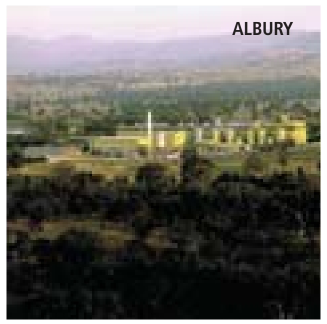


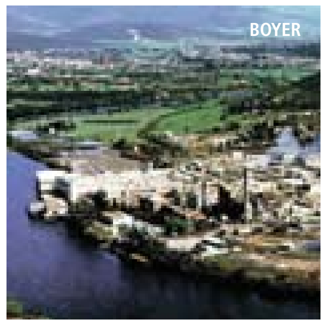


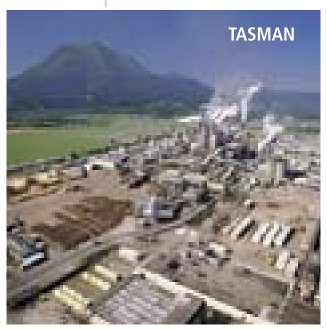
		EUROPE									AUSTRALASIA			SOUTH AMERICA	
		BRUCK	FOLLUM	GOLBEY	PARENCO	SAUGBRUGS	SKOGN	STETI	UNION	WALSUM	ALBURY	BOYER	TASMAN	BIO BIO	PISA
Production	1000 tonne	320	347	502	363	497	483	94	233	355	246	276	352	109	171
USE OF ENERGY															
Electric power	MWh per tonne	1.22	2.78	1.80	1.63	2.66	2.63	1.64	2.65	1.93	2.16	2.30	3.37	2.40	3.06
	GWh	392	964	904	591	1 322	1 269	154	618	684	532	634	1 186	262	523
Thermal energy	GJ per tonne	4.96	6.00	4.70	5.60	5.34	5.53	5.25	5.75	6.11	7.16	8.60	8.51	4.69	7.26
	TJ	1 587	2 082	2 359	2 033	2 654	2 671	494	1 340	2 169	1 761	2 374	2 996	511	1 241
DISCHARGE TO WATER															
Effluent	m3 per tonne	11.2	19.7	11.3	11.6	19.0	13.5	32.0	17.5	13.4	10.5	45.8	50.2	43.8	17.2
	1000 m3	3 574	6 839	5 658	4 204	9 418	6 540	3 005	4 068	4 761	2 578	12 644	17 681	4 776	2 934
Organic material (COD)	kg per tonne	1.6	12.4	1.9	2.7	7.2	2.9	5.7	12.0	3.8	2.5	56.3	13.8	71.7	3.1
	tonne	506	4 317	954	991	3 568	1 401	540	2 789	1 338	603	15 547	4 840	7 819	528
Suspended solids (SS)	kg per tonne	0.1	1.3	0.2	0.1	0.5	0.5	0.1	2.7	0.2	0.1	4.0	3.1	42.1	0.4
	tonne	38	434	100	22	244	251	5	620	60	30	1 112	1 105	4 583	68
Phosphorous (tot-P)	g per tonne	5.8	6.8	12.0	17.0	7.7	5.5	21.2	23.2	10.1	14.6	33.4	n.r	63.4	8.2
	tonne	2	2	6	6	4	3	2	5	4	4	9	n.r	7	1
AIR EMISSONS															
CO_2 (fossil)	kg per tonne	683	12	51	524	45	6	0	35	54	303	972	17	15	0
	tonne	218 464	4 060	25 778	190 200	22 231	3 096	0	8 087	19 170	74 538	268 189	5 984	1 663	0
WASTE															
Waste to landfill	kg per tonne	0.6	12.5	8.0	1.9	14.7	19.5	4.0	11.2	1.2	8.6	199.5	35.1	9.8	20.1
	tonne	195	4 320	4 016	686	7 316	9 423	375	2 603	422	2 118	55 054	12 345	1 063	3 435
ENVIRONMENTAL MANAGEMENT SYSTEMS															
Type		ISO	ISO/EMAS	ISO	ISO/EMAS	ISO/EMAS	ISO/EMAS		(2003)	ISO/EMAS	(2003)	(2003)	(2003)	(2003)	(2003)

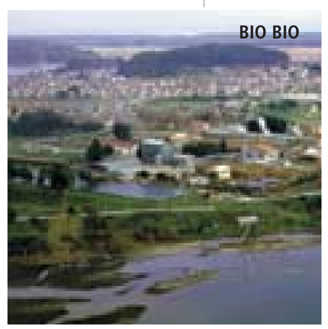












* ISO = ISO 14001. EMAS = Eco Management and Audit Scheme (EU)

Environment-related costs

Environment-related costs comprise environmental investments and environment-related operating costs. The costs shown have been compiled according to best estimates, and based on what Norske Skog believes have been incurred mainly in order to achieve environmental improvements.

Environmental investments include costs related to building treatment plants, waste-handling equipment, noise reduction measures, energy saving, equipment for monitoring the environment and environment-related rehabilitation measures.

Environment-related operating costs include the cost of chemicals used in treatment plant and sludge dewatering, operation and maintenance of treatment plants, wages for employees concerned with environmental work and treatment plant operating personnel, environment-related experiments and surveys, environment-related fees and duties, and the operation and maintenance of waste deposits.

Environment-related investments in 2002 at Norske Skog's wholly-owned mills totalled NOK 175 million. The largest investments were made at Walsum, Parenco and Bio Bio.

At Walsum, about NOK 30 million was invested in the extensive rebuilding of the waste water treatment plant. The aim of the rebuilding was to reduce discharges of organic matter by at least 20%.

At Parenco, NOK 54 million was invested in a new central de-watering plant for the sludge produced by de-inking recovered paper. Work was also started on construction of a new biofuel boiler, scheduled for completion by spring 2004. Total investment costs are just under NOK 250 million, of which just over NOK 40 million was invested in 2002.

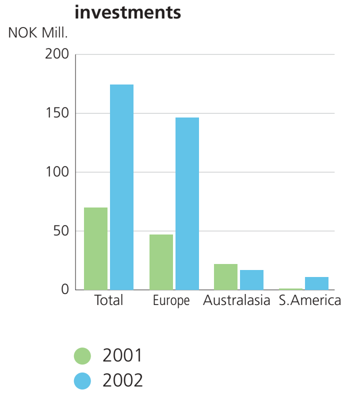
At Bio Bio a new waste water treatment plant is being built. It will be started up in May 2003. Total investment costs are just under NOK 20 million, of which NOK 10 million was invested in 2002.

Environment-related operating costs rose by 24% compared with 2001, totalling just under NOK 240 million. The cost of treatment plant and de-watering chemicals accounted for the largest share of this - about 30%. The integration of Walsum and Parenco was the main reason for the increase. Environment-related operating costs amounted to NOK 55 per tonne of product – an increase of 7% compared with the previous year.

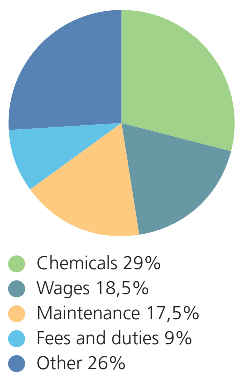
The environment-related costs include only outlays. Many of the investments involved will, however, also yield savings – for example,

- Energy-saving → reduces energy costs.
- Water treatment and sludge de-watering → provides biofuel which replaces other sources of energy.
- Incineration of biofuel → reduces both the cost of other energy and waste deposit costs.

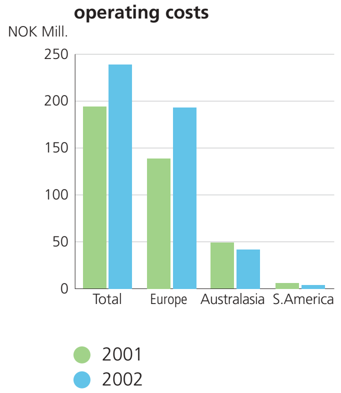
Environment-related investments



Environment-related operating costs, by type of cost, 2002



Environment-related operating costs



Independent accountant's report

ABOUT THE REPORT

The environmental report contains environmental information which Norske Skog believes covers the most important environmental aspects of the company's activity. The environmental accounts cover the wholly-owned paper mills which formed part of the company as of 31 December 2002.

Data for the environmental accounts have been collected from the mills in accordance with established reporting routines. These routines consist of quarterly, standardised reporting, as well as supplementary information collected annually – also according to standardised routines. The figures in the environmental report are compared and compiled with a view to presenting the data as uniformly and relevantly as possible. Although great efforts have been made to ensure that information is complete and correct, some uncertainty may attach to parts of the statistical material.

As part of our effort to ensure open communication about environmental issues, environmental report should be reliable and quality assured. Consequently, it has, for the past seven years, been controlled by Deloitte & Touche. The auditor's statement details the procedures employed and the results achieved.

In our opinion, these procedures increase the report's credibility. Within Norske Skog, moreover, we can be more confident that the information and data in the environmental report are based on information collected and processed systematically, and that the necessary documentation has been provided.

We have performed certain agreed-upon control procedures on the Norske Skog Environmental Report 2002 (the "Report"), presented on pages 94 – 111 in the Norske Skogindustrier ASA Annual Report 2002. The Report is the responsibility of and has been approved by the management of the Company.

The scope of our work and the procedures that we performed, which were agreed with the Company's management, were as stated below. We visited the Company's corporate office and the mills Norske Skog Saugbrugs and Norske Skog Parenco. Our procedures included interviews and meetings with the Company's environmental management and employees responsible for compiling data for the Report as well as analytical procedures and testing samples of supporting documentation.

• We assessed whether the environmental aspects presented in the Report are those that, in our opinion, are the most significant ones at Group level.

• We ascertained whether the reporting procedures, as described on this page, were used at corporate level to collect information, to be used in the Report. In addition, we visited a sample of two mills, Norske Skog Saugbrugs and Norske Skog Parenco, and assessed whether the reporting procedures, as referred to above, were used at these mills.

• We studied the Report and compared the figures reported for 2002 with the aggregated information that was accumulated as a result of the reporting procedures noted above. On a test basis, we compared the 2002 figures reported from the mills that we visited to the supporting documentation. We have assessed whether the aggregated information is appropriately presented in the Report.

The agreed-upon scope and the procedures performed preclude us from providing an opinion as to whether all the figures and other disclosures in the Report are free of misstatement.

Conclusion

Based upon the procedures performed, it is our opinion that the Report discloses information on the environmental aspects that are the most significant ones at Group level, and that the Company's environmental management and the mills visited have used the reporting procedures described on this page for the purpose of collecting information from the reporting units, for inclusion in the Report. The figures presented for 2002 are consistent with the aggregated information accumulated as a result of the reporting procedures noted above. For the mills visited, reported information is consistent with the supporting documentation presented to us. In our opinion, the information reported according to the reporting procedures, are appropriately reflected in the Report.

Oslo, 5 March 2003
DELOITTE & TOUCHE
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised Public Accountant

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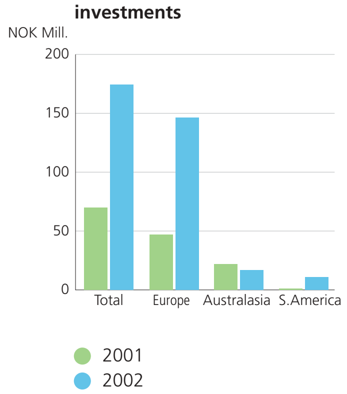
Environment-related investments



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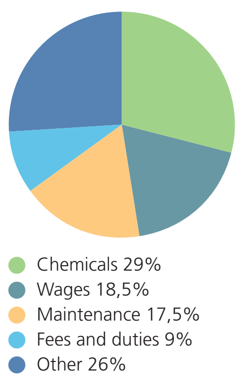
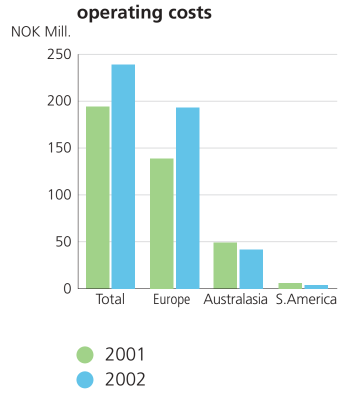


Environment-related operating costs



General meeting

The ordinary General Meeting will be held on Thursday 10 April, at Felix conference centre, Aker Brygge, Oslo, Norway at 1300 hours.

Financial information 2002

Shares will be listed ex-dividend 11 April. Payment of dividend is 30 April to shareholders who are listed in the company's register of shareholders as of 10 April.

Publication of quarterly results 2003:

First quarter, 7 May 2003
Second quarter, 6 August 2003
Third quarter, 5 November 2003

Additional information on internet

Additional financial information concerning Norske Skog may be found on the Internet: www.norske-skog.com

Here you will find among other things:

- All result reports
- Press releases
- Presentations to the stock market
- Information about the Group's organisation, management and activity
- Information about mills, products and markets
- Information about environmental questions
- Links to other relevant sources

Addresses

CORPORATE HEADQUARTER
Norske Skogindustrier ASA
Oksenøyveien 80
P.O. Box 329
1326 Lysaker
Norway
Tel.: +47 67 59 90 00
Fax: +47 67 59 91 81

REGIONAL OFFICES
NORSKE SKOG EUROPA
Oksenøyveien 80
P.O. Box 329
1326 Lysaker
Norway
Tel.: +47 67 59 90 00
Fax: +47 67 59 92 66

NORSKE SKOG SOUTH AMERICA
Norske Skog do Brazil Ltd.
Rue Pasteur 463,
10 andar Centro
Empresarial Jatobá
80250-080 Curitiba
PR-Brasil
Tel.: +55 41 340 2000
Fax: +55 41 342 8772

NORSKE SKOG AUSTRALASIA
Norske Skog (Australasia) Pty. Limited
Level 22, 1 Oxford Street
Darlinghurst, NSW
P.O. Box 485
Darlinghurst
NSW 1300
Australia
Tel.: +61 2 9283 1444
Fax: +61 2 9283 3033

PARTIALLY OWNED COMPANIES
NORTH AMERICA
Norske Skog Canada Ltd.
9th Floor,
700 West Georgia Street
P.O. Box 10058 Pacific Centre
Vancouver, British Columbia
V7Y 1J7 Canada
Tel.: +1 604 654 4000
Fax: +1 604 654 4103

ASIA
PanAsia Paper Co. Pte. Ltd.
4 Shenton Way,
29-01 SGX Centre 2
Singapore 068807
Tel.: +65 6327 4188
Fax: +65 6327 4264

Norske Skogindustrier ASA

Oksenøyveien 80
P.O. Box 329
1326 Lysaker
Norway
Phone: +47 67 59 90 00
Fax: +47 67 59 91 81
www.norske-skog.com

Design:
Engen & Harlem AS

Print:
Artko AS

Photo:
Bård Gudim
Kaia Means
Klaus Morgenstern
Sabine Stebegg
Peter Whyte
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