NORSKE SKOG 2003

Annual report

- Economic downturn, but satisfactory operating margins
- Improvement goal for 2003 achieved
- Record results in health and safety
- Jan Oksum – new president & CEO
- The paper industry has all the prerequisites for a sustainable future

Norske Skog

Main financial figures

NOK million	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
1. Profit and loss account										
Operating revenue	24 068	23 471	30 354	26 635	18 054	14 908	13 312	13 265	12 548	9 170
Operating earnings before restructuring costs	1 401	1 906	5 096	4 211	2 129	1 780	1 083	1 916	2 500	732
Earnings for the year, majority's share	402	1 162	2 494	1 958	1 300	1 020	590	1 317	1 669	206
2. Main financial figures										
Cash flow from operations	2 973	3 687	7 052	4 922	2 162	2 859	1 615	2 616	2 555	866
Depreciation and amortisation	3 285	3 292	3 323	2 388	1 689	1 323	1 140	1 132	832	616
Investments in operational fixed assets	1 200	1 146	1 422	1 351	1 154	3 983	1 814	1 053	926	565
Gearing	0.92	1.02	1.18	0.92	0.65	0.71	0.45	0.63	0.61	0.67
3. Profitability										
Gross operating margin before rest. costs %	19.5	22.1	27.7	24.8	21.1	20.8	16.7	23.6	26.6	14.7
Return on capital employed %	3.6	4.7	13.7	13.1	11.0	11.7	8.4	15.9	25.4	8.3
4. Shares and shareholder structure										
Net earnings per share after tax	3.04	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88
Net earnings per share after full conversion	3.04	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21
Equity per share	146.64	135.50	147.96	218.04	126.17	111.71	107.34	99.19	84.82	66.21

Main figures per area

NOK million	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Europe										
Operating revenue	14 784	14 087	14 219	13 229	12 102	10 539	9 284	9 493	8 066	5 831
Operating earnings	1 033	1 189	3 247	2 266	1 809	1 946	1 134	2 078	1 708	454
Operating margin %	7.0	8.4	22.8	17.1	14.9	18.5	12.2	21.9	21.2	7.8
North America										
Operating revenue	-	-	5 455	4 157	-	-	-	-	-	-
Operating earnings	-	-	329	529	-	-	-	-	-	-
Operating margin %	-	-	6.0	12.7	-	-	-	-	-	-
South America										
Operating revenue	1 094	1 107	1 939	1 035	-	-	-	-	-	-
Operating earnings	113	(9)	473	231	-	-	-	-	-	-
Operating margin %	10.3	(0.8)	24.4	22.3	-	-	-	-	-	-
Australasia										
Operating revenue	4 030	3 807	4 473	2 801	-	-	-	-	-	-
Operating earnings	455	546	725	545	-	-	-	-	-	-
Operating margin %	11.3	14.3	16.2	19.5	-	-	-	-	-	-
Asia										
Operating revenue	2 365	2 688	2 434	2 572	1 988	485	-	-	-	-
Operating earnings	200	562	616	526	336	61	-	-	-	-
Operating margin %	8.5	20.9	25.3	20.5	16.9	12.6	-	-	-	-
Other Activities										
Operating revenue	2 146	1 931	2 319	3 881	4 132	4 037	4 043	3 800	4 504	3 546
Operating earnings	16	47	98	372	37	(90)	33	(100)	778	324
Operating margin %	0.7	2.4	4.2	9.6	0.9	(2.2)	0.8	(2.6)	17.3	9.1

Norske Skog in brief

POSITION

Norske Skog is the world's second largest producer of newsprint and magazine paper (publication paper), with wholly- and partly-owned mills in 15 countries on five continents. Its mills and sales network confer a unique position. Combined with its local presence and knowledge, Norske Skog's global strength and experience distinguish it from other paper companies.

The world market for newsprint and magazine paper is about 60 million tonnes, and the group has about 13 and eight per cent of these segments respectively. If its wholly- and partly-owned mills are run at full capacity, a single day's production would circle the world seven times with a strip of paper 1.6 metres wide.

VISION, GOAL AND STRATEGY

Norske Skog is a leading international paper company. Its goal is to create value for shareholders on par with the best performers in this industry. To reach this objective, the company has opted to concentrate on its core business of producing newsprint and magazine paper, on profitable growth in important markets, and on cost-efficient production.

VALUES

Norske Skog's success as a global company builds on cooperation between different cultures. All operations at Norske Skog are based on three core values: openness, honesty and cooperation.

STRONG GROWTH

The company's history is characterised by an ability to look ahead, to set ambitious goals – and to achieve them. Established in 1962, Norske Skog's first newsprint machine came on line in 1966 at Skogn, Norway. It became the leading Norwegian paper and pulp producer during the 1970s and 1980s. In the 1990s, the company built a strong European platform through acquisitions and new mill construction in Norway, France, Austria and the Czech Republic. Mills were also subsequently acquired in Germany and the Netherlands. Since 2000, the company has become a leading global supplier by adding mills and activities in Asia, North America, South America and Australasia.

Operating revenue grew from NOK 7.6 billion to NOK 24.1 billion during 1992-2003. Over the same period, the company's market value grew from NOK 1.8 billion to NOK 16.9 billion. Norske Skog is listed on the Oslo Stock Exchange in Norway.

CORPORATE MANAGEMENT 2004

PRESIDENT AND CEO
Jan Oksum

CORPORATE STRATEGY SENIOR VICE PRESIDENT
Vidar Lerstad

CORPORATE FINANCE SENIOR VICE PRESIDENT AND CFO
Jan Kildal

CORPORATE COMMUNICATION SENIOR VICE PRESIDENT
Hanne Aaberg

CORPORATE HR AND ORGANISATION SENIOR VICE PRESIDENT
Rolf Negård

PRODUCTION SENIOR VICE PRESIDENT
Jarle Dragvik

SALES & MARKETING SENIOR VICE PRESIDENT
Jan-Hinrich Clasen

SUPPLY & LOGISTICS SENIOR VICE PRESIDENT
Ketil Lyng

AUSTRALASIA EXECUTIVE VICE PRESIDENT
Rob Lord

SOUTH AMERICA EXECUTIVE VICE PRESIDENT
Antonio Dias

REGIONAL CAPACITY

EUROPE	SOUTH AMERICA	AUSTRALASIA	PARTLY OWNED COMPANIES
9 mills 3.8 million tonnes publication paper	2 mills 310 000 tonnes publication paper	3 mills 945 000 tonnes publication paper	**PanAsia** 4 mills 1.5 million tonnes publication paper Ownership share 50%
			Malaysian Newsprint Industries 1 mill 250 000 tonnes publication paper Ownership share 33.65%
			NorskeCanada 4 mills 1.8 million tonnes publication paper Ownership share 29.4%

Jan Reinås President and CEO 1994-2003

Share price strengthened throughout the year

Satisfactory operating margins

Contents

Introduction

Norske Skog achieved savings of NOK 955 million in 2003 with its improvement programme. Signs of improved demand for newsprint and magazine paper can now be seen, but it is hard to say when growth will return. Jan Reinås has passed the CEO baton to Jan Oksum. Read more about 2003 and Oksum's visions for the future on pages 2-7.

Front cover:
Newspapers will not survive unless they can recruit young readers. Norske Skog is cooperating with the World Association of Newspapers on projects to encourage the use of such publications in the classroom.

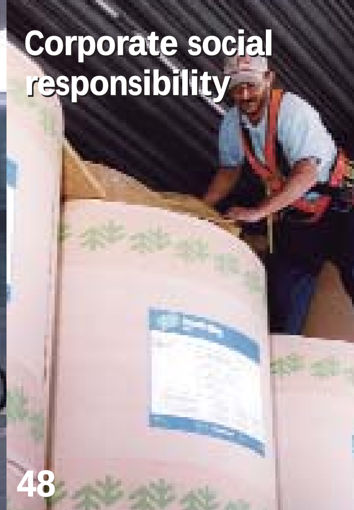
Capital market

The Norske Skog share made good progress throughout 2003, and the company has earned praise for its communication with the financial market. Pages 8-21 provide more information about developments in the share price and stock markets in general as well as financing and risk management in Norske Skog.

Production and market

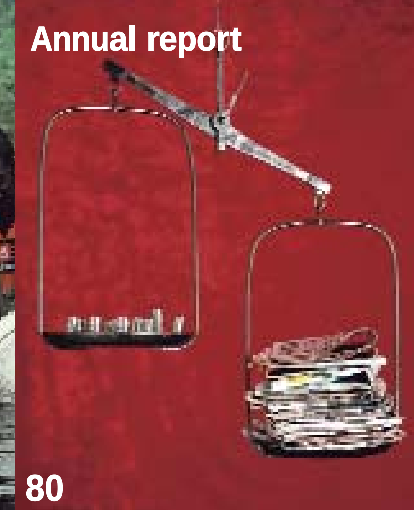
Norske Skog is active in the world's major growth markets. Read more about its global operations on pages 22-37.

Based on core values



Good health and safety performance

Focused on continuous improvement



Savings target met

Corporate governance

Corporate governance in Norske Skog builds on the company's core values of openness, honesty and cooperation. Read more about the company's corporate governance principles and the members of its governing bodies on pages 38-47.

Corporate social responsibility

A brief overview of Norske Skog's social involvement in relation to its own employees and the local communities in which it has operations, and its ambitious commitment to health and safety, can be found on pages 48-59.

Environment

Work on the environment in Norske Skog embraces the whole value chain. Read more about the company's commitment to continuous improvement on pages 60-79.

Annual report

Norske Skog is ready for a new economic upturn. Read more about the company's results and outlook on pages 80-117.

Ten years of change and growth

After almost a decade as CEO of Norske Skog, it is satisfying to be able to pass on a sound and structured company with a leading position in the most important markets for our products. We now derive many advantages from being a truly global and simultaneously local supplier.
This has been a demanding but also very stimulating time, characterised by change and growth. During this period, we have spent more than NOK 50 billion on developing new and acquiring existing activities, and made more than NOK 6 billion from selling activities and facilities outside our core business. Through this Norske Skog has become the most global company in the industry, with a unique position in the most important growth markets. We have acquired a reputation as the company that delivers what it promises.

We are founded on solid values. Employees from many different cultures have been quickly integrated, and have shown an impressive ability to adapt to a difficult time characterised by economic downturn and weak markets.

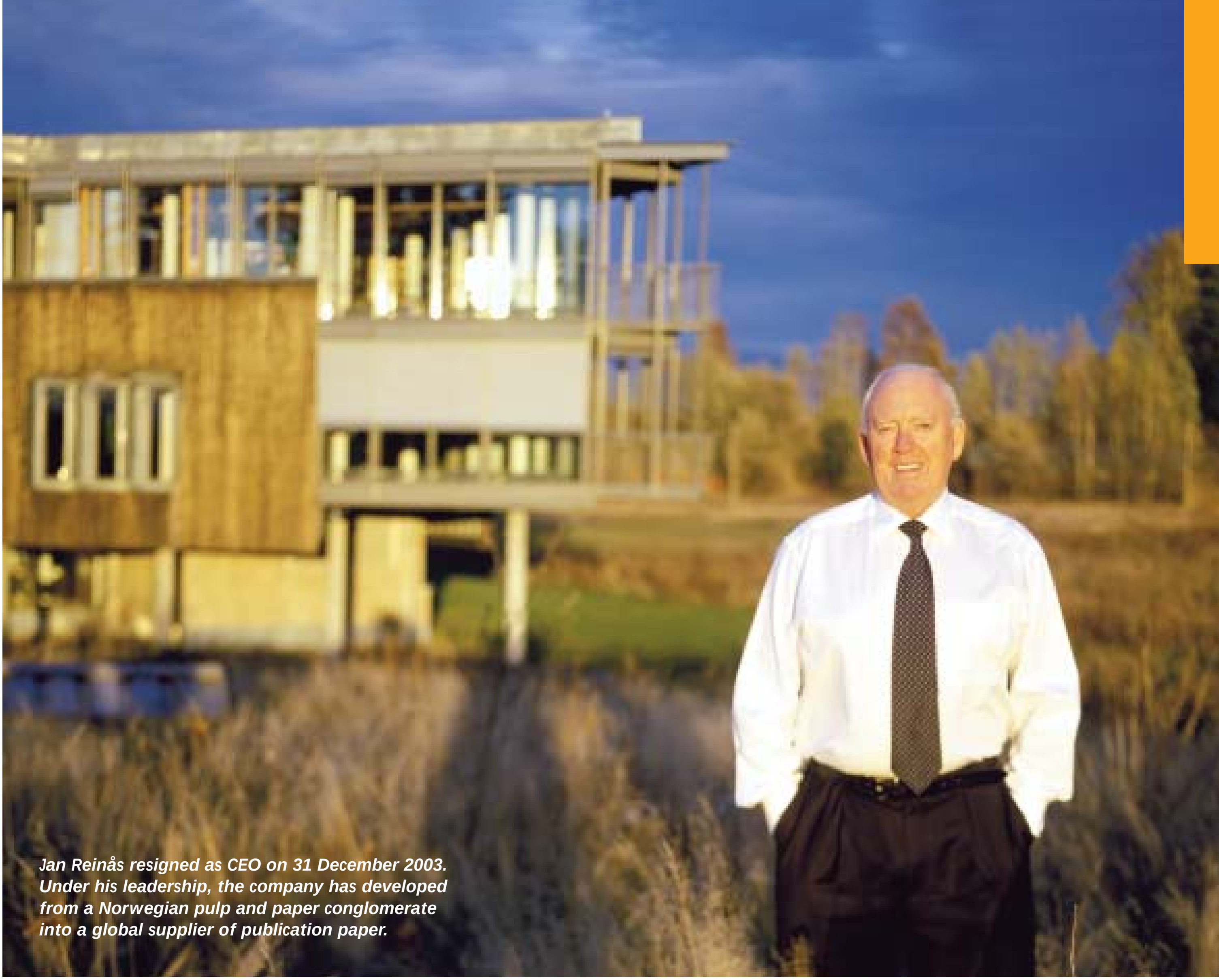
Our goals for the first stage of Improvement 2003 have been met. The whole organisation has shown great adaptability. I am confident that we will reach our objective of an improvement effect totalling NOK 2 billion by the end of 2004.

Resting content with that would be unwise. We must be prepared to see the growing need to change in the future. This makes it important to carry forward the experience gained from the improvement programme so that its effect will be strengthened and lasting. The aim is not only to get the maximum out of an economic recovery when this comes, but also to secure a good return for shareholders even in depressed periods while reinforcing our position and providing the organisation with a sense of security.

With the new CEO, Jan Oksum, at the helm, I am sure that Norske Skog will experience further progress and success.

We work in an industry that fluctuates between times with solid results and economic downturns when results are weak. In recent years, we have also seen our customers secure positions in the digital advertising market. Nobody can say with any assurance what that will mean for our products in the long run. But it would be right to say that the commitment to new media has so far depended on good earnings in traditional media. We must keep a careful eye on developments and remain confident in the long-term prospects for our products.

Circulation figures for printed media are more complex than the general impression created of a decline across the board in the major reading markets. Our customers are also responding vigorously to the challenges through product development, consolidation and restructuring. Examples include the appearance of a growing number of free newspapers with large print runs and publications tailored for new audiences.



Jan Reinås resigned as CEO on 31 December 2003. Under his leadership, the company has developed from a Norwegian pulp and paper conglomerate into a global supplier of publication paper.

One of the big challenges in the future is to get coming generations to establish a lifelong relationship with newspapers and magazines.

We initiated a collaboration in 2003 with the World Association of Newspapers (WAN) to intensify work on stimulating young people to read newspapers and magazines. The WAN and we intend to pursue Newspapers in Education (NIE) projects over a five-year period, particularly in countries where democratisation offers improved growth conditions for the free press.

Some signs of an improvement in demand for newsprint and magazine paper can now be detected, but it is difficult to say how quickly growth will come. Moreover, substantial variations exist from one market area to another. We need to be patient and do the right things to get the maximum effect from renewed growth in the world economy and from rising demand. I am sure that we, with our strong organisation, will achieve this effect.

Thank you for the confidence which has been placed in me.

Jan Reinås
President and CEO

Norske Skog in 2003

FIRST QUARTER

• In January, Norske Skog completed the divestment of 13 power plants, with a combined annual normal production of about 700 GWh, to Akershus Kraft AS and Buskerud Kraftproduksjon for NOK 1.3 billion. Net profit on the divestment was approximately NOK 1 billion before tax, and about NOK 500 million after tax.

• In March, Standard & Poor's Ratings Services affirmed its long-term BBB ratings on Norske Skog, but revised its outlook on Norske Skog's long-term ratings to negative from stable. The revision to negative outlook did not impact the interest rates of Norske Skog's existing long-term debt or credit facilities.

• In March, Rob Lord was appointed executive vice president responsible for Australasia.

SECOND QUARTER

• In accordance with the original agreement, the Norske Skog Klabin Joint Venture was terminated. The paper machine, with an annual capacity to produce 130 000 tonnes of newsprint, was delivered back to Klabin and will now produce packaging grades. The Norske Skog Klabin JV marked the company's entrance in South America, which is an important growth region. Longer term, Norske Skog will realise its plans to build a second paper machine at Norske Skog Pisa.

• In April, Norske Skog was included in new indexes for companies with high standards on sustainability and corporate social responsibility (CSR). Ethibel, based in Brussels, is a leading European research organisation in the field of CSR and sustainable development. Norske Skog has been chosen for both the "Ethibel Investment Register" and the "Ethibel Sustainability Indexes". The company was also awarded the "best-in-class" award, qualifying for investments in Storebrand Principle Funds.

THIRD QUARTER

• In September, PanAsia Paper Company Ltd. announced the creation of a joint venture with Hebei Longteng Paper Corp., China, to build and operate a newsprint mill in the Hebei Province of China, 280 km Southwest of Beijing. The ownership stakes are 65 per cent and 35 per cent respectively. Construction of the mill began in the fourth quarter of 2003. The mill is expected to reach full production during the second half of 2005 with a rated capacity of 330 000 tonnes per year. Investments amount to about USD 300 million, corresponding to less than USD 1 000 per tonne. PanAsia Paper's share of the equity amounts to around UDS 70 million and will be financed from PanAsia Paper's own cash flow without any need for capital injection from its owners.

• In September, Norske Skog launched a 12 and 30 year US bond offering of an aggregate amount of USD 400 million. The amount consisted of two tranches: USD 200 million of 6 1/8 per cent Notes due 2015, and USD 200 million of 7 1/8 per cent Notes due 2033. The company will use the net proceeds of the offering to further improve its debt maturity schedule, and for general corporate purposes. This secures the company's financial flexibility and will reduce debt repayments in the years 2003-2007 by more than USD 300 million. The Notes are listed on the Luxembourg Stock Exchange.

2003 in summary

FOURTH QUARTER

• In November, Jan Oksum was appointed CEO of Norske Skog, with effect from 1 January 2004.

• In November, Norske Skog accepted an offer of NOK 153 million from Ulvig Kiær AS to purchase 135 000 hectares of forest properties in Norway. The gain from this sale will be NOK 133 million in 2004.

• In December, Norske-Canada, in which Norske Skog had a 30.6 per cent shareholding, acquired the BC operations of Newstech Recycling, a company that produces de-inked pulp. Payment was partly in NorskeCanada shares, which reduces Norske Skog's shareholding to 29.4 per cent.

• Norske Skog's Improvement 2003 programme enhanced pre-tax earnings by NOK 955 million in 2003.

• Norske Skog achieved its best-ever health and safety results, with an H-value (lost-time injury frequency per million working hours) of 3.6 for its wholly owned operations.

• Norske Skog's ambitious Improvement 2003 programme was on schedule at 31 December, when it had contributed NOK 955 million to pre-tax earnings. The programme aims to improve annual earnings by 2004 by NOK 2 billion, compared with 2002.

• Markets for publication paper were again generally weak in 2003, but with some growth in volume compared to 2002. Prices in Europe declined by seven to 11 per cent for newsprint and three to six per cent for magazine paper. Australian newsprint prices fell by about four per cent over the year, and Korea also experienced some price decline. Prices otherwise increased somewhat in North and South America and in Asian spot markets.

• As expected at the beginning of the year, 2003 results for Norske Skog were affected by difficult market conditions around the world. Net earnings were affected by an extraordinary gain from the sale of the group's power stations. This gain totalled almost NOK 907 million before tax and NOK 465 million after tax. Earnings per share were NOK 3.04 compared with NOK 8.79 in 2002. The company generated a satisfactory cash flow from operations, and repaid NOK 2 billion in debt during 2003.

• PanAsia Paper, owned 50-50 by Norske Skog and Abitibi-Consolidated Inc, is building a new newsprint mill in China's Hebei province together with a local partner. As the largest and most modern newsprint machine in the country, with an annual capacity of 330 000 tonnes, it will serve markets in and around Beijing. The Chinese newsprint market is expected to grow by seven-eight per cent annually up to 2010.

• The performance of world stock markets in 2003 showed a clear improvement from the year before, and the Norske Skog share price increased from NOK 98 at 30 December 2002 to NOK 127 at 31 December 2003. Norske Skog aims to maintain a stable level of dividend at one third of net earnings over an economic cycle. The board has accordingly proposed a dividend for 2003 of NOK 6 per share, unchanged from the year before.

gro

Jan Oksum (left), with 25 years of experience in Norske Skog, has taken over the CEO's baton from Jan Reinås.

Investment and wth to be the best

Norske Skog's new president and CEO, Jan Oksum, does not hesitate when asked where the company will stand in eight to 10 years. "We'll be substantially bigger in an international context," he says. "We must develop in such a way that we become an even more interesting company in which to invest. That'll be achieved not only by operating more efficiently and profitably, but also through growth."

Oksum has served Norske Skog for a quarter of a century. Few people in the company know the industry and the organisation better than him. He observes that Norske Skog has followed a successful course. That has created value. Changing the CEO does not signal any dramatic change of direction. The management team has supported the strategy all the way.

But changes are coming, because the world moves on. And Norske Skog's competitors are no slouches. The company must stay in the forefront of developments at all times.

"We must get better at improving continuously in order to retain the lead conferred by our Improvement 2003 programme," says Oksum.

Asked how Norske Skog will grow, he points out that several possible routes to continued expansion are available. "Which direction we should take is one of the questions we'll be looking at more closely in the time to come."

The company has been through phases of growth, consolidation and improving efficiency. In planning and executing Improvement 2003, ambitious goals and quick decisions have been required to ensure aggressiveness and maintain tempo.

Oksum is satisfied so far, and confident that the target of NOK 2 billion in improved earnings by the end of 2004 will be met. An impressive commitment has been shown.

"We're going to mobilise all employees to a greater extent in the future," he says. "Involvement and motivation throughout the organisation is my biggest focus."

He began his first day as CEO by meeting personnel at one of Norske Skog's mills, and followed up with a customer visit. The change of CEO heralds a new aggressive phase for the company.

"We're going to make a bigger commitment to reinvestment in our best production facilities," says Oksum. "This is an area where we've reduced our activity in recent years. We now have good projects and can invest in the right production facilities in the right way. The goal at all times is improved quality, higher productivity and lower costs."

Oksum has appointed his corporate management team, with two new senior vice presidents in place. Norske Skog has secured a strong international leadership, with five members who have broad experience from international sales. This involves an even stronger focus on the customer.

Asked what he means when he says that Norske Skog will become more customer orientated, Oksum says that the company will always know what the customer needs – and deliver it.

"This embraces the whole organisation, the whole value chain from procurement to production and distribution. A focus on the customer will permeate the whole company. In my view, it's important to have managers whose thinking starts from this perspective."

The commitment to management and expertise development will also be stepped up, so that Norske Skog can meet the many challenges ahead.

"A major reason for our growth and progress is that we've managed to get able people from different cultures and continents to pull together on the same team, on the basis of our core values of openness, honesty and cooperation," Oksum says. "We're now ready to take this a step further."

Recovery in stock during 2003

The board of Norske Skog has proposed a dividend of NOK 6 per share for 2003.

The return on the Norske Skog share was 36 per cent in 2003. A total of 119.4 million shares were traded on the Oslo Stock Exchange, corresponding to 90 per cent of outstanding shares.

markets

Shareholder information

PRIMARY GOAL:

Total return to shareholders on par with the best companies in the industry

Risk capital has been and remains essential for Norske Skog's development. With this in mind, the company has defined its primary goal as follows: Norske Skog will create value for its owners on par with the performance of the best pulp and paper companies.

The forest industry has traditionally been characterised by fluctuations in earnings and significant capital requirements for on-going investment in machinery and plant. Moreover, Norske Skog has clear ambitions to grow – in part through acquisitions. The ability to cope with economic fluctuations and investment requirements calls for a sound balance sheet, in which financing derives primarily from a high equity ratio and long-term loan funding.

Norske Skog will achieve shareholder value through the payment of a dividend and by creating the conditions for a long-term increase in the value of its shares.

The company wishes to pay a dividend which gives shareholders about one third of its net earnings over an economic cycle. Efforts will be made to have consistent dividend payments over the cycle.

MEASURING SHAREHOLDER RETURN

Norske Skog defines total return to shareholders as the sum of the increase in share value plus dividend over a period, expressed as a percentage of the share price at the beginning of the period. This is measured over rolling two-year periods. The absolute return on the Norske Skog share is interesting, but a number of factors beyond the company's control make it more relevant to measure the return against an index. Such an index has been defined, and comprises four Nordic competitors (weighted 50 per cent), the Morgan Stanley World Forest and Paper Index (weighted 25 per cent) and the Oslo Stock Exchange's benchmark index (weighted 25 per cent).

From 31 December 2001 to 31 December 2003, Norske Skog delivered a negative return of 17.5 per cent in total. The company's competitors achieved an average return over the same period of 1.1 per cent, the Morgan Stanley index had a negative return of 1.4 per cent and the Oslo Stock Exchange benchmark index showed a return of 2.3 per cent. The total weighted return for these index components was 0.8 per cent, so that Norske Skog's total shareholder return was 18.3 percentage points lower. This is unsatisfactory, but must be seen in the context of a very high share price at the start of the period and the fact that currency developments, with a strong Norwegian krone, have been in the company's disfavour for much of the period.

Norske Skog's total shareholder return, as measured against its competitors and the Morgan Stanley and Oslo Stock Exchange indices, serves as an important criterion in determining management bonuses.

SHAREHOLDER VALUE

Several important components in Norske Skog's strategy are directly aimed at building shareholder value:

– Norske Skog will grow and operate globally

Profitable growth is one of the most important requirements for ensuring that the Norske Skog share price reflects the value of its assets. Size makes the company more attractive to large investors, and better equipped to play an active role in consolidating the industry.

- Norske Skog will contribute to market balance and stability

This means that market requirements will guide decisions on building new capacity and utilisation of existing facilities. The industry has been noted for a propensity to invest excessively and simultaneously, creating periodic overcapacity and substantial losses.

- Norske Skog will use capital efficiently

One consequence is that capital will be committed only where it is strategically important to the core business. Improving productivity with the smallest possible investment also represents a clear goal. Norske Skog's cost-cutting programme Improvement 2003 aims to ensure that the group meets its required return over an economic cycle.

- Norske Skog will be a cost-efficient producer

This means that the group will utilise the most cost-efficient input factors in each production area. It will strive to produce and deliver each product at the lowest cost in each market, and those units which prove the most competitive will be further developed.

DIVIDEND FOR 2003

The target is to pay a dividend which corresponds to one-third of net earnings over an economic cycle. This dividend should also be consistent over the cycle. The board has proposed a dividend of NOK 6 per share for 2003, unchanged from the previous year. Based on the share price at 31 December 2003, this represents a return of 4.7 per cent. The dividend will be paid on 30 April to those shareholders listed in the register of shares when the annual general meeting is held on 15 April 2004. The average dividend payout ratio for the past five years is 46 per cent.

Investor relations will help to achieve full pricing of the share

The investor relations function, which provides information to Norwegian and international financial markets, has high priority in Norske Skog. Its aim is to increase knowledge of the company and understanding of the industry. This helps create the confidence required to interest investors in Norske Skog, and should help over time to ensure that the company is fully priced in the stock market.

Issuing relevant and timely information plays an important role in keeping the stock market informed. Norske Skog's financial calendar for 2004 is:

- Q4 2003 – 5 February 2004
- Annual general meeting 2004 – 15 April 2004
- Q1 2004 – 4 May 2004
- Q2 2004 – 3 August 2004
- Q3 2004 – 3 November 2004

Norske Skog's web site is well visited. It includes the annual and interim reports, press releases and stock exchange announcements, presentations, share-related information and general background data about the company.

Printed and electronic information is supplemented by regular telephone conferences and presentations for the Norwegian and international financial markets. On other occasions, presentations are held at its mills, and Norske Skog employees also speak at international conferences and seminars. More than 200 presentations and investor meetings were staged in Norway and a number of other countries during 2003. As in previous years, the main emphasis outside Norway was on the UK, Sweden and the USA, but continental Europe is becoming an increasingly important target. Norske Skog contributed speakers to eight share-related conferences or seminars. Information activities outside Norway continue to expand, reflecting the substantial interest shown by foreign fund managers.

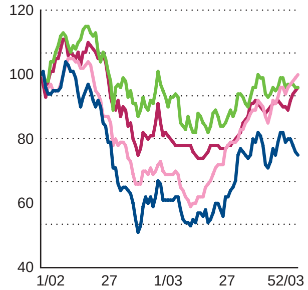
Norske Skog's investor relations work builds on the following basic principles:

- information to all sections of the financial market will be as standardised and identical as possible
- only a very limited number of people are authorised to make statements to financial markets
- information will as far as possible be fact-based
- comments on future trends will be qualified
- presentations and other forms of information material will be of high quality.

About 20 Norwegian and foreign stockbrokers monitor Norske Skog and publish analyses of the company. A list of these can be found on the Norske Skog web site.

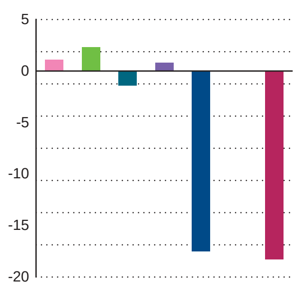
Jarle Langfjæran and Rune Gjessing are responsible for Norske Skog's investor relations function.

Norske Skog share price, Oslo Stock Exchange total index, Swedish forest index and MSCI World F&P index 2002-2003



- Swedish forest index
- Morgan Stanley World F&P index
- Oslo Stock Exchange Total index
- Norske Skog shares

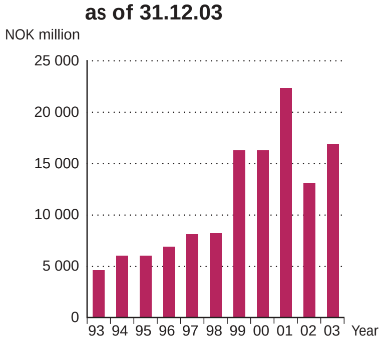
Relative TSR 31.12.01 - 31.12.03



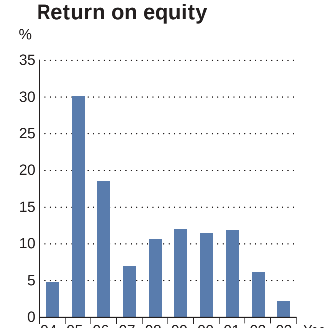
- 1) Peer Group (50%) (A) 1,1
- Oslo total index (25%) (B) 2,3
- MS World F&P (25%) (C) -1,4
- Weighted (A+B+C) 0,8
- Norske Skog -17,5
- Underperformance = -18.3 percentage points

1) Price increase + dividend paid in % of share price as of 31.12.01

Market value Norske Skog as of 31.12.03



Return on equity



DISTINCTIONS AND AWARDS IN 2003

Norske Skog again received several distinctions and awards for its investor relations work in 2003.

- A survey by Sweden's Regi Research & Strategi AB ranked Norske Skog as the best company overall for investor relations in Norway.
- Investor Relations Magazine named Norske Skog as the best Norwegian company for investor relations in its Nordic IR awards, and awarded it for the best investor relations manager.
- Norske Skog made the final of the best company category in Norway's Stockman awards, and won the prize for best investor relations manager.
- The company also reached the final of Norway's Farmand prize for annual reports.

INCLUDED IN ETHIBEL INDICES

Norske Skog was included in 2003 in the Ethibel Investment Register, a listing of companies which maintain high standards for social responsibility, trade union rights and several other aspects.

The company was included in the Ethibel Sustainability Indices. This index lists companies which are regarded as pioneers in environmental protection and sustainable development, and which maintain high standards in these areas.

A "best-in-class" award was also presented to Norske Skog by Norwegian underwriter Storebrand. Qualifying for this award allows for investment by the Storebrand Principle Fund. This award is given to companies ranked highly in terms of social responsibility and environmental criteria.

The company is already listed in other share indices relating to environmental protection and sustainable development.

Jan Kildal CFO of the year

Senior vice president Jan Kildal was named Norway's chief financial officer of the year for 2003 by the Norwegian Association of Masters of Science in Business (NSF).

The jury noted that Kildal is responsible at Norske Skog for the accounting, controller and finance functions as well as risk management. His duties also cover taxation, a professionally challenging task in a global group with more than 100 companies, and responsibility for all information technology in the group. Last but not least, he is in charge of investor relations and has done a sound job which has led to enhanced shareholder value.

The jury also highlighted Kildal's involvement in several major acquisitions, including the biggest ever made by a Norwegian company. His responsibilities have included not only organising the financing of these take-overs but also their integration to ensure that the various units function internationally as part of a unified company.

Jan Kildal
Senior vice president finance and CFO

Shares and share capital

The company's share capital at 31 December 2003 totalled NOK 1 331 370 880, divided between 133 137 088 shares with a par value of NOK 10 each. All shares have equal rights in the company. No changes occurred in the share capital during 2003.

Norway's forest owners' associations owned 21 per cent of the shares at 31 December 2003, virtually unchanged from the year before. The proportion of shares held by foreign owners declined from 43 to 37.6 per cent during the year. Apart from employees at Norske Skog's mills outside Norway, most foreign investors are registered through custodial banks and largely comprise US mutual funds.

The company had 23 212 shareholders at 31 December, of which 1 222 are resident outside Norway.

Norske Skog owned 732 752 of its own shares at 31 December 2003. These were primarily acquired when A/S Union was merged with Norske Skog in 1999, but 50 200 shares were also bought in the market during June 2003. The shareholding is applied primarily to annual sales of shares to employees and to share-based bonus schemes. The stock of Norske Skog shares held by the company declined by 155 495 in 2003.

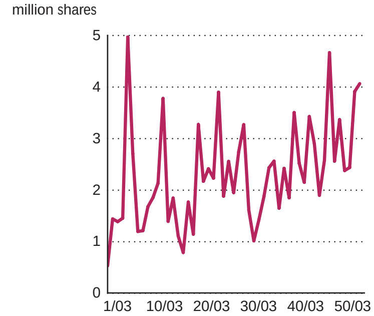
The board is authorised to buy back up to 10 per cent of the outstanding shares. This authority runs until 10 October 2004, and the board will seek to have it extended further.

Trading in Norske Skog shares

The company's shares are listed on the Oslo Stock Exchange and the stock exchange automatic quotation system (SEAQ) in London.

A total of 119.4 million Norske Skog shares were traded on the Oslo Stock Exchange in 2003. Given the average number of outstanding shares (excluding those owned by the company itself), this trading volume represents a turnover ratio of 90 per cent as against 81 per cent in 2002. Since the merger of the A and B shares in 2001, and the international share issue of the same year, Norske Skog has been one of the most liquid shares on the Oslo Stock Exchange.

Weekly trading volume of Norske Skog shares on the Oslo Stock Exchange 2003



Financing and liquidity

MAIN PRINCIPLES

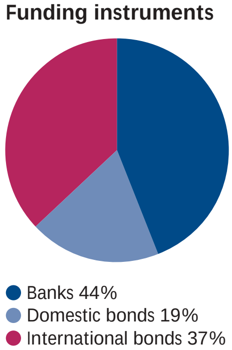
Norske Skog operates in a cyclical and capital-intensive industry. It is therefore important to maintain satisfactory liquidity and a sound long-term financing structure. Responsibility for financing and liquidity management has been centralised, and the main principle applied is that all external borrowing will be undertaken by the parent company, Norske Skogindustrier ASA.

FINANCING

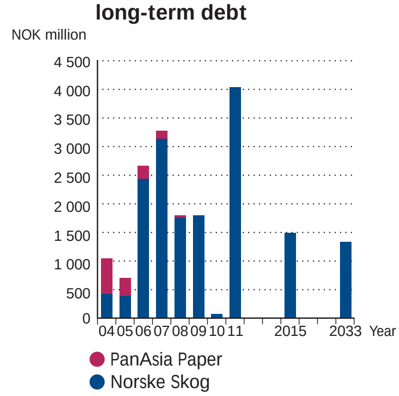
Debt financing primarily takes the form of syndicated bank loans as well as domestic and international bond loans. Norske Skog works consciously to reduce its financing risk and therefore spreads its financing between different banks, investor groups and markets.

A loan was taken up in October 2003 in the American bond market. This loan consisted of two tranches, each of USD 200 million, falling due in 12 and 30 years, respectively. The funds have been applied to repaying other loans, primarily various bank facilities. This helped improve the diversification of the group's funding sources and extend its amortisation profile. The diagram below shows the composition of the group's funding sources at 31 December 2003.

Funding instruments



Repayment schedule long-term debt



AMORTISATION PROFILE AND MATURITY SCHEDULE

A uniform and long-term amortisation profile is sought for the debt portfolio. Keeping short-term repayments low and tailored to the group's cash flow ensures a satisfactory ability to service debt even in years of economic downturn. The aim is for the debt portfolio to have an average term to maturity of at least five years. At 31 December 2003, this period was 7.5 years(excluding PanAsia Paper). The bar chart below shows the repayment schedule for the group's debt.

FINANCIAL CONDITIONS IN LOAN AGREEMENTS

The group seeks as far as possible to standardise its loan conditions. This applies particularly to clauses specifying requirements for key financial covenants. Under existing loan agreements, Norske Skog must satisfy the following financial covenants:

- net equity (equity less intangible assets) must total at least NOK 9 billion
- the ratio of net interest-bearing debt to equity must not exceed 1.4.

This type of financial requirement is primarily specified for Norske Skog's bank loans. The group's bond loans have no requirements for key financial covenants. None of its loan agreements contain a rating-sensitive covenant.

LIQUIDITY

Liquid assets should total at least 20 per cent of expected annual turnover, based on trend assumptions. That gives the group a satisfactory ability to meet short-term liquidity and capital requirements.

In addition to bank deposits and short-term placings, liquid assets consist of committed, undrawn credit facilities maturing in more than one year. At 31 December 2003, Norske Skog's liquid assets totalled NOK 6.5 billion.

RATING

Norske Skog is credit-rated by Standard & Poor's and Moody's, two of the world's leading rating agencies. At 31 December, Moody's long-term rating for the company was Baa3 compared with Norske Skog's goal of Baa2. Standard & Poor's rating at the same date was BBB, which is in line with the company's target. But Standard & Poor's qualified its rating with "negative outlook", which indicates that it is regarded as relatively weak in its respective category.

The company's rating history has been stable so far, despite the economic downturn of the past two years. Rating levels at 31 December 2003 for a selection of important competitors are shown in the table below.

Company	Moody's	S&P
Stora Enso	Baa1	BBB+
UPM Kymmene	Baa1	BBB
Holmen	Not rated	BBB+
Norske Skog	Baa3	BBB
M-Real	Ba1	BB+
Abitibi Consolidated	Ba1	BB+
Bowater	Ba1	BB+

FINANCIAL TARGETS

The board of Norske Skog has adopted financial targets which are integrated in the group's strategy.

These targets are intended to support Norske Skog's primary goal, which is to create value for the shareholders. The ambition is that the return to shareholders, measured over a rolling two-year period, will exceed a reference index which weights the Oslo Stock Exchange at 25 per cent, other Nordic producers of wood-containing publication paper at 50 per cent and the Morgan Stanley World Paper and Forest Index at 25 per cent. Shareholder value will be created through a stable dividend and a high return on capital employed. Norske Skog seeks to pay a stable dividend corresponding to, on average, one-third of the group's net earnings. The target for the return on capital employed is 13 per cent, measured over a rolling five-year period.

Another target is that ratings set by Standard & Poor's and Moody's will lie at the "investment grade" level. The goal is BBB and Baa2, respectively. The rating agencies set their credit ratings after a detailed assessment of external factors – such as market conditions and the competitive position – and in-house aspects, including management, strategy and financial position. Norske Skog has set financial targets which support an investment grade rating. A key objective is that net debt should correspond to a maximum of 90 per cent of equity over a rolling five-year period. Another goal is that the average term to maturity of this debt should be a minimum of five years.

An important element in Norske Skog's strategy is to be a cost-effective producer of publication paper with a strong focus on cash flow. The target is a gross operating margin (EBITDA) of 28 per cent over a rolling five-year period. This also supports the target for return on capital employed.

The table below provides an overview of the most important financial targets in focus at Norske Skog.

Financial targets	
Total shareholder return (TSR)	> TSR index (Oslo Stock Exchange 25%, Nordic paper manufacturers 50%, Morgan Stanley World Paper and Forest Index 25%)
Dividend level	Stable over time, corresponding to one-third of net group earnings
Return on capital employed (ROCE) Gross operating margin (EBITDA) Rating levels	13% over a rolling 5-year period 28% over a rolling 5-year period BBB from Standard & Poor's, and Baa2 from Moody's
Net debt/equity (gearing)	< 0.9 over a rolling 5-year period
Liquid reserves (% of turnover)	> 20%
Average term to maturity for debt	> 5 years
Reinvestment in machinery and plant, excluding strategic investment	5-7% of annual turnover

Risk management in Norske Skog

Norske Skog operates in a market in which it has to take risks at many levels and to make decisions – no risk, no gain. The company must accept risks which it understands and can measure, and which have an outcome that can create value.

Risk management in Norske Skog remained high on the agenda in 2003. One aim has been to identify the economic effect of risks in order to find suitable solutions for managing them. That has produced a clearer awareness in this area, which Norske Skog believes can translate into an advantage over its competitors.

Comprehensive risk management requires a methodical and commercial approach. This type of management is applied to strategic acquisitions or sales of businesses, assessment of new investment in operational assets, currency and interest rate management, analysis of price volatility and risk for company products, assessment of country risk, analysis of corporate pension obligations, assessment of customer credit and so forth. There are clear requirements for how risk reduction measures should be implemented. The right risk solutions will lead to a competitive advantage in times when markets are both tough and unpredictable.

The way Norske Skog manages risk helps to increase value creation for the group and for shareholders through:

- improved understanding of which risks drive cash flow and earnings
- avoiding negative surprises which can be destructive for the group's operations and image in the market
- creating a better basis for decision-making through risk modelling – an appropriate method for determining the allocation of risk capital to projects which yield the highest return
- improved understanding of the right level of own risk
- reduced risk-related costs.

Specifically, Norske Skog in 2003:

- reduced losses on accounts payable
- improved its methodology for quantifying risk
- modelled risk as an important element in profitability analyses
- reduced hedging costs through better understanding of the interdependence between various risks.

CURRENCY RISK

The group ranks today as one of the most international paper companies, with a substantial proportion of its costs in Norwegian kroner and sales in other currencies. This exposes Norske Skog to currency risk in the following areas:

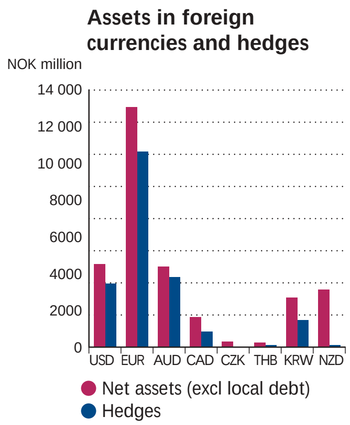
- assets and liabilities in foreign currencies (balance sheet risk)
- a net cash flow composed largely of positive cash flow in foreign currencies and a negative cash flow in Norwegian kroner (transaction risk).

BALANCE SHEET RISK

Balance sheet risk arises when the group's accounts are consolidated in Norwegian kroner and translation differences arise on assets and debt in foreign currencies. This translation difference is booked against equity, which affects gearing (ratio of net interest-bearing debt to equity) which is an important key financial target. Balance sheet risk is managed by ensuring that the group's net debt is structured to reduce fluctuations in key financial covenants as a result of exchange rate movements.

Until 2003, the currency composition of the group's debt was designed to neutralise the effect of such fluctuations on its gearing. Following substantial debt repayment in recent years, the gearing ratio has improved significantly. Therefore, from a financial perspective, the group changed the currency composition of its debt during 2003 to achieve a more financially optimal hedging. Debt is primarily drawn in currencies in which the group has net revenues in order to reduce this exposure and to contribute over time to a more stable cash flow. Since these currencies are also ones in which the group has assets, this approach helps to reduce changes to the group's book equity from exchange rate movements. The change in the currency composition of Norske Skog's debt means that debt denominated in New Zealand dollars and Norwegian kroner has been replaced by debt in Australian and US dollars and euro.

The diagram on the next page provides an overview of the equivalent in Norwegian kroner of net assets and their hedging in the form of interest-bearing debt, futures and currency swaps.



Currency changes in 2003 increased Norske Skog's assets by NOK 3.4 billion, debt by NOK 1.6 billion and equity by NOK 1.8 billion.

TRANSACTION RISK

Norske Skog is exposed to currency fluctuations when its cash flow in foreign currencies is translated to Norwegian kroner. Cash flow in foreign currencies comprises cash flow from operations, asset sales and investments, and financing activities. Norske Skog's policy is to hedge 50-100 per cent of expected net cash flow per currency for the next 12 months. The aim is to even out currency effects and improve the predictability of group earnings. At 31 December 2003, the hedging ratio was 80 per cent. Net transaction exposure at year end 2003 for the next 12 months was about NOK 6 billion, which can be broken down as follows:

EUR	GBP	USD	AUD	NZD	Other
40%	30%	20%	20%	(13%)	3%

The Norwegian krone weakened against most other currencies during 2003, with the exception of the US dollar. This yielded a currency hedging loss of NOK 292 million.

INTEREST RATE RISK

There is a clear correlation between general economic trends and interest rate movements. Interest rates fall during an economic downturn and rise in an upswing. Norske Skog structures the fixed interest rates on its loans so that interest costs partly offset revenue movements caused by economic changes. Norske Skog's loans are largely subject to floating interest rates, defined as fixed for less than one year. Limits have been set for fixed interest rates in each currency. At 31 December 2003, the average duration of interest rates was about six months.

Net interest costs

NOK million	2003	2002	2001
Net interest costs	897	1 203	1 150
Interest rate in per cent	5.1	5.7	6.0

Interest period, in effective terms, of group's debt

	USD	EUR	AUD	KRW	CAD	Total
Debt in currency in NOK billion [1)]	3.1	10.5	3.8	0.4	0.9	18.7
Duration per currency [2)]	1.3	0.6	1.1	0.2	0.4	0.8

[1)] The table presents the currency split of the Group's debt. The figures show the debt face value. (Cross currency and FX swaps used to modify the currency mix are included.) PanAsia Paper's debt is not included.

[2)] Duration is calculated for each currency and indicates the interest rate fixing period in number of years. PanAsia Paper's debt is not included in the duration calculation.

INSURANCE

Norske Skog continued in 2003 to develop its insurance programmes and the administrative system related to their management. The group has a sound system for operating and maintaining its insurance policies and associated risk management activities. This includes a central insurance department supported by local insurance contacts in the various operational units.

During 2003, Norske Skog insured a significant part of its exposure in its captive underwriter NSI Insurance A/S. This forms part of a long-term strategy intended to strike an optimum balance between in-house and external risk management.

Work on loss prevention continued with undiminished vigour, and again resulted in very satisfactory figures during 2003 for insurance claims, without losses of any significance.

CREDIT RISK

Norske Skog uses a system to monitor credit risk on its customer portfolio which, in certain regions, combines credit insurance with information on credit ratings as a basis for sales decisions. This is a flexible solution, adapted to the rapid market changes witnessed in recent years. In 2003, it proved to be highly effective at managing risk on outstanding accounts payable, as Norske Skog avoided losses in 2003, a period when markets were generally weak.

A centralised function provides management and control of credit risk for the group. Sales decisions are taken locally in the individual countries on the basis of a common credit policy, which sets requirements on credit limits for all customers, who must all be assigned to a risk class.

The stock market in 2003

The Oslo Stock Exchange and most of the world's other stock markets made good progress in 2003. While New York's Dow Jones index increased by 30 per cent, the FTSE 100 in London was up 25 per cent and the Stockholm Stock Exchange climbed 30 per cent. The Oslo Stock Exchange's benchmark index improved by 48 per cent over the year from 31 December 2002. During the same period, the Norske Skog share price increased by 30 per cent and yielded a return of 36 per cent including dividend. This was one of the highest returns in the paper industry. The Norske Skog share kept pace with the Oslo Stock Exchange through most of 2003, but made rather slower progress towards the end of the year.

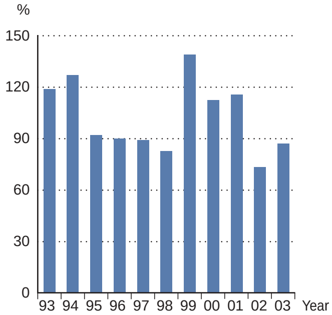
SHARE PRICE INFORMATION*

	NOK per share
Official price for tax return purposes, 31.12.03	129.50
Price 30 December 2003	127.00
Price 30 December 2002	98.00
Highest price 2003 (3 September)	139.00
Lowest price 2003 (25 February)	86.50

* With the exception of the official price, these figures are based on closing prices.

Norske Skog had a market value of NOK 16.9 billion at 30 December 2003 compared with NOK 13 billion a year earlier.

Market cap. as % of book value



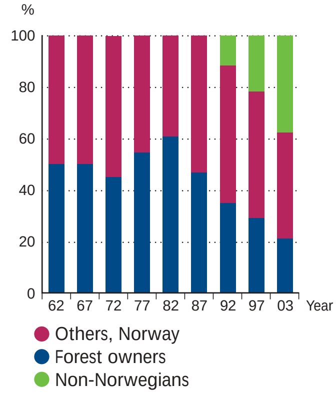
Share purchase and incentive schemes

Norske Skog is one of Norway's most international companies. This also affects the way in which it rewards its management, and performance-related remuneration schemes have been introduced on a considerable scale. Making bonus payments in the form of shares represents another important element, and an attractive share purchase scheme is in place.

Generally speaking, employees at all levels in Norske Skog should be shareholders. This allows everyone to participate in the value creation of the group, and should represent a favourable savings scheme over time. Through the annual share sales, the whole organisation's attention is focused on the owners' role in Norske Skog. It also provides employees with an understanding of the stock market.

Shares are sold at a 20 per cent discount on the market price. This arrangement was introduced for group employees in Norway during 1996, and has subsequently been expanded in stages to embrace personnel at all mills and sales offices worldwide which are owned more than 90 per cent by Norske Skog. The ceiling for share purchases by any individual is three-fifths of the Norwegian national insurance base amount, approximately NOK 57 000. Shareholder-elected directors and members of the corporate assembly are also covered by the scheme. The shares sold are taken from Norske Skog's own holding or can be purchased in the market.

Percentage ownership distribution



The 1 032 employees – 583 in Norway and 449 abroad – who participated in the share sale of February 2003 bought a total of 195 695 shares. Participation was somewhat lower than in 2002.

In December 2002, the board resolved to introduce an incentive programme in the form of synthetic options for the corporate management team. This programme will run over three years from 2003. A total of 300 000 synthetic options were awarded on 20 November 2003, comprising 60 000 to the new CEO, Jan Oksum, and 30 000 each to the other members of corporate management. One of these recipients has subsequently left Norske Skog, so that 270 000 options were outstanding at 31 December 2003. The strike price was set at NOK 134.50, which was the average price on the Oslo Stock Exchange from 6-19 November 2003 (two week period post Q3 result release). Expiring on 31 December 2006, these options can be exercised in the period from 1 July to 31 December 2006. As mentioned above, the options are synthetic. This means that if they are exercised, an amount corresponding to the difference between the market and strike price will be paid. That sum will be treated as pay, and the net amount after tax will be used to buy Norske Skog shares at market price. These shares must then be held for three years. As a result, it will take five-six years before any gain can be realised. The options remain valid for as long as their holder is a permanent employee and has not resigned. The option programme has no dilution effect.

The CEO is authorised to award up to 30 000 synthetic options to each member of the corporate management on 1 October 2004 and 2005, at a strike price corresponding to the average price of the Norske Skog share over the two preceding weeks and with the opportunity to exercise the options in the second half of 2007 and 2008 respectively. The other terms are as described earlier.

The chairman is authorised to award synthetic options to the CEO. This authority lasts until 1 October 2004, but the number of options must be clarified with the board before any allocation.

A bonus scheme has been in place since 1998 for Norske Skog managers above a certain level. This bonus forms part of each manager's employment contract and is tied to specified targets that must be met in order for payment to be made. Fifty per cent of any bonus is paid in Norske Skog shares, which must then be held for three years. Members of the corporate management receive 25 per cent of any bonus in the form of shares.

Main financial figures

	Definitions	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Profit and loss account (NOK mill)											
Operating revenue		24 068	23 471	30 354	26 635	18 054	14 908	13 312	13 265	12 548	9 170
Gross operating earnings	1	4 686	5 198	8 419	6 599	3 818	3 103	2 223	3 136	3 332	1 348
Operating earnings before restructuring costs		1 401	1 906	5 096	4 211	2 129	1 780	1 083	1 916	2 500	732
Earnings before financial expenses	2	1 381	1 833	5 581	4 575	2 252	1 948	1 194	2 076	2 850	843
Earnings before taxation		770	806	3 894	3 021	1 825	1 417	650	1 732	2 336	333
The majority's share of the earnings		402	1 162	2 494	1 958	1 300	1 020	590	1 317	1 669	206
Balance sheet (NOK mill)											
Fixed assets		39 219	38 197	45 417	43 717	18 828	17 586	12 778	12 031	10 246	7 377
Current assets		7 119	6 769	10 855	17 510	6 086	6 663	4 515	4 592	4 618	4 333
Total assets		46 338	44 966	56 272	61 227	24 914	24 249	17 293	16 623	14 864	11 710
Shareholder's equity incl minority int		19 416	17 921	19 526	22 351	11 727	10 029	9 123	7 691	6 546	4 731
Long-term debt		21 402	18 814	30 858	31 906	9 021	9 564	4 947	5 178	4 981	4 936
Current liabilities		5 520	6 210	5 888	6 970	4 166	4 656	3 223	3 754	3 337	2 043
Total liabilities and shareholder's equity		46 338	42 945	56 272	61 227	24 914	24 249	17 293	16 623	14 864	11 710
Net interest-bearing debt		17 759	18 204	22 820	20 535	7 618	7 082	4 145	4 827	4 006	3 170
Profitability											
Gross operating margin %	3	19.5	22.1	27.7	24.8	21.1	20.8	16.7	23.6	26.6	14.7
Net operating margin %	4	6.3	5.6	16.8	15.8	11.8	11.9	8.1	14.4	19.9	8.0
Net profit margin %	5	1.7	5.0	8.2	7.4	7.2	6.8	4.4	9.9	13.5	2.2
Return on assets %	6	3.0	3.6	9.5	10.6	9.2	9.4	7.0	13.2	21.4	7.1
Return on equity %	7	2.2	6.2	11.9	11.5	12.0	10.7	7.0	18.5	30.1	4.8
Equity ratio	8	41.9	39.9	34.7	36.5	47.1	41.4	52.8	46.3	44.0	40.4
Net interest-bearing debt/equity		0.91	1.02	1.17	0.92	0.65	0.71	0.45	0.63	0.61	0.67
Return on capital employed %	9, 15	3.6	4.7	13.7	13.1	11.0	11.7	8.4	15.9	25.4	8.3
Net earnings per share after tax (NOK)	10	3.04	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88
Net earnings per share fully diluted (NOK) *	10	3.04	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21
Cash flow per share after tax (NOK)	11	22.45	27.89	58.47	48.18	23.29	31.85	19.00	33.74	33.11	12.12
Cash flow per share fully diluted (NOK) *	11	22.45	27.89	23.29	48.18	23.29	31.85	19.00	29.22	28.67	10.80
Liquidity											
Liquid assets (NOK)	12	930	868	4 158	8 629	803	2 312	853	1 088	1 010	1 499
Cash flow (NOK)	13	2973	3 687	7 052	4 922	2 162	2 859	1 615	2 616	2 555	866
Current ratio	14	1.29	1.09	1.61	2.51	1.46	1.43	1.40	1.22	1.38	2.12

Definitions of main financial figures:

1. Gross operating earnings = operating earnings + ordinary depreciation + restructuring expenses
2. Earnings before financial expenses = operating earnings + interest income + share of profit 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 dilution, net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.

Principal shareholders at 31 December 2003 (>0.3% ownership)

Name	Number of shares	%
Foreign holding [1]	50 120 846	37.65
Forest owners' associations [2]	28 107 248	21.11
Folketrygdfondet, Oslo	11 379 900	8.55
Vital Forsikring, Bergen	2 254 157	1.69
Odin-fondene, Oslo	2 111 100	1.59
DnB Investor, Oslo	2 104 684	1.58
Rederiaktieselskapet Henneseid, Skien	1 974 204	1.48
Skagen Vekst, Stavanger	1 400 000	1.05
Havlide A/S, Skien	1 383 248	1.04
Gjensidige NOR, Oslo	1 212 173	0.91
Storebrand Livsforsikring, Oslo	1 168 267	0.88
Avanse-fondene	1 104 301	0.83
Nordea-fondene	1 055 245	0.79
Storebrand Spar, Oslo	863 000	0.65
Norske Skogindustrier ASA	732 752	0.55
Postbanken Aksjespar	731 950	0.55
Orkla-fondene	643 500	0.48
KLP Forsikring	628 530	0.47
Norsk Hydros Pensjonsfond	588 563	0.44
Forretningsbankenes Sikringsfond	565 886	0.43
Sparebankenes Sikringsfond	565 000	0.42
Herdebred A/S, Skien	545 020	0.41
DnB ASA, Oslo	464 129	0.35
Skien Aktiemølle	462 203	0.35
Nordstjernen Holding	436 250	0.33
Orkla ASA	431 002	0.32
Skogtiltaksfondet	413 406	0.31
Total shareholders with > 0.3% ownership	113 446 564	85.21
Total number 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

		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Nominal value (NOK/share)		10	10	10	20	20	20	20	20	20	20
Average number of shares excl shares held in treasury (1 000)		132 415	132 194	120 604	102 159	92 829	89 773	84 991	77 537	77 177	71 454
Average number of shares after full conversion excl shares held in treasury (1 000)		132 415	132 194	120 604	102 159	92 829	89 773	84 991	91 986	91 641	86 915
Net earnings per share after tax (NOK)	1	3.04	8.79	20.68	19.17	14.01	11.36	6.94	16.99	22.01	2.88
Net earnings per share after full conversion (NOK)	1	3.04	8.79	20.68	19.17	14.01	11.36	6.94	15.10	19.33	3.21
Cash flow per share after tax (NOK)	2	22.45	27.89	11.00	48.18	23.29	31.85	19.00	33.74	33.11	12.12
Cash flow per share after full conversion (NOK)	2	22.45	27.89	11.00	48.18	23.29	31.85	19.00	29.22	28.67	10.80
Dividend per share (NOK)		6.00	6.00	6.00	6.00	5.50	4.25	3.50	3.50	3.00	0.75
Price/earnings ratio	3	41.8	11.1	8.2	7.9	12.1	7.9	12.5	5.1	3.4	26.8
Price/cash flow ratio	4	5.7	3.5	15.3	3.1	7.3	2.8	4.6	3.0	2.6	7.1
Payout ratio (%)		197.4	68.3	29.0	26.9	33.6	31.9	42.7	19.5	11.5	21.7
Number of shares 31.12 (1 000)	A share	133 137	133 137	133 137	67 972	57 592	57 592	57 592	53 114	53 062	52 398
	B share	0	0	0	25 172	25 172	18 832	18 832	12 168	12 168	11 122
	Total	133 137	133 137	133 137	93 144	82 764	76 424	76 424	65 282	65 230	63 520
Share prices high (A restricted)		139.00	175.50	168.50	172.10	172.51	110.81	120.15	86.86	94.57	82.60
Share prices low (A restricted)		86.50	82.50	115.00	90.11	82.80	66.97	77.12	70.83	69.00	56.83
Share prices 31.12	A restricted										77.93
	A free	127.00	98.00	168.00	150.59	169.67	90.11	86.86	86.46	75.29	77.12
	B share			-	146.00	168.50	95.50	100.00	97.25	87.75	92.00
Trading volume (Oslo Stock Exchange)	1 000 shares	119 400	107 649	116 458	54 118	46 424	47 650	61 000	51 200	56 000	52 384
Number of shareholders 31.12	A free	23 212	21 083	22 587	19 431	17 900	18002	17 466	17 456	17 285	17 222
	B share			-	14 915	14 693	13746	13 796	14 271	14 605	14 950
	Total	23 212	21 083	22 587	21 779	19 884	18753	18 075	18 070	17 710	17 503
Number of foreign shareholders 31.12	A free	1 222	1 210	1 092	546	483	203	186	154	179	164
	B share			-	133	110	88	97	92	127	130
	Total	1 222	1 210	1 092	589	518	222	208	177	231	222
Foreign shareholding 31.12 (percentage)	A free	37.60%	43.1%	41.3%	25.1%	27.6%	27.6%	26.0%	23.6%	14.2%	15.9%
	B share			-	8.3%	5.6%	6.0%	8.3%	15.2%	41.4%	60.8%
	Total	37.60%	43.1%	41.3%	20.5%	20.9%	22.3%	21.6%	22.0%	19.3%	24.7%
Market value (NOK mill.)		16 908	13 047	22 367	16 284	16 278	8 191	8 100	6 900	6 000	5 983

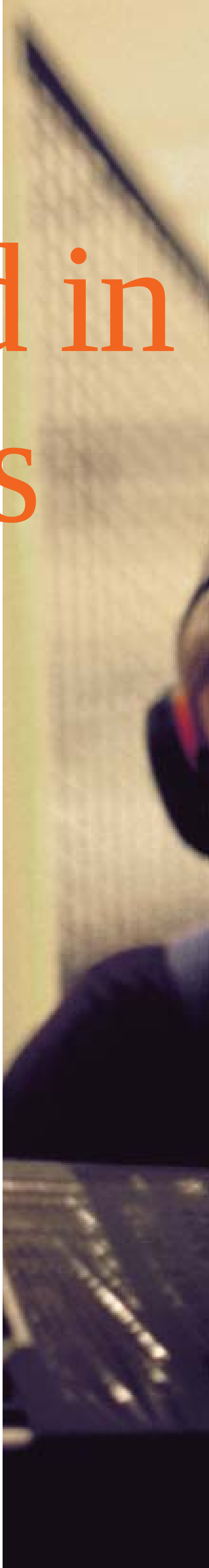
1. Net earnings per share after-tax = profit for the year : average number of shares
2. Cash-flow per share after tax = cash flow : average number of shares
3. Price/earnings ratio = share price 31.12 : net earnings per share after tax
4. Price/cash flow ratio = share price 31.12 : cash flow per share 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 and A free shares were merged at the end of 1994. The A and B share classes were merged in May 2001.

Production and market

Well positioned in growth markets



Norske Skog owns 50 per cent of PanAsia Paper, by far the largest manufacturer of newsprint in non-Japan Asia. With new and modern mills, PanAsia Paper is well placed to exploit the new markets opening up in this region – which has the world's highest rate of economic growth. The mill under construction at Shijiazhuang in Hebei province about 280 kilometres southwest of Beijing will have the largest and most modern newsprint machine in China, with an annual capacity of 330 000 tonnes. Chinese demand for newsprint is expected to rise by an annual average of seven-eight per cent up to 2010.

Norske Skog is the only domestic newsprint manufacturer in Brazil, and by far the biggest producer in South America. With its large population, this continent represents a very interesting market where demand is expected to grow after several years of contraction. The low cost business provides a solid base for a possible new paper machine at Norske Skog Pisa in Brazil. Norske Skog also ranks as the only domestic newsprint manufacturer in Australia and New Zealand, where economic growth and demand for newsprint and magazine paper are expected to remain strong for the next couple of years. The group is also the only large manufacturer of publication paper to utilise fast-growing plantation forests in South America and Australasia.

North America has experienced a slight decline in newsprint consumption in recent years, while Europe is still showing a slight rise. Magazine paper is experiencing increased demand in both these major regions, but excess capacity has meant low capacity utilisation.

new

A year of changes in 2003 presented all of Norske Skog's employees with many new challenges.

NORTH AMERICA

NorskeCanada Elk Falls
Canada
Newsprint and other publication paper

NorskeCanada Crofton
Canada
Newsprint and directory paper

NorskeCanada Port Alberni
Canada
Directory paper and magazine paper (LWC)

NorskeCanada Powell River
Canada
Newsprint and other publication paper

NorskeCanada
Vancouver, Canada
29.4% ownership stake
Headquarters

EUROPE

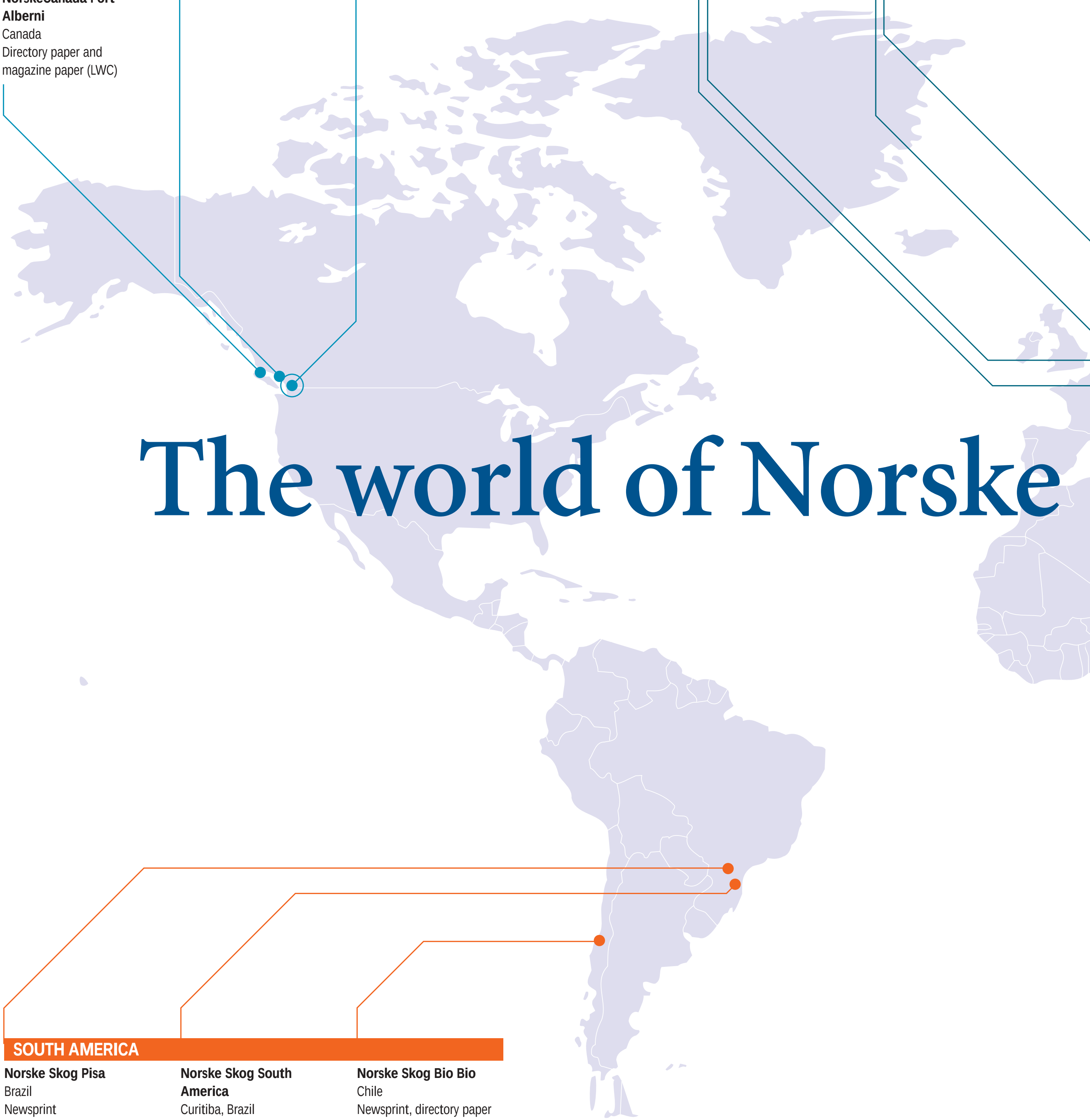
Norske Skog Golbey
France
Newsprint

Norske Skog Walsum
Germany
Magazine paper (LWC)

Norske Skog Parenco
The Netherlands
Newsprint and magazine paper (SC)

Norske Skog Union
Norway
Newsprint, improved newsprint and book paper

The world of Norske



SOUTH AMERICA

Norske Skog Pisa
Brazil
Newsprint

Norske Skog South America
Curitiba, Brazil
Regional office

Norske Skog Bio Bio
Chile
Newsprint, directory paper and improved newsprint

Norske Skog Skogn
Norway
Newsprint

Norske Skog
Oslo, Norway
Headquarters

Norske Skog Follum
Norway
Newsprint, improved newsprint and magazine paper (MFC)

Norske Skog Saugbrugs
Norway
Magazine paper (SC)

Norske Skog Steti
The Czech Republic
Newsprint

Norske Skog Bruck
Austria
Newsprint and magazine paper (LWC)

ASIA

PanAsia Paper Sing Buri
Thailand
Newsprint

Shanghai PanAsia-Potential Paper
China
Newsprint

PanAsia Paper Jeonju
South Korea
Newsprint

PanAsia Paper Chongwon
South Korea
Newsprint

Malaysian Newsprint Industries
Malaysia
34% ownership stake
Newsprint

PanAsia Paper
Singapore
50% ownership stake
Headquarters

AUSTRALASIA

Norske Skog Australasia
Sydney, Australia
Regional office

Norske Skog Albury
Australia
Newsprint

Norske Skog Boyer
Australia
Newsprint, directory paper and improved newsprint

Norske Skog Tasman
New Zealand
Newsprint, directory paper and improved newsprint

Europe

The market remained weak in 2003, with prices in western Europe continuing to fall. Volumes showed a small increase. Operating rates increased primarily due to increased exports.

SLIGHTLY HIGHER VOLUMES

Western European demand for newsprint rose by one per cent in 2003. Exports from the region grew significantly, increasing 25 per cent from the previous year. Average capacity utilisation was 94 per cent, as against 91 per cent in 2002. Prices in western Europe fell by about 11 per cent. Some export markets showed a positive price development, with the USA and Hong Kong showing rises of eight and four per cent respectively.

Demand for uncoated magazine paper (SC) in western Europe remained healthy throughout the year. Domestic deliveries increased by two per cent. Western European exports continued to grow substantially, rising by 13 per cent from 2002. Average capacity utilisation was 93 per cent, up from 92 per cent the previous year. Prices fell by three per cent in western Europe during 2003, but rose by four per cent in the USA.

Western European demand for coated mechanical paper (CMR) increased by three per cent in 2003. With demand outside western Europe improving in 2003, exports from the region rose by 33 per cent compared to 2002. Average capacity utilisation increased from 80 per cent in 2002 to 86 per cent. Prices in western Europe and the USA declined by six and five per cent respectively from 2002.

IMPROVED CAPACITY UTILISATION

Norske Skog's European operations produced a total of 3 450 000 tonnes of publication paper in 2003, up eight per cent from the year before. This increase is due to shipments to South America, and a slight improvement in the company's market share. Overall productivity was at the same level as in 2002.

The main focus in 2003 has been Improvement 2003. This global programme mainly covers organisation, staffing and costs. It is progressing on schedule and will improve Norske Skog's competitive position in coming years.

Total newsprint output increased by 5.5 per cent, while overall capacity utilisation went up from 85 to 90 per cent.

Total magazine paper production grew by 11 per cent, with overall capacity utilisation rising from 88 to 96 per cent.

In an increasingly demanding market, the main focus has been on paper quality, which is where the main challenges also lie. Two major investment projects launched in 2003 aim primarily to improve quality on PM6 at Norske Skog Saugbrugs and PM4 at Norske Skog Bruck. The actual rebuilds will take place during the first quarter of 2004.

Europe		2003	2002	2001
Operating revenue	NOK million	14 784	14 087	14 219
Operating earnings	NOK million	1 033	1 189	3 247
Operating margin	%	7.0	8.4	22.8

REORGANISATION AND DOWNSIZING

At 31 December 2003, Norske Skog's European operations had 5 137 employees, including personnel at headquarters. About 50 per cent were employed in units outside Norway. The corresponding figure for 2002 was 5 662.

This staffing reduction is primarily attributable to the downsizing process which forms part of Improvement 2003. The programme will cut the total European workforce to 4 900 employees by the end of 2004. This downsizing reflects a major reorganisation of the whole company and all its functional units and mills.

The new structure focuses increased attention on the key sections of the value chain – supply and logistics, production and sales and marketing. Organisational structures which are more harmonised, with fewer layers, enhanced competence development, increased delegation, and a reduction in resources devoted to administrative functions through standardised working procedures, are the main drivers for capturing potential savings.

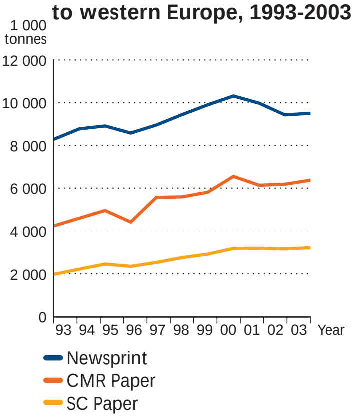
Owing to a difficult Norwegian energy supply position early in the year and unfavourable currency and cost conditions in Norway, a major part of the market-related downtime for newsprint was taken at Norske Skog Union. This time was utilised for maintenance, improvement activities, trials and training.

European and Norwegian works council meetings in 2003 focused primarily on the downsizing and restructuring processes. Local implementation plans, voluntary redundancy terms and early retirement were developed through constructive cooperation with union representatives in each unit. All redundant employees have been offered professional support in finding a new job.

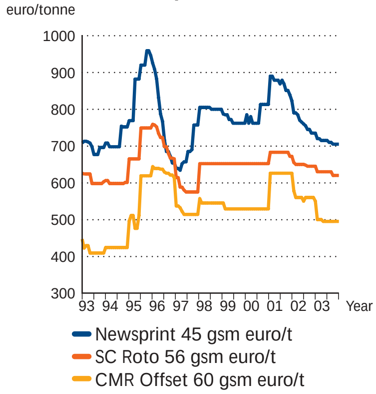
OUTLOOK

It remains uncertain when paper markets in Europe and North America will start recovering, but some growth in demand is expected in 2004. European prices declined by three-four per cent on average for both newsprint and magazine paper from the beginning of the year. Price rises are expected in North America. A continued depreciation of the Norwegian krone against the US dollar and the euro will have a positive effect on results in 2004.

Deliveries of publication paper to western Europe, 1993-2003



Price development publication paper in Germany, 1993-2003, nominal prices



South America

Substantial margin improvement in spite of difficult market conditions, owing to cost-efficient production units

CONTINUED DECLINE IN DEMAND, BUT STRENGTHENING OF THE MARKET POSITION

South American demand for newsprint in 2003 was about 900 000 tonnes, five per cent down from the year before. The largest market, Brazil, experienced a decline of 40 000 tonnes last year. In Brazil, tight monetary policy and depressed salaries had a negative impact on newspaper circulation, which ended the year 10 per cent down from the fourth quarter of 2002. Advertisement linage slipped by 3.2 per cent from 2002, but staged a strong recovery in the fourth quarter to rise by 10 per cent from the same period the year before.

Norske Skog is the leading supplier of paper for South American telephone directories.

The joint venture with Brazilian paper company Klabin ended in March 2003, removing 130 000 tonnes of newsprint capacity from the market. Norske Skog continues to serve its customer base with paper sourced from its mills in Europe. Despite this position and the decline in demand, Norske Skog's market share among Brazilian dailies improved by two per cent in 2003. Market share in South America increased by one per cent.

Argentinean newsprint demand grew by 19 per cent in 2003 as economic conditions improved from a very depressed level the year before. The country resumed imports, and Norske Skog captured about half this volume.

While reference prices declined to the lowest level for years in 2002, a USD 70 per tonne increase occurred through 2003. However, the average price for the year was on par with 2002. In other South American markets, prices moved up in line with the Brazilian market. Norske Skog South America's average delivered price in 2003 was four per cent higher than the year before.

The telephone directory market experienced a year of declining demand (estimated at 75 000 tonnes in 2003) as publishers continued to seek alternatives in order to improve financials, including a reduction in geographic coverage. Increased competition from North American and European suppliers took prices for lightweight newsprint to a level below standard newsprint (basis weight adjusted). Sales of directory paper from Norske Skog Bio Bio declined slightly in 2003, but market share remained stable.

Sales to the non-dailies segment (magazines, inserts and commercial printing) increased by 50 per cent in 2003.

HM King Harald and Queen Sonja of Norway visited Norske Skog Pisa in connection with their state visit to Brazil in autumn 2003. His Majesty (centre) toured the mill with CEO Jan Reinås, Paranà State Governor Roberto Requião and mill manager Thomas Ritter.

IMPROVED PRODUCTION EFFICIENCY AND COST COMPETITIVENESS

Total production reached 304 000 tonnes (including first-quarter production at Norske Skog Klabin), while total sales came to 450 000 tonnes.

The Norske Skog Bio Bio mill in Chile achieved a good improvement in productivity and set a new production record. Productivity at the Norske Skog Pisa mill in Brazil also developed very positively in the first half, but the annual result was hit by some operational problems in the second half. These problems were solved by the end of the year. Both mills are very cost competitive, not only because of high productivity but also owing to the low cost of raw material from plantation forests and competitive energy costs. The effects of the Improvement 2003 programme during the year provided an additional driver for enhanced cost-competitiveness at the two mills in the region.

Improvement 2003 generated savings of USD 3.7 million as against a target of USD 2.4 million. Termination of the joint venture with Klabin and the sourcing of paper from Europe contributed to further improvements. In addition, the region achieved savings through global procurement initiatives. New terms negotiated for energy supply represented additional savings. Implementation of the new Norske Skog organisational model in the region contributed to a stronger focus on key processes, and labour costs were cut by USD 900 000.

INVESTMENT

Investment was kept at a low level during 2003 for both mills. The most significant project was a primary effluent treatment plant in Chile, completed in May 2003. In the short term, the greatest challenges at Norske Skog Pisa will be to increase capacity in the pulping plant by removing bottlenecks, and to reduce the use of kraft pulp.

OUTLOOK

Newsprint demand is expected to grow during 2004, for the first time since 2000. This recovery will be based primarily on improved economic conditions and increased advertising. Brazil and Argentina should account for most of the growth. The directory market is expected to remain stable.

Prices are expected to continue moving up in line with the North American market, possibly reducing the high current price differential with that market by the end of the year.

In the longer term, Norske Skog's South American position in both Brazil and Chile is of great strategic importance to the development of the company. This is not only because of the growth potential in these emerging markets, but also because of low cost production based on raw material from pine plantations. A potential PM2 at the Norske Skog Pisa mill will mark the first step in the further development of this position.

South America		2003	2002	2001
Operating revenue	NOK million	1 094	1 107	1 939
Operating earnings	NOK million	113	(9)	473
Operating margin	%	10.3	(0.8)	24.4

Australasia

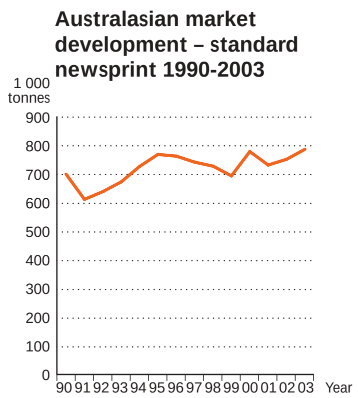
MARKET CONDITIONS

Both Australia and New Zealand enjoyed a buoyant 2003, with publication paper demand increasing overall by 11 per cent. Magazine grades were particularly strong, growing by more than 30 per cent in response to booming retail, vehicle and housing markets supported by a dramatic strengthening of the currency in both countries. Demand for newsprint and associated grades also grew by a solid six per cent, reflecting good performance by retail and display advertising – classifieds increased only modestly. Weekend circulations showed modest gains, whilst weekdays were static.

No downtime was experienced at the Australasian mills, but the high level of demand led to a small reduction in market share. Pricing has been heavily affected by the strength of local currencies and weak global pricing. In New Zealand, 2003 opened with a three per cent increase, but currency pressures resulted in a four per cent drop toward the end of the year. The Australian pricing mechanism also resulted in a four per cent decrease from 1 July.

INCREASED PRODUCTIVITY

Output at all three Australasian production sites increased in 2003 to produce a combined total of 861 277 tonnes, up by 28 890 tonnes from 2002. Productivity gains were achieved across the region. Productivity at Norske Skog Albury increased by 5.3 per cent as a result of a consistent focus on improving process stability. Norske Skog Tasman had a steady year with a 2.5 per cent increase in productivity. This was achieved through a focus on improving stability, reducing paper losses and implementing key strategic projects. The latter included a head box replacement, a distributed control system upgrade and the installation of additional pulp storage. A PM2 dryer project at Norsk Skog Boyer yielded improved capability on higher brightness products, for which there is growing demand.



CONTINUOUS IMPROVEMENT DELIVERING RESULTS

Improvement 2003 saw cost-saving initiatives implemented at all sites. Savings of more than AUD 19 million have been realised across Australasia, excluding global procurement benefits. Further improvement initiatives continue to be sought.

Allocation of capital remains tightly controlled. All three mills will continue to implement a series of projects to improve regional productivity and consistency of products and to lower operational costs. In addition, Norske Skog Albury will continue preparations for further productivity improvement in 2006.

The annual independent customer satisfaction survey revealed the highest-ever overall score. Customers were particularly complementary about the support provided by technical service staff – ordering and delivery processes, the unique RollRun product performance monitoring system, and the HUB customer service portal. The effectiveness of the regional customer segmentation strategy was also confirmed, with significant increases in scores from both major customer sites and smaller sites.

STRONG FOCUS ON PERSONNEL

A continued focus on health and safety has seen all sites accredited to the National Safety Council of Australia's five-star rating. The H-value (lost-time injury frequency per million working hours) for the year was 1.94. Norske Skog Boyer also achieved 408 days without such incidents and a lost-time injury frequency of zero. The development of a strategy for improving paper machine guarding at all three sites was a major initiative in 2003.

Downsizing began at all three sites in 2003, supported by extensive consultation with affected employees and their unions. The region reached its 2003 target of 1 294 employees. Two successful employee forums were held during the year, further strengthening communication and cooperation between employees and management.

The Norske Skog operating standard project has seen the development of a significant number of new operating manuals, and provided employees with the opportunity to share best practice across the company.

OUTLOOK

The economies of both countries have recently been strong, and growth forecasts should maintain demand for newspaper grades at current record levels for the next two-three years. Competitive pressures on publishers are expected to yield continued emphasis on product quality and a drive to achieve differentiation through the use of a broader range of grades. Demand for magazine grades will probably recede slightly from the current very high levels, particularly if the respective currencies weaken.

Notwithstanding the steady increase in North American newsprint prices (used as a reference for Australasian prices), the strong currencies are likely to yield further reductions in local currency prices – New Zealand from the start of 2004 and Australia from mid-year.

Australasia		2003	2002	2001
Operating revenue	NOK million	4 030	3 807	4 473
Operating earnings	NOK million	455	546	725
Operating margin	%	11.3	14.3	16.2

Asia

PanAsia Paper

Asia		2003	2002	2001
Operating revenue	NOK million	2 365	2 688	2 434
Operating earnings	NOK million	200	562	616
Operating margin	%	8.5	20.9	25.3

NEWSPRINT MARKET CONDITIONS

Asian newsprint consumption increased by about three per cent in 2003. The first half of the year was challenging because of weak global economic conditions and the Sars outbreak, but many of the Asian economies began to improve during the second half. Demand picked up as a result.

China and Thailand experienced robust newsprint consumption growth, estimated at 13 and seven per cent respectively compared to 2002. However, South Korean consumption declined by five per cent from the year before. This reflected exceptional demand in 2002 owing to the soccer World Cup and presidential elections. Supply and demand in South Korea were also affected in 2003 by imported newsprint from regional Asian producers. Since 1 July, however, regional producers have scaled back their exports to South Korea as market prices improve throughout the Asia-Pacific region.
Export prices hovered around USD 400 per tonne during the first half of 2003, but improved to USD 480 per tonne by 31 December to yield an average of USD 440 per tonne for the year. Prices in PanAsia's home markets were higher than in export markets.

PRODUCTION

The company maintained its high productivity performance, which is among the best in the industry. Difficult market conditions in Korea and Asian export markets necessitated production cutbacks of 179 778 tonnes. The combined output of the four mills was 1 264 911 tonnes of newsprint and other publication paper grades, compared to 1 269 295 tonnes in 2002 and 1 196 649 tonnes in 2001. PanAsia Paper also distributed a total of 506 851 tonnes from its shareholders in 2003, compared to 346 070 tonnes in 2002. Purchase prices for recycled fibre imports and domestic recycled fibre increased significantly during the year, adversely affecting production costs.

BEST FOREIGN CORPORATION AWARD 2003

PanAsia Paper Korea topped 12 169 foreign-invested companies to receive the prestigious best foreign corporation award in the manufacturing field from the Economics Justice Institution in South Korea. This ranking is based on a company's performance as well as its business ethics, morality, adherence to the law and contribution to the South Korean economy.

HEBEI PANASIA LONG-TENG PAPER CO LTD (HPLC)

The investment of roughly USD 300 million in building a 330 000-tonnes-per-year joint-venture newsprint mill based on recycled fibre in China's Hebei province of China was approved in September 2003. This facility is expected to start production in the third quarter of 2005. HPLC is ideally located in the greater Beijing metropolitan area, with its population of 100 million and high anticipated growth rates.

HUMAN RESOURCES, ORGANISATION AND ENVIRONMENT

PanAsia Paper had 2 051 employees at 31 December, and maintained its excellent health and working environment performance with a H-value (lost-time injury frequency) of 1.3 in 2003. The mills maintain high environmental standards, and all discharges to air and water are within the limits set by the national authorities.

OUTLOOK

As the global economy continues to improve, Asian operating rates and prices should increase in 2004. While newsprint demand should remain moderate at 2.1 per cent, overseas imports are expected to decrease as global markets tighten and currency shifts make the Asian market less attractive.

Malaysian Newsprint Industries

MARKET CONDITIONS

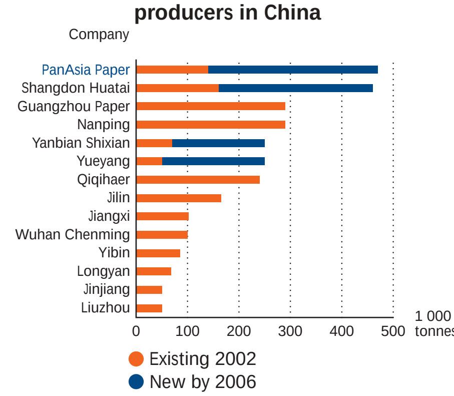
Malaysian Newsprint Industries (MNI) competes mainly in Malaysia and Singapore, where markets suffered in 2003 from very low newsprint prices and high fibre and energy costs. However, the price of newsprint strengthened considerably in the second half. Sales totalled 243 215 tonnes compared with 264 483 tonnes in 2002.

Significant financial losses have prompted MNI to initiate improvement measures. Operating cost savings of about MYR 10 million were achieved in 2003.

With 350 employees, the mill has a good health and safety performance. Its H-value (lost-time injury frequency) in 2003 was 1.1, an improvement from 2.2 in 2002. All discharges were within the limits set by the authorities.

Looking ahead, MNI anticipates higher newsprint prices and increased production in 2004. A press rebuild project, expected to increase annual production by 10 000 tonnes, was approved at the end of 2003 and will be executed in mid-2004.

Major newsprint producers in China



North America

NorskeCanada

MARKET CONDITIONS

The overall North American newsprint market remained soft in 2003, with US newsprint consumption down 0.6 per cent year-on-year to November 2003. Inventories were maintained at moderate levels, and prices increased slowly during the year. Despite the continued weakness in demand and resulting low North American operating rates, producers managed to secure price rises totalling USD 50 per tonne during the year. However, the rapid depreciation of the US dollar more than cancelled out these increases for Canadian producers.

Demand for coated and uncoated groundwood papers was stronger than for the overall printing and writing paper market. Modest price increases were secured for most grades in 2003. However, these gains were again more than offset by the strengthening Canadian dollar. The directory market was plagued by oversupply for most of the year. European imports to the North American market largely negated reduced supply from capacity closures in the first half of the year, stalling any price recovery in 2004.

The year started promisingly for pulp markets, with producers implementing three consecutive price increases in the first and second quarters. These were driven partly by weather-related fibre shortages in south-east USA. Market conditions and prices deteriorated later in the second quarter, however, mostly owing to the impact of the Sars outbreak and a drawdown of inventory by Chinese buyers. A subsequent resumption of Chinese buying in the third quarter helped to arrest this decline, and paved the way for prices to regain their upward momentum by the end of the year. Year-on-year benchmark prices for European northern bleached softwood kraft (NBSK) pulp increased by USD 59 per tonne to reach USD 560 per tonne at the end of 2003.

PRODUCTION

NorskeCanada implemented market-related downtime in paper production totalling 43 000 tonnes in 2003, compared to 200 000 tonnes the year before. Paper production in 2003 was 774 800 tonnes of newsprint and 1 075 300 tonnes of specialty grades, compared to 747 200 tonnes and 979 300 tonnes respectively in 2002. This reflected improved demand for the company's specialty papers. NorskeCanada also produced 418 800 tonnes of pulp against 374 300 tonnes in 2002. Cost trends for both newsprint and special grades were favourable during the year, primarily as a result of various cost reductions related to the company's 2003 performance improvement initiative and higher operating rates. By 31 December 2003, the company had captured annualised run-rate improvements of CAD 104 million (CAD 83 million embedded in current year's earnings). Cost trends for pulp were largely unchanged from the previous year. Various cost savings in pulp were offset by costs related to the upgrade of No 2 recovery boiler at Elk Falls, and certain other overhead cost increases.

ACQUISITION OF PAPER RECYCLING FACILITY

NorskeCanada acquired western Canada's largest paper recycling facility in December 2003. The purchase price of CAD 61.1 million, which included CAD 2.5 million for working capital adjustment on closing and CAD 600 000 in transaction costs, was financed almost equally by issuing new equity and cash. The division has a current production capacity of 145 000 air-dried metric tons (ADMT), and has the capability to produce another 35 000 ADMT at minimal capital cost. This modern operation is well-managed and cost-efficient, with excellent road, rail and water access.

HUMAN RESOURCES, ORGANISATION AND THE ENVIRONMENT

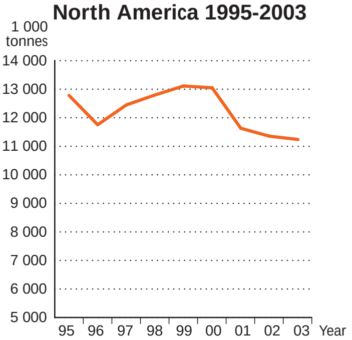
NorskeCanada's medical incident rate improved significantly from 2002 and was the best in the company's history. Its environmental position slightly improved from 2002 owing to improved emissions to the air and heightened awareness related to the world-class safety programme.

OUTLOOK

A strong and sustained economic recovery in the USA will support price increases by pulp and paper producers in the coming year. In January 2004, major producers announced price increases of USD 50 per tonne for newsprint and USD 30 per tonne for European NBSK pulp, effective on 1 February. Despite the encouraging rate of economic growth in North America, the strength of the Canadian dollar remains a major concern because it has a negative impact on the competitive position of Canadian exporters.

NorskeCanada is due to complete the upgrade of its No 2 recovery boiler by April 2004. Although the upgrade will have a positive impact on earnings over the rest of the year, operating earnings will be reduced by an estimated CAD 15-20 million in the first quarter. Combined with the annual shutdown of pulp digesters in the first quarter and the potential impact of a continuing strong Canadian dollar, this will have a negative impact on earnings for the first quarter of 2004.

Newsprint demand in North America 1995-2003



Capacities Norske Skog (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			560		
Norske Skog Follum	Norway	130	145		135	
Norske Skog Union	Norway	115	150			
Norske Skog Golbey	France	600				
Norske Skog Bruck	Austria	120			255	
Norske Skog Steti	Czech Republic	130				
Norske Skog Walsum	Germany				445	
Norske Skog Parenco	The Netherlands	360		100		
Total Europe		**2 035**	**295**	**660**	**835**	**3 825**
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 Bio Bio	Chile	60	65			
Total South America		**245**	**65**			**310**
Norske Skog Canada Ltd [2]						
Crofton	Canada	280	150			
Elk Falls	Canada	365	145			
Port Alberni	Canada		220		210	
Powell River	Canada	230	230			
Total Canada		**875**	**745**		**210**	**1 830**
PanAsia Paper Company Pte. Ltd [3]						
PanAsia Paper Jeonju	Republic of Korea	865	135			
PanAsia Paper Chongwon	Republic of Korea	190				
Shanghai PanAsia-Potential Paper Co., Ltd.	China	145				
PanAsia Paper Sing Buri	Thailand	125				
Total PanAsia Paper Co Pte. Ltd		**1 325**	**135**			**1 460**
Malaysian Newsprint Industries Sdn. Bhd. [4]	Malaysia	**250**				**250**
Grand total		5 540	1 375	660	1 045	8 620
Excl 50% PanAsia		4 880	2 305	660	1 045	7 890
Based on legal ownership		4 095	780	660	660	6 435

[1] Newsprint capacity is based on 45 g/m^2 in Europe and Asia, and on 48.8 g/m^2 in other regions

[2] Capacity for NorskeCanada included 100%; Norske Skog owns 29.4% of the company. NorskeCanada produces in addition 115 000 tonnes of kraftliner and 410 000 tonnes of market pulp.

[3] Capacity for PanAsia included 100%; Norske Skog owns 50% of the company. PanAsia owns 56.1% of Shanghai PanAsia-Potential Paper. PanAsia has started construction of a newsprint mill in China (Hebei PanAsia Long Teng Paper), in which PanAsia has a 65% ownership. The mill will start operations in the second half of 2005, and have a capacity of 330 000 tonnes.

[4] Capacity for MNI included 100%; Norske Skog owns 33.65% of the company.

Instability in the raw material market

The recovered paper market was characterised, as in the year before, by sharp price variations during 2003, with an average price on par with the 2002 level. Norske Skog with associated companies ranks world-wide as one of the largest consumers of recovered paper, and this market has long been globalised with a strong Asian presence in both North America and Europe.

Norske Skog's electricity requirements are covered through long-term contracts in Australasia, South America and Norway. The company will be rather more exposed in continental Europe, with 60-90 per cent coverage depending on the market and hedging positions. Substantial earnings were achieved by Norske Skog in 2003 from the sale of energy freed up by production adjustments in Norway.

Prices in the global market for market pulp showed a marked upturn during the first half, with this rise continuing towards the end of 2003. That yielded an overall price increase for the year of roughly 15 per cent. The market price at 1 January 2004 was USD 550 per tonne, even with high Norscan stocks.

The delivery position and prices for pulpwood were stable in South America and Australasia, where much of the supplies are based on plantation forests. Prices in continental Europe and Norway were also stable during the year, but with the volume available in Norway smaller than expected. This is increasingly being offset by long-term imports.

Research and development

As part of the Improvement 2003 process, the company's in-house research and development activities have been combined into Norske Skog Research & Development (NSR&D). This organisation is responsible for research and development activities in the entire company.

NSR&D contributes to Norske Skog's improved competitiveness through market-oriented research and to its profitability through process development. R&D work is carried out in close cooperation with other Norske Skog units, customers, suppliers and external R&D providers.

The NSR&D organisation comprises six departments: mechanical pulp, paper, process chemistry, runnability/printability, coating and Australasia, previously called PPSG. Its siting is decentralised, with staff based at 10 Norske Skog units.

In connection with the Improvement 2003 process, NSR&D has increased its staffing and expertise in production optimisation (troubleshooting) to support the production units. Consolidating research and development with advanced troubleshooting has led to a better and more efficient cooperation between R&D and the mills in a number of product quality and production efficiency projects.

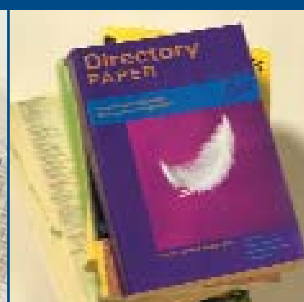
For all grades, the main activities have related to product quality and cost-efficient use of raw materials and chemicals. Projects relating to improved print quality have been carried out in the newsprint area, while increased pressroom runnability has been an issue for the magazine area.

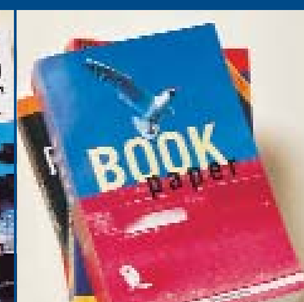
The R&D organisation is also involved in product development and investment projects aimed at defining the most cost effective production concepts for achieving defined paper quality targets.

Activities funded by Norske Skog at research institutes and universities are an integrated part of the company's total R&D activities, with PhD students writing their theses on the basis of projects for Norske Skog.

Products

Total global capacity: 3 585 000 tonnes





Product group	Newsprint	Directory paper	Improved newsprint	Book paper
Product brands	Nornews Pisanews Biobionews	BiobioTDP Tasman Directory	Norbright Norstar NorX	Norbook
End use	Newspapers Free-sheets Directories Supplements Inserts/flyers	Telephone directories Catalogues	Supplements Inserts/flyers Direct mail Newspapers Free-sheets Directories Magazines Books	Books Magazines Catalogues Supplements Inserts/flyers
Printing method	Cold set web offset Heat set web offset Flexo Letterpress	Cold set web offset Heat set web offset	Cold set web offset Heat set web offset Letterpress	Cold set web offset Heat set web offset Flexo
Mills	Albury Bio Bio Boyer Bruck Follum Golbey Parenco Pisa Skogn Steti Tasman Union	Bio Bio Tasman	Bio Bio Boyer Follum Golbey Parenco Tasman Union	Union

nornews

Norske Skog's Nornews brand is a high-quality newsprint product recognised for its excellent printability and runnability characteristics. It is suitable for use on all types of cold set newspaper printing presses. Newsprint from Norske Skog is manufactured at several production units around the world using a combination of virgin and recycled fibres.

norbright

The Norbright range from Norske Skog offers higher brightness properties and an enhanced printed image compared to newsprint. These products are especially well suited to cold set web offset, although they can also be used for heat set. The paper achieves its higher performance characteristics through the use of modern, twin wire paper machines and enhanced thermomechanical pulping processes.

norstar

Norstar has been specifically developed to assist the printer to maximise cold set web offset quality. As a result of reduced dot gain and improved ink hold-out, half-tone reproduction is clear and sharp; it can lead to a cold set web offset printing result that approximates that of heat set web offset.

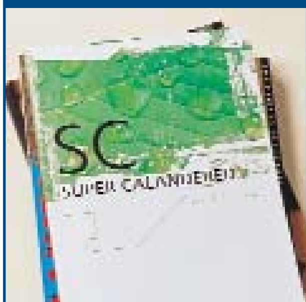
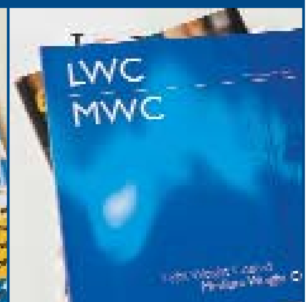
CUSTOMERS IN FOCUS

Increased value creation is crucial – both for Norske Skog and for its customers. This is why Technical Customer Service (TCS) organised a systematic change of best practice in 2003.

In Europe, TCS used to be organised at each mill, while the three mills in Australasia have long had a centralised customer service. TCS in Europe is now linked directly to corporate sales and marketing, while the staff will still be working at each mill. TCS is an important tool for business development. People working with TCS often have a challenging dual role to play. They are both the customer's agent in Norske Skog and the company's representative with the customer.

"It is vital to have a thorough understanding of the customer's needs and core processes. At the same time, we need in-depth knowledge about production in our mills. Both of these skills are important if we are to do a good job for both parties," says Erik Stai, senior manager TCS. "We have to be available to the customer, to offer technical assistance and to inform our organisation of the challenges and problems the customer has encountered, so we can help solve them."

Total global capacity: 1 495 000 tonnes

		
SC	MFC	LWC
Norsc Pacopress Super	Norset	Norcote
Magazines Catalogues Inserts/flyers Direct mail Supplements	Magazines Catalogues Supplements Inserts/flyers Direct mail Books	Magazines Catalogues Supplements Direct mail Inserts/flyers
Heat set web offset Rotogravure	Heat set web offset	Heat set web offset Rotogravure
Saugbrugs Parenco	Follum	Bruck Walsum

PAPER PROFILE

Together with other leading European paper suppliers, Norske Skog has established Paper Profile, a uniform declaration for presenting environmental product information. It covers relevant environmental aspects related to pulp and paper production, including product composition and emissions, wood procurement and environmental management. Paper Profile enables the professional paper buyer to make well-informed product choices.

For more information about Paper Profile visit their web site: www.paperprofile.com

norcote

The lightweight coated (LWC) product range features both standard and improved brightness levels, gloss or matt finish and a wide selection of basis weights for printing magazines, catalogues, promotional materials and other commercial literature. The physical qualities of the paper, including uniform web profile and high winding quality, make the product range truly easy to handle.

norbook

Norske Skog offers book paper in several varieties of brightness, shade, thickness and basis weights to meet the needs of book printers and publishers. Norbook products are characterised by a strict approach to shade control and caliper stability for the given substance. The furnish is 100 per cent thermomechanical pulp (TMP), and production can be adjusted to meet the paper quality demands of both cold set and heat set web offset printing.

norsc

Norske Skog's SC (super calandered) paper from the Saugbrugs mill is a high-quality uncoated publication paper suitable for magazines, catalogues and advertising material. Strict quality control of raw materials and special fillers make it possible to produce an SC paper especially designed for either rotogravure or heat set web offset printing. In many cases, these SC products are a good alternative to coated publishing grades.

norset

Machine finished coated (MFC) is a high brightness film-coated publication paper with a unique combination of bulkiness and good printability in heat set web offset. The combination of thermomechanical pulp and a small amount of high-efficient filler results in a bulky and stiff base sheet. This is combined with on-machine film coating and soft calandering to optimise surface and paper strength.

Corporate governa

Corporate governance in Norske Skog builds on the company's core values of openness, honesty and cooperation and on firmly established principles concerning the independence of the board and equal treatment of all shareholders. This lays the basis for ethical commercial behaviour and continuous long-term value creation.

Norske Skog understands corporate governance to embrace the principles and guidelines which determine how the company is managed and define relations between the general meeting, the board of directors, the corporate assembly and the CEO. Relations with other stakeholders are regulated in greater detail by the company's specific policies towards the principal groups of stakeholders. The principal elements in these policies are summarised in the section on corporate social responsibility. See pages 48-59.

In the company's view, its core values of openness, honesty and cooperation and firmly established principles on the independence of the board and equal treatment of all shareholders form the very core of sound corporate governance. Norske Skog believes that sound corporate governance lays the basis for ethical commercial behaviour and contributes to continuous long-term value creation. As part of its work on corporate governance issues in 2003, the company codified its principles of business ethics in a corporate conduct policy. See page 59.

Norske Skog is a Norwegian company, listed on the Oslo Stock Exchange, and applies Norwegian regulations as a minimum standard for its corporate governance. In addition, the company has adopted more far-reaching requirements for its own corporate governance where this has been considered appropriate, and in accordance with what it regards as best practice.

nce in Norske Skog

Norske Skog gives weight to its core values of openness, honesty and cooperation at all levels of the organisation, and between the governing bodies and the management.

Corporate bodies and management

GENERAL MEETING

The company's supreme body is the general meeting. Its responsibilities include choosing the shareholder-elected members of the corporate assembly and their alternates. The company has only one share class and uniform shareholder rights. Each share entitles the holder to one vote. The board and management of the company seek to facilitate the largest possible attendance at the general meeting. In 2003, the annual general meeting was held on 10 April. Shareholders representing 53.69 per cent of the share capital attended in person or by proxy, compared with 45.79 per cent in 2002.

The company's articles of association can be found on page 120.

ELECTION COMMITTEE

Norske Skog's articles specify that the company will have an election committee. According to the articles, this committee is chaired by the chairman of the corporate assembly and also comprises three members chosen by the general meeting for a year at a time. The committee's job is to identify qualified persons to serve on the company's corporate assembly and the board, and to determine the appropriate remuneration for serving on these bodies. When making its decisions, the committee takes account of the desire for the board and corporate assembly of the company to be characterised by professional expertise, capacity and diversity, and seeking to ensure the broadest possible representation of the company's shareholder groups. Election of worker directors lies outside the committee's mandate.

The election committee comprises:
Ivar Korsbakken (chairman, corporate assembly) – CEO, Norwegian Forest Owners' Association
Idar Kreutzer – CEO, Storebrand ASA
Bjørn Kristoffersen – CEO, National Municipal Pension Fund (KLP)
Helge Evju – forest owner

Evju is not a member of the company's corporate assembly or board.

CORPORATE ASSEMBLY

The corporate assembly is a requirement not only of Norwegian law but also of the company's articles. This body has 18 members, including 12 elected by the shareholders (four alternates) and six elected by and among employees (personal alternates). The assembly constitutes itself through the election of a chairman and deputy chairman, both to serve for one year at a time.

Shareholder-elected directors of the company are chosen by the assembly members elected by the shareholders. The assembly is responsible for monitoring the management of the company by the directors and the CEO. In addition, it decides on matters involving substantial investments and on measures relating to rationalisation or restructuring operations which have significant consequences for the workforce.

The corporate assembly arrangement rests on considerations of industrial democracy and the right of workers to exercise influence and consultation. Elections for worker members of the assembly are governed by regulations and are held every other year. The most recent election of worker members of the corporate assembly was held on 12 March 2003.

BOARD OF DIRECTORS

The company's board of directors currently has seven members. They are listed on pages 44 and 45 of the annual report.

The board is responsible for determining the company's overall vision, goals and strategy, and supervises that these are observed. It must also keep itself informed about the group's financial position, determine the budget for the business, monitor the attainment of budget targets and otherwise satisfy itself that the business is subject to satisfactory internal controls and has a sound organisation. The board ensures that the management handles risks faced by the company in an appropriate way, and that the company provides information which secures equal treatment of all shareholders and is relevant, correct and timely.

The board appoints the company's CEO and determines this person's remuneration on the basis of proposals from a specially-appointed compensation committee, which comprises the chairman and deputy chairman of the board and one other director.

The board follows an annual plan for conducting a systematic review of the company's operations. It also carries out annual assessments of its own competence, mode of working and work. The whole board serves as the company's audit committee. Results and conclusions of the board's annual assessments are notified to the election committee.

The work and functions of the board are based on the principle of independence from the management. Neither the CEO nor any other member of the corporate management is currently a director of the company, but the CEO attends board meetings on a permanent basis in accordance with prevailing company legislation.

Under Norwegian law, the directors must act independently and in such a way that no one, whether a shareholder or anyone else, obtains an unreasonable advantage. In addition, the company's rules of procedure for the board specify that each director has an independent duty to inform the board about possible personal and/or significant commercial relations with the company in general or about circumstances which, in the specific matter under consideration, might call the director's independence and objectivity into question. When preparing or considering such matters, the board is required to decide whether possible conflicts of interest exist.

One director, Lund, is employed as national head of ABB in Turkey. The ABB group delivers technical equipment to Norske Skog's paper mills. Directors Grøholt and Bjørken are forest owners who supply wood to the company on normal standardised terms. Bjørken also holds office in the Forest Owners' Association North, which is a shareholder in the company and which votes by agreement with other associations of forest owners as a bloc at Norske Skog's general meeting. These associations may thereby exercise a significant influence in practice. No director is remunerated for their work for the company from any source other than the company itself.

CEO AND CORPORATE MANAGEMENT

Jan Reinås served as president and CEO from April 1994 until he resigned at his own request on 31 December 2003. The board appointed Jan Oksum, the former deputy CEO, as the new CEO from 1 January 2004. The president and CEO is responsible for the day-to-day management of the company's operations, and for ensuring that it is run and organised in accordance with shareholders' wishes and the board's decisions. He is also responsible for ensuring that the group accounts conform with statutes and regulations, and that assets are managed in a sound manner. The corporate management comprises the CEO and nine other members. See pages 46 and 47 for a full list of the company's corporate management.

OPERATIONAL GOVERNANCE MODEL

Norske Skog has a clear and straightforward operational governance model.

Adopted in February 2003, the present organisation is functionally structured in accordance with the value chain: supply and logistics, production, and sales and marketing. This gives the corporate management a strong operational involvement with the day-to-day business. Several management layers were also eliminated, contributing to greater efficiency and shorter decision-making lines.

The corporate management is further organised with regional managers for Australasia and South America, ensuring closeness to customers, suppliers and relevant regulatory authorities.

AUDITING

Norske Skog has well-functioning management and control mechanisms based on integrity and independence. The company's internal audit department is responsible for coordinating internal and external auditing activities.

Operational auditing is carried out by the internal audit department, which also evaluates management and control systems in the units. It draws up annual auditing plans based on risk assessments made in cooperation with the corporate management. The annual audit plan, control report and status report from the company's internal auditors are submitted to the board. The results of this work are followed up both locally and at corporate level. Other in-house and external auditors carry out operational audits of health and safety, maintenance of certifications, production processes and environmental reporting.

The company's chosen external auditor is responsible for financial auditing of the parent company and group accounts. Independent external auditors have also been appointed for all the companies which require financial auditing under local statute or internal guidelines. The rules of procedure for the board of directors specify that the company's external auditor must attend at least one board meeting every year to present and comment on its management letter to the company relating to the audit it has carried out. The auditor attends all board meetings which consider the annual and interim reports.

Remuneration of Norske Skog's elected officials and senior staff

1. CORPORATE ASSEMBLY

Remuneration is fixed annually by the general meeting. The chairman of the assembly receives a fixed fee of NOK 130 000 per year. The other members receive NOK 4 500 for each meeting. Committee meetings are remunerated at a rate of NOK 4 500 per meeting. A total of NOK 557 500 was paid to members of the assembly in 2003.

2. BOARD OF DIRECTORS

Remuneration is fixed annually by the corporate assembly. Fixed annual fees are NOK 240 000 for the chairman of the board, NOK 175 000 for the deputy chairman and NOK 140 000 for each of the other directors. Committee meetings are remunerated at a rate of NOK 4 500 per meeting. A total of NOK 1 575 500 was paid to directors in 2003, including NOK 4 500 per meeting for attendance by alternates.

3. PRESIDENT AND 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 on pension schemes and the pay guarantee scheme can be found in Note 3 to the group accounts.

4. CORPORATE MANAGEMENT

The compensation committee also reviews the principles for determining the pay and other conditions for the rest of the corporate management.

5. INTERNAL BOARD REMUNERATION

No fees are paid to Norske Skog employees who serve on the boards of group companies. Similarly, fees due to office holders in companies in which Norske Skog has shares fall to Norske Skog. That applies in cases where the employee has received the appointment because of their position in Norske Skog's management.

6. OTHER

Information on option schemes, bonus schemes and loans to senior personnel is provided in Note 3 to the group accounts on pages 98 and 99.

7. EMPLOYEE SHARE PURCHASE SCHEME

All employees of the group are offered the opportunity once a year to buy shares at a discount to the market price. They can buy shares 20 per cent below the stock exchange price during a specified period, with the cost deducted from their pay over 12 months.

Members of corporate bodies

(number of shares held in brackets)

CORPORATE ASSEMBLY

Elected by shareholders:
Ivar B Korsbakken, Oslo, chairman (1 252)
Idar Kreutzer, Oslo, deputy chairman (0)
Emil Aubert, Porsgrunn (16 718)
Ole H Bakke, Trondheim (53)
Svein Haare, Hokksund (555)
Olav Hørsdal, Frolands Verk (3 310)
Bjørn Kristoffersen, Oslo (0)
Tore Lindholt, Skjetten (0)
Halvard Sæther, Lillehammer (2 517)
Svein Aaser, Drøbak (475)
Kirsten Idebøen, Høvik (0)
Torstein A Opdahl, Namnå (613)

Alternates:
1. Ann Kristin Brautaset, Oslo (0)
2. Åse Marie Bue, Marnardal (0)
3. Turid Fluge Svenneby, Spydeberg (0)
4. Siv Fagerland Christensen, Røyneberg (0)

Elected by employees:
Stig Arnegård, Norske Skog Skogn (113)
Per Kristian Dahl, Norske Skog Saugbrugs (555)
Trond Andersen, Norske Skog Saugbrugs (0)
Magnus Straume, Norske Skog Union (38)
Roy Helgerud, Norske Skog Follum (0)
Stig Johansen, Forestia (335)

Alternates:
Steinar Voldseth, Norske Skog Skogn (0)
Paul Kristiansen, Norske Skog Saugbrugs (0)
Kjell Aspestrand, Norske Skog Saugbrugs (0)
Bent Sevaldsen, Norske Skog Union (0)
Jørn Kristiansen, Norske Skog Follum (0)
Tom Helland, Forestia (150)

Observers elected by the employees:
Jarle Halvorsen, Norske Skog Union (0)
Kjell Hansen, Norske Skog Follum (0)
Ove Magne Anseth, Forestia (110)

Alternate observers:
Eigil Fredriksen, Norske Skog Union (210)
Terje Andre Bråten, Norske Skog Follum (25)
Rolf Randen, Forestia (293)

BOARD OF DIRECTORS

Lars Wilhelm Grøholt, Hov, chairman (1 480)
Egil Myklebust, Oslo, deputy chairman (0)
Øivind Lund, Drammen (767)
Halvor Bjørken, Verdal (1 490)
Gisèle Marchand, Oslo (0)
Jan Vidar Grini, Norske Skog Union (453)
Kåre Leira, Norske Skog Skogn (820)

Alternates for worker directors:
Harald Christiansen, Norske Skog Union (0)
Kjetil Bakkan, Norske Skog Skogn (158)

Observer:
Robert Svarva, Norske Skog Skogn (60)

CORPORATE MANAGEMENT

(shares held at 31.12.2003)
Jan Oksum, president and CEO (6 827)
Vidar Lerstad, senior vice president (3 980)
Jan Kildal, senior vice president (13 566)
Rolf Negård, senior vice president (653)
Hanne Aaberg, senior vice president (1 189)
Jan-Hinrich Clasen, senior vice president (473)
Jarle Dragvik, senior vice president (2 098)
Ketil Lyng, senior vice president (3 186)
Rob Lord, executive vice president (810)
Antonio Dias, executive vice president (820)

Auditor
Ernst & Young AS (0)

Board of directors of Norske Skog

Lars W Grøholt

Egil Myklebust

Kåre Leira

Halvor Bjørken

Øivind Lund

Jan Vidar Grini

LARS WILHELM GRØHOLT

Chairman of the board since 2002, director since 2001.
Farmer and forest owner.
Engineering and forestry graduate.
Chairman, Norwegian Forest Owners' Association, 1998-02.
Chairman, Viken Skog, 1999-02.
Deputy chairman, Norwegian Forestry Research Institute (NISK).
Board member, Pan European Forest Certification (PEFC), 1999-03.
Shares in Norske Skog: 1 480

EGIL MYKLEBUST

Deputy chairman of the board since 2003, director since 2001.
Formerly managing director, Norwegian Employer's Federation and the Confederation of Norwegian Business and Industry, and president and CEO, Norsk Hydro.
Chairman, Norsk Hydro and SAS.
Director, Sandvik AB and the University of Oslo.
Shares in Norske Skog: 0

KÅRE LEIRA

Worker director since 1999, elected by the employees in accordance with Norwegian law.
With Norske Skog since 1975.
Chief shop steward and chairman of the company's European Works Council (EWC) since 1997.
Board member, Norwegian United Federation of Trade Unions.
Shares in Norske Skog: 820

HALVOR BJØRKEN

Director since 2000. Forest owner.
Chairman, Forest Owners' Association North.
Deputy chairman, Norwegian Forest Owners' Association, Industriflis and Din Tur AS. Director, Midt-Norsk Tømmerimport, and member of the corporate assembly, Skogbrand insurance company.
Chairman, SN Holding A/S.
Shares in Norske Skog: 1 490

ØIVIND LUND

Director since 2000.
PhD Engineering, and business studies graduate. CEO, ABB Norway 1998-01.
Head of the ABB group's global quality and productivity improvement programme, 2001-03.
National head for Turkey, ABB, since 2003.
Shares in Norske Skog: 767

JAN VIDAR GRINI

Worker director since 2001, elected by the employees in accordance with Norwegian law.
Director, Growth in Grenland, since 1997.
Deputy chairman, Grenland Port Authority, since 2001.
Shares in Norske Skog: 453

Gisèle Marchand *Robert Svarva*

GISÈLE MARCHAND

Director since 2002.
MSc in business economics.
Managing director, Norwegian Public Service Pension Fund.
Previously managing director, Batesgruppen AS public relations agency.
Leading positions in Norwegian banks, most recently as senior vice president with Den norske Bank.
Director, Innovation Norway, Guarantee Institute for Export Credit (GIEK) and GK Kredittforsikring AS.
Shares in Norske Skog: 0

ROBERT SVARVA

Observer since 2003, elected by the employees in accordance with Norwegian law.
With Norske Skog since 1990.
Shift supervisor, Norske Skog Skogn.
Shares in Norske Skog: 60

Corporate management of Norske Skog

Jan Oksum *Vidar Lerstad* *Jan Kildal* *Rolf Negård* *Hanne Aaberg* *Jarle Dragvik*

JAN OKSUM (53)

President and CEO

With Norske Skog since 1979. MSc engineering, Norwegian Institute of Technology. Research associate, Pulp and Paper Research Institute of Norway, 1974-79. Process engineer and production manager, Norske Skog Skogn, 1979-88. Technical manager, then managing director, Norske Skog Golbey, 1989-96. Senior vice president R & D 1997. Senior vice president, pulp and magazine paper, 1997-1999. Senior vice president, business development, 1999-2000. Senior vice president, strategy, and deputy CEO, 2000-03.

VIDAR LERSTAD (59)

Senior vice president, strategy

With Norske Skog since 1989. MSc in business economics, Norwegian School of Economics and Business Administration. With Norsk Hydro 1970-74. Counsellor and trade attaché, Export Council of Norway, Oslo and Brussels, 1975-80. Marketing vice president, Tandberg 1980-84, Managing director, Scancem cement factory, Togo, 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, international area, 1999-2000. Senior vice president, Asia area, 2000-02. Executive vice president, Norske Skog South America, 2002-04.

JAN KILDAL (53)

Senior vice president, finance and CFO

With Norske Skog since 1995. MSc in business economics, 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. CFO, Denofa-Lilleborg, 1985-89, and Orkla, 1989-95. Director, Storebrand Liv, member, corporate assembly, Orkla, and alternate, supervisory council, Den norske Bank.

ROLF NEGÅRD (46)

Senior vice president, human resources and organisation

With Norske Skog since 1994. Law degree, Oslo University. Consultant, Ministry Of Local Government and Labour, 1986-88. Police intendant II, 1988-90. Lawyer and chief negotiator, Federation of Norwegian Process Industries, 1990-94. Human resources manager, Norske Skog, 1994-96. Vice president human resources, 1996-02.

HANNE AABERG (44)

Senior vice president, corporate communication

With Norske Skog since 1997. BA, journalism and public affairs, San Diego State University. Science studies, University of Oslo. Editor, Skarland Press AS, 1986-88. Chief information officer, Norwegian Shipowners' Association, 1988-97. Chief information officer, Norske Skog, 1997-2000. Vice president, corporate communication, Norske Skog 2000-02.

JARLE DRAGVIK (44)

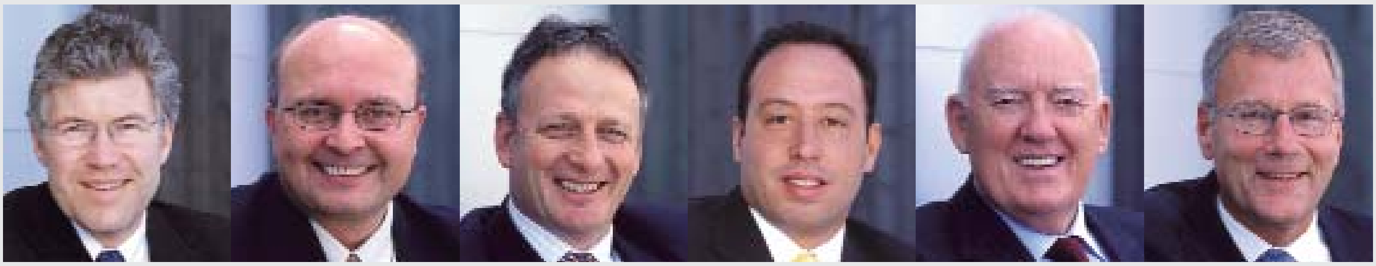
Senior vice president, production

With Norske Skog in 1986-95 and since 1998. 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 vice president sales, publication paper, Norske Skog, 1989-95. Area vice president, Visma ASA,1995-97. Managing director, Visma ASA, 1997-98. Mill manager, Hurum Papirfabrikk, 1998-99. Mill manager, Norske Skog Bruck, 1999-02. Senior vice president, sales and marketing, 2002-04.

JAN-HINRICH CLASEN (46)

Senior vice president, sales and marketing

With Norske Skog in 1992-96 and since 1999. MSc and PhD in engineering, Technical University Clausthal, Germany. Sales vice president magazine, 1992-96. Managing Director Ahrensburg magazine printer, Axel Springer Verlag AG, Germany, 1997-99.



Jan-Hinrich Clasen *Ketil Lyng* *Rob Lord* *Antonio Dias* *Jan Reinås* *Claes-Inge Isacson*

Senior vice president sales and marketing, PanAsia Paper Company Ltd, Singapore, 1999-2003. Vice president, newsprint sales, Norske Skog, 2003-04.

KETIL LYNG (48)

Senior vice president, supply and logistics

With Norske Skog since 1985. Law degree, University of Oslo. Norwegian 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. Senior vice president, human resources and organisation, 1995-96. Managing director, Norske Skog Golbey, France, 1996-2000. Vice president, strategy and business development, 2000-02.

ROB LORD (45)

Executive vice president, Norske Skog Australasia

With Norske Skog since 2000. BSc, University of Waikato, New Zealand, and MBA, University of Canterbury, NZ. Product manager, paper, Tasman Pulp and Paper Co Ltd, 1988-91. Sales manager, Australian Newsprint Mills Ltd, 1991-93. Marketing manager and vice president, Tasman Pulp and Paper Co Ltd, 1993-98. Marketing vice president, Fletcher Challenge Paper (Australia) Pty Ltd, 1998-2000. Vice president sales and marketing, Norske Skog Australasia 2000-03.

ANTONIO DIAS (40)

Executive vice president, Norske Skog South America

With Norske Skog since 2000. Engineering degree from Escola de Engenharia Maua in Brazil, with an MSc and PhD in engineering, University of Michigan, USA. With Fletcher Challenge group in Brazil and New Zealand, in the areas of business development, e-commerce, investor relations and strategic planning, 1995-2000. Senior vice president marketing and sales, Norske Skog South America, 2000-04.

JAN REINÅS (59)

President and CEO until 31 December 2003

With Norske Skog from 1994 until resigning at his own request on 31 December 2003. Business studies graduate with further studies in planning, rationalisation, logistics and market-oriented management. Executive MBA, INSEAD. Head of several transport companies. Managing director, SAS Norway 1990-93. President and CEO, SAS, 1993-94. Director, Schibsted ASA, VG, Swiss International Air Lines, Federation of Norwegian Process Industries, Confederation of Norwegian Business and Industry (NHO) and Confederation of European Paper Industries (CEPI). Formerly chairman, Sparebanken Midt-Norge, Norwegian Postal Administration and Norwegian State Railways.

CLAES-INGE ISACSON (58)

Senior vice president, production, until 31 December 2003

With Norske Skog in 1989-97 and since 1998. Engineering graduate, Chalmers Technical University, Gothenburg. With Stora 1972-82. Consultant, Jaakko Pöyry, USA and Sweden, 1982-89. Project director, Norske Skog Golbey, France, 1989-92. Mill manager, Norske Skog Tofte, 1992-96. Senior vice president, fibre, 1994-96. Senior vice president, publication paper production, Stora, 1998. Senior vice president business development, Norske Skog, 1998-99. Senior vice president, Region Europe, 2000-03.

Corporate social responsibility

A competitive

Trust represents solid equity. Without the trust of employees, investors, government authorities, local communities, customers and suppliers, the company has no chance. Value cannot be created without trust. This is built up over time on the basis of the group's values and behaviour towards employees and the world at large.

Norske Skog's planned commitment to health and safety is yielding results. Time lost as a result of injuries at work reached a record low in 2003 – and that in a year characterised by reorganisation and demands for efficiency improvements.

On the basis of its core values of openness, honesty and cooperation, Norske Skog undertook to observe the UN's universal declaration of human rights by signing the Global Compact.

A binding agreement was also signed with the Confederation of Norwegian Business and Industry (NHO) on participating in the Female Future project to enhance equal opportunities in the company.

A corporate social responsibility statement was also adopted by Norske Skog in 2003.

Together with a number of its customers organised in the World Association of Newspapers, the company has engaged in the work of improving the reading skills of coming generations. The shortage of such skills is one of the world's biggest challenges. A variety of measures pursued through the Newspapers in Education initiative aims to stimulate newspaper reading among children and young people in new democracies, where the free press is gradually securing better working conditions.

"Norske Skog respects the universal declaration of human rights and recognises our responsibilities towards our employees, customers and suppliers, communities and societies in which we operate."

Norske Skog's corporate social responsibility statement

edge

Norske Skog Pisa is one of the company's best mills for health and safety, and has previously won its health and safety prize.

Health and safety

Today will be yesterday tomorrow

OUR VISION
A safe environment and healthy people.

OUR BELIEFS
We believe that everyone has the right to a safe and healthy working environment.

We believe health and safety is a 24-hour responsibility. We will encourage people to display the same attitudes and behaviour at work, at home and in leisure activities. We encourage the adoption of similar health and safety values by our suppliers, in joint ventures and in partially-owned companies.

Preventive health and safety (H&S) work has the highest priority at Norske Skog, and is always at the top of the agenda in the company. Ensuring that all work and activities are planned, executed and followed up in accordance with the company's strategic plans is a line management responsibility. Good H&S work results from a holistic mindset and an integrated mode of working.

Norske Skog has made a substantial commitment over many years to improving the general level of safety in the company. A clear trend can also be seen from viewing safety in isolation towards regarding it in a more generalised context and thinking holistically, with the focus on the working environment and control of risk. The company's preventive efforts are based on a common global platform comprising nine different standards that separately and collectively provide the foundation for H&S work.

These standards are:
- leadership commitment
- employee participation and safe working behaviour
- training and competency
- hazard and risk management
- management systems, reviews, audits and inspections
- performance measurement and reporting
- emergency preparedness and response
- contractors
- health

The World Health Organisation's definition of health embraces far more than just sickness absence: "Health is a state of complete physical, mental and social well-being, and not merely the absence of disease or infirmity". This defines the working environment as the sum of factors affecting the employee physically, mentally and socially in a positive or negative direction at work.

An important requirement for further progress at Norske Skog is to find in-house and external partners with better results and practice than in the respective mill or department. Best practice will be sought both in its own mills and departments and externally. There is a recognition that one does not have to be bad to get better. Good results will depend in any case on establishing clear, systematic and purposeful management through the line organisation.

Norske Skog has developed from a Norwegian and European business into a global player with mills and offices in most parts of the world. That carries an obligation. H&S warrants no less attention and significance in Norway than in Brazil or any of the other countries in which the company is present. The similarities are often greater than the differences, but it is within the latter that best practice must be found and tailored to local conditions. One of the most important measures for the future will be to develop and incorporate knowledge about H&S in Norske Skog's general training programme. The company must ensure that its know-how and experience, and the demands it makes of managers and employees, are conveyed to all parts of the organisation.

The 2004 H&S calendar developed for Norske Skog focuses attention on different topics and activities every month throughout the year.

A mill tour requires protective clothing. Marleen Ooms and Inge Hodnebrink at Norske Skog Parenco are correctly attired in hard hat and jacket.

H&S FOCUS SAVES MONEY

Norske Skog Albury in Australia will receive an insurance premium discount of NOK 300 000 because of its good H&S systems. If its positive results in this area are confirmed over two years, the mill could save NOK 600 000 under a campaign in New South Wales which encourages companies to pursue better safety and programmes for getting employees on sick leave back to work.

When summing up his review of the H&S status at the mill, safety consultant Kim Patrick said that it deserved praise for its systems in this area. He described them as top-class in comparison with other industrial workplaces.

GLOBAL H&S MEETING

Norske Skog Boyer in Tasmania, hosted H&S representatives from the company around the world in 2003. This meeting aimed to develop two training programmes, for all employees and for managers in South America and Australasia respectively. It also provided an excellent forum for exchanging best H&S practice.

NORSKE SKOG BRUCK MAKES FINAL

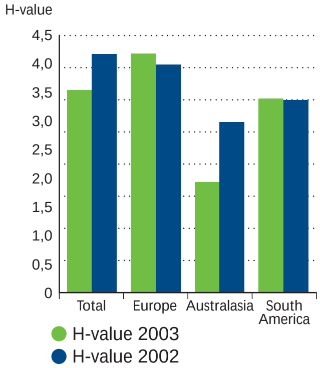
After winning last year, Norske Skog Bruck again made the final of the Austrian prize for excellent H&S work. It contributed its "Better precautions" scheme, an umbrella project for various H&S activities at the mill.

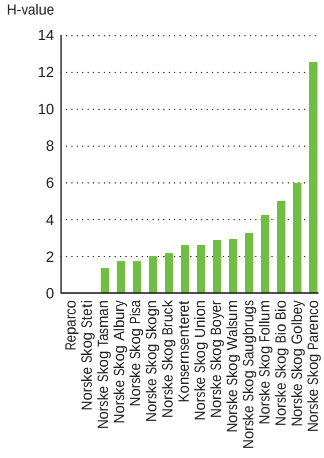
TRAINING AGAINST PHYSICAL AILMENTS

A survey at Norske Skog Parenco in the Netherlands revealed that 45 per cent of all sickness absence related to back and joint problems. These were partly attributable to heavy work, but also to lack of physical activity.

"We decided to do something about this," explains H&S manager Bert Kraaykamp, who conceived the "papermakers work sporty" training programme. For just EUR 15 per year, employees can train as much as they want at a gym near the mill. They take a test and are then offered a personal training programme. This initiative has been well received, with 55 per cent of employees seeking more information. Two-thirds started the programme and more have joined later.

Norske Skog Union also has many schemes for employees who want to look after their health. Apart from a broad range of activities, they are offered financial support for various types of treatment – both traditional methods from health professionals and alternatives such as foot zone, light and aromatherapies.





* Definition on page 119.

MORE ACHIEVE ZERO

Several of Norske Skog's mills have distinguished themselves with good H&S results over the past two years. During 2003, Norske Skog Union became the first of the company's Norwegian mills to achieve the desired zero – no lost-time injuries for 365 days.

This target was also met by Norske Skog Bruck, which can look back on 10 injury-free years. And Norske Skog Pisa in Brazil reached zero lost-time injuries for 365 days in May.

Chile's Norske Skog Bio Bio was also able to celebrate a year without lost-time injuries in 2003. This mill has adopted a total loss control system to check personal injuries and material damage in order to eliminate all unsafe conditions.

"We've worked all the time to change behaviour in order to reduce risk," reports human resources manager Fernando Vidal. That makes Norske Skog Bio Bio the fifth mill – alongside Norske Skog Boyer, Norske Skog Union, Norske Skog Bruck and Norske Skog Pisa, to go a year without lost-time injuries.

POSITIVE FOR NORSKE SKOG PISA

Good cooperation, an effective commitment to H&S and local social responsibility are among the findings from a survey at Norske Skog Pisa in Brazil.

Carried out by the Observatorio Social (OS) research institute owned by Brazil's CUT trade union federation, this study focused on working conditions and employee terms at the mill.

The report characterised collaboration between unions, employees and management as very positive. Great attention is paid to prevention in H&S-related work. Programmes have been initiated to limit the spread of venereal disease. The mill operates a smoking ban, and systematic efforts are pursued to make people aware of the dangers posed by smoking and alcohol abuse.

Local communities

Where the job means everything

Norske Skog Pisa is the largest company in the Brazilian community of Jaguariaíva, where it accounts for more than 50 per cent of incomes and employs almost 3 000 people directly and indirectly. The job means everything to the workshop team that produces wooden wedges for the mill. Despite having learning difficulties, they can support their families.

"This work makes them more independent," explains Rosemari Soares Lopes, head of the centre run by the Association of Parents and Friends of the Disabled (APAE), which also embraces the workshop and a school for pupils with learning difficulties.

"They earn their own money, and that gives them a certain social status. Some even support their families in a difficult labour market. The job is crucial for them."

Norske Skog Pisa's support for the workshop and the school for children and young people with learning difficulties goes back a decade. When King Harald of Norway and Queen Sonja visited the mill last autumn, Her Majesty called at the APAE centre – a big event for young and old alike.

"A socially-responsible company must support its local community," says Vidar Lerstad, former executive vice president for South America. "The APAE is a good example."

Norske Skog Pisa also makes a strong contribution to improving schools in its community, supporting both further education and vocational training in cooperation with Senai, Brazil's best-known technical college. Apart from training its own workforce, this help embraces free or heavily-subsidised education for locals.

Queen Sonja of Norway established good contact with the children at the Association of Parents and Friends of the Disabled (APAE) centre in Jaguariaíva, which has been supported by Norske Skog Pisa for 10 years.

FIVE-STAR H&S AT NORSKE SKOG TASMAN

Norske Skog Tasman in New Zealand received the five-star certificate – the highest grade – from the National Safety Council of Australia (NSCA) for its H&S systems. This certification is unique because it compares companies with the world's best.

"It's not just a question of meeting specific targets, but of being the best," explains NSCA head Eric Curtis.

Norske Skog Boyer topped the list for the best H&S performance in the workplace at the annual Safe Workplace awards in Tasmania. This prize is further confirmation of the five-star grade won by the mill for three years in a row.

NEW STANDARDS

Norske Skog adopted two new H&S standards in 2003, for suppliers and contractors and for health respectively.

POINTS FOR WALKING

Employees at Norske Skog Walsum in Germany receive points for focusing on safety, exercise and environmental awareness through activities such as checking the lights on their car, taking a walk or doing something for the environment.

H&S has top priority at the mill, and employees take this seriously – also in their private lives. They can collect up to 25 points per quarter or 100 a year, which can be exchanged for prizes such as backpacks, towels, smoke alarms or electric toothbrushes. The points can also be used for massage, saunas or courses to quit smoking.

KON-TIKI BOARD GAME

A three-year collaboration with the Kon-Tiki Museum in Oslo and Thor Heyerdahl ended on 31 December. Norske Skog's motivation for this partnership was Heyerdahl's basic practice of collecting an international crew from different cultures to reach a common goal. The project yielded a number of activities for employees and the general public. Essay, model building and drawing competitions were organised in the first year, attracting entries from large parts of the world. In the second year, young people internationally were urged to produce their own newspaper and report on cultural diversity in their local community. For the final year, the museum and Norske Skog joined forces with Norwegian publisher Damm over a competition to create a board game based on Heyerdahl's many voyages of discovery. The winning proposal will be produced and distributed by Damm.

TALENTED YOUNGSTERS

Sisters Ragnhild (15) and Eldbjørg (13) Hemsing from the highland community of Aurdal in the Valdres area of southern Norway are both talented violinists who play to an international standard. These two have received a grant from Norske Skog over three years to develop their musical skills. During this period, they have won several international competitions and appeared as soloists with Norwegian and foreign symphony orchestras.

INVENTIVE YOUTHS

In 2003, an annual science fair for young people supported by Norske Skog Tasman in New Zealand attracted more than 300 youngsters from all school grades in the area.

"Sponsoring this event is important because knowledge of and interest in science and technology are also important for our business," says Chris Majoribanks, Norsk Skog Tasman's manager for external relations.

PARTNERING SCHOOL

Norske Skog Golbey in France pursued a partnership with a local school during the 2002-03 academic year. The school became the first to produce a new information programme on vocational education and working life for pupils aged 13-14. Initially, the teachers were invited to the mill for a tour and a briefing on such topics as job opportunities, working conditions and further education in working hours. The pupils have also visited the mill and met employees from various parts of the business.

LOCAL SUPPORTER

A large number of activities are supported by Norske Skog mills in their local communities. Many of these would not survive unless one of the big employers in the area became involved. Such backing covers everything from culture, sport and health promotion to school projects and measures to combat drug and alcohol abuse.

It is also positive if sponsored projects benefit the mill's own employees and their families. The amounts of money involved are often modest, but these funds nevertheless represent welcome contributions which help to improve the quality of life and leisure activities in the local community.

Find out more about each mill's activities on the Norske Skog web site at www.norske-skog.com.

"Norske Skog will communicate relevant and timely information about its achievements, activities and ambitions. The company's core values – openness, honesty and cooperation, will be the foundation for all formal and informal communication between Norske Skog and its stakeholders."

Norske Skog's communication policy

Young readers – Norske Skog's future

Reading skills among children and young people are in a sorry state, a number of countries are prompting to put this issue on the political agenda. The figures are depressing even in modern, well-developed western societies. This is a question of tomorrow's newspaper and magazine readers – the customers of Norske Skog's customers.

Norske Skog has joined forces with its customers through the Young Readers sponsorship programme. From 2003, the company is cooperating with the World Association of Newspapers (WAN) to intensify international work on stimulating children and young people to use newspapers and magazines at school. Newspapers in Education (NIE) projects are to be established over a five-year period in various countries, including nations where democratic developments have opened new prospects for the free press. Norske Skog's contribution over the five years will be NOK 12.75 million.

"We've been looking for a project which focuses on stimulating young people to read newspapers and magazines," says Hanne Aaberg, senior vice president for corporate communication. "This is the very basis of our business, after all. Our customers and we have a shared interest in stimulating reading. The sponsorship project will open new markets, and bring us into contact with existing and potential customers in areas where NIE projects are."

"We believe this is one of several ways in which we can stimulate more newspaper reading against ever tougher competition from digital media. At the same time, it helps to make teaching more interesting and relevant."

RESULTS

Norske Skog's collaboration with the WAN has been enthusiastically received and is yielding results after only a few months.

In the new democracies of Serbia and Montenegro, Norske Skog and WAN have organised seminars to introduce NIE in cooperation with the organisation for the free press. Six teacher seminars have also been prepared in Macedonia, with similar programmes planned during the first two months of 2004 in Indonesia, Russia and Romania. A regional Young Readers/NIE conference is also due to be held in Latin America, where Norske Skog South America will play a key role.

Seven NIE instructors from five continents received grants to participate in the world conference for Young Readers/NIE in Helsinki. Unesco is an NIE partner in a number of countries, and a similar grant was also awarded to a representative from the UN agency's division for freedom of expression, democracy and peace.

JOURNALIST FOR A DAY

Norske Skog's collaboration also made it possible to implement the first survey to look at newspaper coverage of young people and youth culture. A scientific study was carried out in Argentina on the impact of a project where young people from poor districts of Buenos Aires provided stories from their neighbourhoods to the biggest newspapers in the capital. This exercise showed that the political and social attitudes of the youngsters involved matured.

PASSPORT

An exciting new project with a global perspective is the world newspaper reading passport, which has completed its preparatory phase and will be launched in a number of countries during 2004. The passport could help millions of young people out of illiteracy, and has been tested in Brazil, Belgium and South Africa. Everyone can use it. The key is to increase children's self-confidence. Without being aware of it, many children read all the time and every day – signs, posters, film sub-titles and texts on milk cartons. The aim is to show such youngsters that they are actually able to read, are good readers and like to read whether they have been to school or not.

NELSON MANDELA

The passport includes many fun tasks, such as finding eight different things to read in the street. The child is then asked which of these subjects could also be found in a newspaper. When the tasks in the passport have been completed, the child receives a diploma signed by a well-known figure. In South Africa, this signature came from Nelson Mandela.

"Becoming a lifelong reader is about emotions," says Belgian Gerard van der Weijden, who developed the world reading passport with Jan Vincent Steen from NIE in Norway. "Nobody wants to read a newspaper unless they find it entertaining. These are precisely the feelings that the world passport wants to connect with."

COMMITMENT

The Balkans, Russia, Estonia, Latvia and Lithuania are priority areas for Norske Skog and the WAN in 2004, while a special commitment to South America is planned for 2005. Asia will follow, at the same time as work continues in the new areas in which NIE has been established. The world Young Readers/NIE conference will be held during 2006 in India, a country where NIE is working at a high tempo with support from the dominant newspapers.

A new web site – www.wan-nie.org is also due to be launched in 2005 to provide a complete set of services in a number of languages for newspapers, teachers and others interested in developing NIE programmes. This site will also serve as a forum for exchanging ideas and strategies between everyone in the NIE world.

Publishers world-wide and Norske Skog are working together to turn coming generations into newspaper and magazine readers.

Helping dyslectics

Three of the Norwegian mills – Norske Skog Union, Norske Skog Skogn and Norske Skog Follum – have been running programmes for dyslectic employees over a number of years. A good deal of shame is still felt by people who lack expected reading and writing skills. At the same time, increased computerisation makes tackling such problems more important than ever.

The management is fully behind these programmes, which have succeeded in rendering reading and writing difficulties innocuous and encouraged doubters to take a test. Feedback has been exclusively positive. Some of the mills have forged close ties over their programme with local adult education services and unions. These courses have been successful, and are also attracting international attention. The Nordic representative for the UN Development Programme is convinced that the scheme can easily be adapted for companies in developing countries, for instance.

Establishing SOS libraries

A collaboration has been established by Norske Skog with SOS Children's Villages world-wide as part of its Young Readers sponsorship programme.

The aim is to establish libraries in SOS schools and villages to stimulate the young residents to develop their reading skills and appreciate national and international literature – and not least to discover the benefits and pleasures of reading newspapers and magazines. Norske Skog is inviting its customers to contribute by giving newspaper or magazine subscriptions to these libraries.

Norske Skog established the first library in 2003 at the Hermann Gmeiner High School run by SOS Children's Villages in Concepción, Chile, which is located close to Norske Skog Bio Bio. The company is contributing two PCs, textbooks and newspaper subscriptions.

"This is like a gift from heaven," cried head teacher Maria Seguel. Educating chefs, clothes designers, electricians and computer operators, the school takes 250 children from the city's poorest districts. Twenty per cent live at the SOS Children's Villages. Results are good, with 99 per cent of pupils getting a job offer after graduation.

Norske Skog intends to help establish one library per year, and company employees will be able to follow the project in the People & Paper house magazine.

Equal opportunities

"Underpinned by our core values, we want to thrive on our diversity, giving people opportunities to grow personally and professionally in a stimulating working environment."

Norske Skog's people development policy

A MALE-DOMINATED INDUSTRY

The paper industry has traditionally been a male bastion and remains so today, even in Norske Skog. Changing this picture takes time. The company has a long way to go, but is working purposefully to involve more women in production and management.

Norske Skog is the first company to sign a letter of intent on supporting the new Female Future drive by the Confederation of Norwegian Business and Industry (NHO) to recruit more women for company managements and boards.

The company's Norwegian mills, each in their own way, are making a commitment to encouraging women to qualify as skilled workers and take jobs in the paper industry. One example is Norske Skog Skogn, where an equal opportunities agreement has been concluded between mill and unions. The action plan specifies that the company believes active work on gender equality will:

- help to make the company a more attractive workplace for both men and women
- widen the recruitment base
- benefit the working environment
- strengthen creative processes and contribute to diversity.

Section 1 of the equal opportunities agreement specifies that all employees, regardless of gender, will have the same opportunities for professional and personal development with regard to employment, pay, career and training.

Pay for most Norske Skog employees is determined and regulated through central agreements and special local accords. All central and local settlements are gender-neutral. The principle otherwise applied requires pay to be determined by the responsibilities associated with a job and its holder's actual qualifications.

Two women qualified in a skilled trade at Norske Skog Skogn during 2003, both of them in production, pulp and paper. At Norske Skog Union, two women qualified as chemical/process technicians and one as a laboratory technician.

Equal opportunities also form part of each mill's annual targets and plans. In addition, efforts are made to influence attitudes through such channels as schools and in-house communication. When recruiting apprentices, the mills seek to encourage qualified females to apply.

FEMALE EMPLOYEES IN NORSKE SKOG, 2003

Unit	Total employees	Of which female	Female managers
Norske Skog Skogn	564	29 (5%)	5
Norske Skog Follum	564	69 (12%)	3
Norske Skog Saugbrugs	719	53 (7%)	3
Norske Skog Union	430	60 (14%)	7
Corporate headquarters	181	64 (36%)	11
Norske Skog Bruck	534	40 (7%)	3
Norske Skog Walsum	612	34 (6%)	3
Norske Skog Steti	216	67 (31%)	6
Norske Skog Parenco	525	20 (4%)	1
Norske Skog Golbey	396	47 (12%)	7
Group services NSG	63	16 (25%)	3
Norske Skog Branch	17	8 (47%)	2
Norske Skog Pisa	347	15 (4%)	3
Norske Skog Bio Bio	250	18 (7%)	2
Norske Skog South America	21	9 (42%)	2
Norske Skog Albury	249	17 (7%)	1
Norske Skog Boyer	391	22 (6%)	1
Norske Skog Tasman	572	58 (10%)	4
Admin Australasia	67	20 (30%)	3

Two of a kind

FEMALE FUTURE

The NHO initiated its Female Future project in the spring of 2003 with the aim of getting more women into the boardroom and senior management. If this effort succeeds, it will provide a good alternative to current Norwegian proposals for statutory gender quotas.

Norske Skog signed a letter of intent on participating in Female Future in March, and has selected six women candidates with varying backgrounds and experience from different parts of the Norwegian operations. The NHO's national network for women in business will provide a recruitment base for companies seeking women directors. Norske Skog will work to recruit a minimum of one additional woman to senior management within two years of signing the agreement.

The NHO has undertaken to coordinate work with the Female Future network and to give Norske Skog assistance on issues relating to increased recruitment of women executives and directors. Female Future will strengthen expertise and develop leadership talent. Norske Skog will have access to this network, which will help to forge links between women and participating companies.

PLANNED MEASURES

Norske Skog is also planning to nominate candidates for next year's Female Future programme.

A pair of young chemical engineers – Norske Skog Pisa's Lidiane Ayres and Guri Fuglem from Norske Skog Research -– worked together for a few weeks in 2003.

When Ayres was promoted from chemical to process engineer at her Brazilian mill in March, the management announced that her first assignment was a six-week training programme at Norske Skog Research & Development (NSR&D) in Norway.

"They felt that this was the best way for me to learn more about pulp production," she says.

So she packed her suitcase and headed north-eastwards. She was met at Oslo airport by Fuglem, who served as her mentor during the stay.

With an MSc in chemistry, Fuglem has worked with Norske Skog since 1995. After serving as a process engineer at Norske Skog Follum from 1998 to 2002, she now works as a development engineer.

RESEARCH

The pair collaborated during Ayres' stay on a research project which will have direct significance for Norske Skog Pisa, which now uses a tree species that will be taken out of production in 2004. In seeking replacements, the two engineers evaluated sample results – and continued to work together when Fuglem visited Brazil in July 2003.

One of her many other jobs is to train engineers in thermo mechanical pulp (TMP) operation. Ayres attended the six-day course, which takes place at Norske Skog Follum and Norske Skog Saugbrugs and also attracts engineers from Norske Skog Union, Norske Skog Follum, Norske Skog Saugbrugs, Norske Skog Parenco and NSR&D.

Ayres had to overcome many hurdles to get where she is today. The Brazilian authorities used to ban women from shift work in manufacturing.

"They were only allowed to do shifts in hospitals and hotels," she reports. This was because production plants were regarded as male domains. But the prohibition disappeared after the Brazilian constitution was amended in 2002, and women can now work shifts at Pisa.

Chemical engineers Lidiane Ayres, Norske Skog Pisa, and Guri Fuglem, NSR&D.

INCLUSIVE WORKPLACE

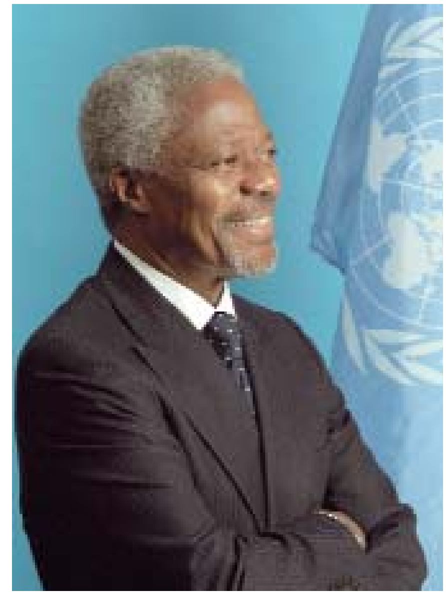
The Norske Skog headquarters has agreed to become an inclusive workplace from 2004, along the same lines as its Norwegian mills.

This agreement clarifies collaboration over creating a more inclusive working environment, which encourages development and accommodates everyone who can and wants to work. It aims to reduce sickness absence and people on disability benefit. Identifying the reasons for an absence, with follow-up and associated measures, represents an important tool for improving productivity and the working environment.

IN KOFI ANNAN'S SPIRIT

More than 1 000 international companies have responded to the challenge from UN secretary-general Kofi Annan by signing up to the Global Compact. Norske Skog joined them in 2003.

This initiative brings business leaders together with UN agencies and unions to seek practical solutions for the challenges posed by globalisation, sustainable development and social responsibility. The compact is based on nine fundamental principles formulated by Annan on human rights, work and the environment.



UN secretary-general Kofi Annan.

PROTECTING EMPLOYEE RIGHTS

Norske Skog is the world's first pulp and paper company to sign a global agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and Norway's United Federation of Trade Unions. This deal protects employee rights at all company mills world-wide.

Kåre Leire (centre) is the chief shop steward at Norske Skog. The company has good and well-established collaborative relations with employee representatives and unions through its local and corporate works councils.

COMPETENCE PRIZE

Norway's Competence Prize for 2003 was presented to Norske Skog in recognition of the long-standing commitment by Norsk Skog Union in Skien to enhancing the expertise of its operatives.

This award is made annually by Human Resources Norway, a voluntary organisation for everyone interested in human resources, expertise development, organisation and management.

TOP FOR ETHICS

Norske Skog Tasman in New Zealand won the Bookerfields Business Ethics Award in June 2003 for implementing measures that the mill regards as good business practice. The mill has a training centre, Te Whara Ako, which gives personnel the basic training needed to tackle challenges and change – including computerisation – in a better way. This project also has positive consequences for the local community.

"This policy is based on the company's core values, the individual employee's right to join a trade union and the union's rights in accordance with international conventions and national regulations."

Norske Skog's relationship with elected employee representatives policy

NORSKE SKOG CORPORATE CONDUCT POLICY

The provisions below are mandatory and prescribe the minimum standards of conduct governing all employees and others that act for Norske Skog:

- Every transaction between Norske Skog and those with whom it deals, and every payment, receipt and asset must be correctly reflected in the books of Norske Skog.
- Any direct or indirect offer, promise, giving or demand for, bribes or other unlawful advantages to secure business or other improper advantages is unacceptable practice.
- Employees and others that act for Norske Skog shall avoid conflicts between their private interests and those of Norske Skog, and any potential conflict should be treated in openness or avoided.
- It is prohibited to accept a gift, favour or form of entertainment if the intention of the donor is to obtain an improper preference, which might be to the detriment of Norske Skog.
- An immoderate gift, favour or form of entertainment is prohibited if its intention is to give Norske Skog as donor an improper preference.
- No employee or others that act for Norske Skog may make any agreement or arrangement contrary to the applicable competition laws.

No one shall have reason to feel persuaded, coerced or forced to violate law or act in conflict with this policy or generally accepted standards for ethical behaviour. All employees and others that act for Norske Skog should remember that Norske Skog's reputation must be preserved and enhanced by how they act when representing Norske Skog.

NORSKE SKOG SPIRIT

The Spirit of Norske Skog programme plays an important role in the company's development as a global organisation. Its objective is to familiarise all managers and employees with Norske Skog's vision, goals, strategies and values, and how these relate to local targets and strategies.

This programme creates a collective understanding of what it means to be a manager in Norske Skog, and establishes organisational structures and guidelines that allow the company to be run as a global team.

RANKED HIGH FOR REPUTATION

A ranking of the 25 Norwegian companies with the best reputation put Norske Skog sixth. This is a respectable placing, given that its four mills in Norway export about 95 per cent of their production and other enterprises will accordingly have a higher profile with consumers. Covering 1 200 people, the survey was conducted by MMI of Norway and America's Harris Interactive.

SOCIAL RESPONSIBILITY INDICES

Norske Skog appears in several international indices covering companies with high standards for human rights, social responsibility and environmental protection. Among these are FTSE4GOOD, the Ethibel Investment Register and the Ethibel Sustainability Indexes.

The company qualified in 2003 for investment by Norway's Storebrand Principle Funds after receiving the best-in-class prize for environmental and social responsibility.

QUALITY PRESCRIBED

Employees at Norske Skog Saugbrugs now get two working hours a week on a "green prescription" to improve their quality of life. Norwegians obtain important medicine on a "blue prescription", but doctors can now use the green variant for preventive health measures. Employees receive qualified guidance on exercise, diet and interpersonal relations.

GOT MOVING

The first company to win the Get Moving prize from the Norwegian Physiotherapy Association was Norske Skog Skogn, for its wide-ranging Why Me activation programme. This is ahead of its time in promoting positive efforts to improve health, the jury decided, and highlighted the commitment to activities and experiences in the local community for a broad target group – employees, their families and their friends.

EMPLOYER OF THE YEAR

Norske Skog Boyer in Tasmania was named Australia's employer of the year in the category for forest and forest-related industry. This prize was awarded for the mill's training programme.

Focused on continuous improvement

Environmental efforts at Norske Skog cover the whole value chain. The main focus on environmental issues in the pulp and paper industry was traditionally linked to mill emissions, with discharges to water as most significant. The focus today is much broader. Many people want to prevent any weakening in the value of forests as a source of recreation and conserver of biological diversity. Reusing waste, either as new paper products or for energy generation, is important for reducing the amount going to landfills. Climate issues and raw material utilisation are other important areas in focus at Norske Skog.

Norske Skog Albury carries out regular surveys of water quality in the wetland areas around the mill. These four students are taking samples. Students from Charles Stuart University's Johnstone Centre have also surveyed animal and bird life in the area since 1994.

A lighter footprint

Norske Skog will play its part in achieving the paper industry's ambition to leave an even lighter footprint in nature and the environment, to enable paper to secure its natural role in tomorrow's society. This industry has all the prerequisites for a sustainable future.

A growing understanding that sustainability involves a true combination of economic, environmental and social development could be seen at the World Summit on Sustainable Development in Johannesburg in 2002. Over the decade since the last UN conference on this issue in Rio de Janeiro, the environment had attracted the greatest attention in the debate.

The environmental aspect is important, and still presents both the industry as such and Norske Skog as a company with challenges. One of these is the climate issue, or the Kyoto process. This work involves heavy political processes at international and national levels, with a strong element of economic considerations. The way ahead remains unclear. Work on emission reductions and emission allowances is still under way in many countries. Many of Norske Skog's mills already have low greenhouse gas emissions, with a large proportion of recovered energy and biofuel in their energy mix.

Norske Skog gives weight to systematic management of environmental work. Certified environmental management systems are a good means of achieving this. Three of its mills received ISO 14001 certificates for environmental management in 2003, bringing the number certified in this way to 10 of 14. The remaining mills failed to reach the target of achieving such certification in 2003, but will do so in 2004. The company has also made significant progress in certifying the traceability of its wood purchases.

Thor H Lobben
Vice president
corporate environment

Stakeholders increasingly expect open reporting from companies on their sustainable development. Norske Skog has practised a policy of open environmental reporting for longer than most. The Global Reporting Initiative (GRI) has been used as a guideline for the 2003 report as a step forward in Norske Skog's reporting on the environment and sustainable development. The company sees the GRI as a possible route to developing a harmonised standard for the industry. A table showing how the different elements in the GRI are incorporated in this report can be found on page 118.

Forests provide the basic raw material resource for Norske Skog and the global forest products industry. Awareness is growing that they contribute to much more. They can, for instance, become a more important energy source, they remove carbon dioxide from the atmosphere, they have important social functions for recreation and nature experiences, they are important for water and soil, and are not least important for biological diversity. Sustainable forest management is a broad concept, and one which changes over time. Raw material purchasing may compete with ecological services provided by the forests. Norske Skog collaborates with forest owners, customers and non-governmental organisations – in part through the World Business Council for Sustainable Development – to ensure that wood availability will meet raw material needs in a balance with the environmental and social aspects of forests.

We would once again like to know what readers think of our environmental reporting, and welcome constructive feedback.

Norske Skog 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

RAW MATERIALS

CONSUMPTION OF RAW MATERIALS		ENERGY	
Roundwood	4 930 000 m^3	Electricity	10 600 GWh
Sawmill chips	2 190 000 m^3	Thermal	7 700 GWh
Recovered paper	1 400 000 tonnes		
Purchased pulp	245 000 tonnes		
Inorganic fillers	525 000 tonnes		

TRANSPORT

PRODUCTION PROCESS

DISCHARGE TO WATER	
Effluent	93 mill m^3
Organic material (COD)	45 000 tonnes
Suspended solids (SS)	6 000 tonnes
Phosphorous (Tot-P)	60 tonnes

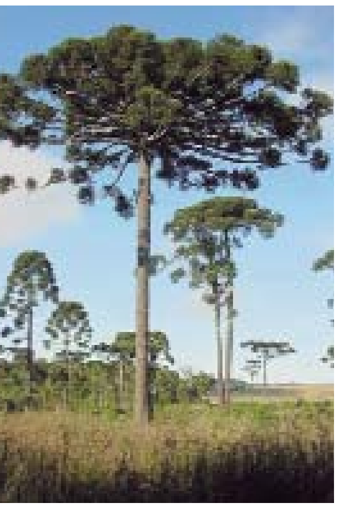
for wholly-owned mills

	TRANSPORT	PRODUCTS

EMISSIONS TO AIR	
CO_2	940 000 tonnes
SO_2	800 tonnes
NO_x	1 600 tonnes

PRODUCTION WASTE		PRODUCTS	
Sludge	800 000 tonnes	Newsprint grades	3 210 000 tonnes
Bark	260 000 tonnes	Magazine paper	1 390 000 tonnes
Other	45 000 tonnes		
Hazardous waste	950 tonnes		

Harmonising with nature in Brazil



The Pisa mill is located in the region of Brazil where the beautiful araucária tree (Paraná pine) has its natural habitat.

Brazil is the second largest forest country in the world. Forests cover more than one half of the land area. Most famous are the Amazonian tropical rain forests with their enormous biological diversity. Approximately two thirds of all living species are found in these forests. The Brazilian nature conservation programme protects 80 per cent of the rain forests.

No wood from rainforests is used by Norske Skog. Raw material for the Norske Skog Pisa newsprint mill is supplied by plantations more than 2 000 kilometres away from the Amazonian basin. In the new plantations established by Norske Skog, 40 per cent of the area will be developed as native forests. This is twice the national requirement.

Norske Skog Pisa is a modern newsprint mill in the interior of Paraná state in Brazil, and ranks as the country's only newsprint facility. It is the main source of income for the town of Jaguariaíva, a 250-kilometre drive from state capital Curitiba.

Paraná is an important agricultural state, with many well-managed farms. However, its northern region contains areas in the degradation phase which look dry and eroded. By purchasing this kind of land for forest plantations, Norske Skog Pisa is taking steps that will revitalise neglected soil.

ONE STEP FURTHER

Wood supplies for the mill are purchased today solely from plantations and do not interfere with Brazil's native forests.

The mill is now taking its environmental programme a stage further by acquiring farms with rundown pastures in order to revitalise the soil and reforest it. Once-neglected land will provide part of the wood for the mill's newsprint production while gaining tree cover, reversing the damaging trend towards erosion.

This replanting is being pursued close to the mill, which thereby keeps transport to a minimum and benefits both nature and Norske Skog Pisa.

PRESERVATION

Forests are being established by the mill on these eroded pastures with a strong awareness of the Brazilian environment and forestry rules. Under national forest legislation, Norske Skog Pisa must maintain at least 20 per cent of each farm with native forest. These are permanent preservation areas. In addition to fulfilling this legal requirement, the mill is conserving rivers, stream margins and springs in these areas. In fact, Norske Skog Pisa's pine plantations will account for about 60 per cent of each farm while the remaining 40 per cent is developed as native forest. The latter provides natural habitats for the original flora and fauna.

Through the plantation programme, rundown pastures will gain tree cover, 40 per cent of which will be native species, providing natural habitats for the indigenous flora and fauna.

HOW IT IS DONE

In addition to preserving native forest, soil and water conservation techniques are applied to make the land productive again.

The new areas are first surveyed, and a plan then tailored to fit the landscape. Planting lines are determined with due consideration to the local topography. To avoid erosion, these lines accord with land levelling curves, obstructing rain-water run-off and protecting the land. Specialised devices are used to confine preparation to the planting lines, allowing the soil between lines to remain untouched and grass-covered.

Run-off containments are constructed at regular intervals between planting lines to decrease the possibility of erosion. Should erosion reappear, correction procedures are implemented.

HARVEST AFTER 12 YEARS

A climate range from temperate to sub-tropical encourages the plantation forests to grow at a unique speed, with the trees ready to be harvested in a mere 12 years. When harvested they will be replaced by new seedlings.

A pilot project tested several species particularly suited to the relevant local climates. Research will continue to ensure optimum quality.

Seedlings five to seven months old are planted out in the plantations, spaced two metres apart and with three metres between lines, giving space for weed control.

This programme allows Norske Skog Pisa to combine commercial land use with improved care for the natural environment. To secure certification as environmental forest, the mill's plantations are established and managed in accordance with systems such as the Forest Stewardship Council (FSC) and the Brazilian National Forest Certification Scheme (CERFLOR).

High quality seedlings, adapted to the local climate, are cultivated in the nursery for the new plantations.

Raw material consumption

Norske Skog's mills use renewable and recovered raw materials. The mature trees felled, whether in the mixed forests which grow slowly in the northern hemisphere or the fast-growing pine plantations of the southern, are replaced by new growth. Roundwood suppliers ensure future raw material deliveries through skilled cultivation and long-term planning.

Forests sustain valuable ecosystems which are important for the total balance of life on Earth. Trees often serve as a symbol of healthy environments. The many important functions comprised by forests mean that everyone who uses them must be conscious of their impact, both immediate and long-term. Biological diversity in forests, with their micro-organisms, plants and animals, forms a balance which can be disrupted through unwise human intervention.

Norske Skog is not a significant forest owner. Its contribution to sustainable forest management accordingly rests on the requirements it sets for roundwood suppliers. These requirements build on generally accepted criteria and indicators. Internationally recognised environmental management systems and third-party certification are used to ensure that the requirements are met. The decision to certify a forest rests with its owner. Certification takes time to implement in the global diversity of forests which supply Norske Skog's roundwood, so the proportion of certified purchases varies from mill to mill. Around 60 per cent of the 4.9 million cubic metres of roundwood purchased for Norske Skog in 2003 came from certified forests. Nine per cent was solely ISO 14001 certified.

Recovered paper is an important raw material in newsprint production.

Showing environmental care is not confined to protecting the biological diversity of ecosystems. Respect for laws and property rights are highly significant for holistic management. Efforts must be made to combat illegal logging. As an environmentally aware purchaser, Norske Skog has developed systems to identify the origin of the roundwood it uses. These tracing systems are in the process of being certified. When the company knows where roundwood has been felled, it can also assure itself that the forest management and sale are legal and environmentally acceptable.

In addition to roundwood, 2.2 million solid cubic metres of sawmill chips were used in Norske Skog's paper production. A similar emphasis on traceability is applied to this raw material.

Roundwood and chips are not only renewables, the wood fibres are also recycled several times. Recovered paper is an important raw material for the company. Such recycling represents a good use of resources. Used newspapers and magazines do not belong in landfills, where they have a negative impact on the environment. Paper products no longer suited to be recovered as paper can serve as biofuel for energy generation.

Norske Skog's wholly-owned mills purchased 1.4 million tonnes of recovered paper in 2003, or about 25 per cent of their fibre raw materials. This is below the industry average, which reflects a number of factors. For instance, a limited amount of recovered paper is available in relation to production in Norway. It provided only 10 per

Wood is chipped before it is used for pulp production.

cent of the fibre consumed at the Norwegian mills, which accounted for 35 per cent of company production. This is despite the high level of paper collection in Norway. Conditions for using recovered paper are better in continental Europe, with its large population concentrations and shorter transport distances. This raw material accounts for almost 70 per cent of Norske Skog's newsprint production in the region. Less recycled fibre is used in magazine paper. In its day, Norske Skog Bruck in Austria was a pioneer in using recovered paper to make coated magazine paper. The mills in Brazil, Chile and New Zealand do not use recovered paper.

Chemical pulp is added in magazine paper to provide the necessary strength. Norske Skog does not produce chemical pulp itself, but purchased a total of 245 000 tonnes or six per cent of fibre consumption.

Inorganic fillers and coating materials are also used for a number of paper grades. Consumption in 2003 came to 526 000 tonnes or 11 per cent of production.

EUROPE

Purchases of roundwood and chips for the European mills totalled just below 4.5 million cubic metres, a slight increase from 2002. Sixty-eight per cent of the roundwood came from certified forests, on par with the year before. Just above 1.2 million tonnes of recovered paper was purchased, slightly up from 2002. Purchases of chemical pulp totalled 211 000 tonnes compared to 185 000 tonnes the year before, with fillers and pigments up from 440 000 to 512 000 tonnes.

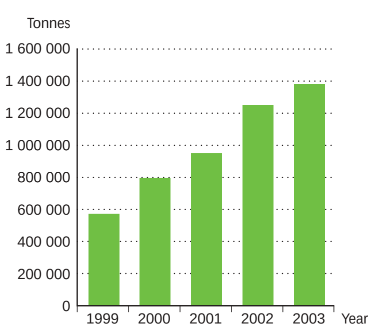
SOUTH AMERICA

Raw materials for the Brazilian and Chilean mills come from forest plantations, with 596 000 cubic metres purchased as roundwood and 192 000 cubic metres as chips. These figures represented a slight rise from 2002. Sixty-seven per cent came from certified plantations, an increase from 60 per cent in 2002. Purchases of chemical pulp came to 13 000 tonnes compared to 17 000 tonnes in 2002, with fillers up from 1 500 to 2 200 tonnes.

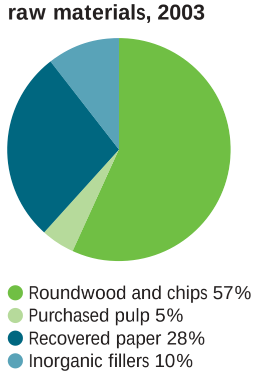
AUSTRALASIA

Roundwood and chips for the mills in New Zealand and mainland Australia derive from plantations, and totalled 775 000 cubic metres and 485 000 cubic metres respectively. Norske Skog Boyer used 452 000 cubic metres of plantation roundwood as well as 140 000 cubic metres from cultivated forests. Total purchases were roughly on par with 2002. Forty per cent came from FSC or ISO 14001 certified forests, compared to 33 per cent the year before. Recovered paper purchases increased slightly, from 150 000 tonnes in 2002 to 170 000 tonnes. Purchased chemical pulp declined slightly to 21 000 tonnes, while fillers rose from 9 000 to 12 000 tonnes.

Use of recovered paper, Norske Skog 1999-2003



Consumption of raw materials, 2003



Proportion of recycled fibre in newsprint 2003	
Norske Skog Albury, Australia	42%
Norske Skog Boyer, Australia	22%
Norske Skog Bruck, Austria	81%
Norske Skog Golbey, France	65%
Norske Skog Parenco, The Netherlands	69%
Norske Skog Skogn, Norway	27%
Norske Skog Steti, The Czech Republic	45%

Energy consumption

Electricity 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 both for the environment and for mill profitability.

Energy consumption and the mix of electricity and heat depend in part on the type of raw material used in the process. Generally speaking, mills based on mechanical pulp consume more electric energy than those which utilise recovered paper. However, the latter need more purchased fuel to generate thermal energy. Producing mechanical pulp yields biofuel in the form of bark, organic sludge and other wood waste, which normally are used to generate steam. Mills based on thermomechanical pulp (TMP) also recover part of the electricity used in the TMP process as heat that can be recovered and used in other parts of the process. With mechanical pulping, the type of wood used is also significant for energy consumption. Norske Skog's mills in Australasia and South America utilise various types of pine which require more electricity in the refining process than the spruce commonly used in Europe.

The choice of energy carrier is very significant in environmental terms. While the industry cannot exert much influence on the sources of the electricity it takes from the grid, mills are more able to make choices on thermal energy. Norske Skog has worked for many years to reduce its consumption of fossil fuel through increased use of biofuels generated on-site or purchased externally, and through heat recovery from the production process.

ENERGY USE BY NORSKE SKOG

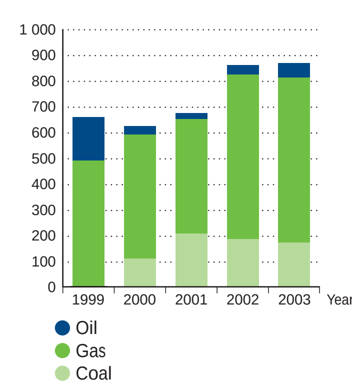
Energy consumption at the company's wholly owned mills in 2003 totalled 18 300 gigawatt hours (GWh), comprising:

Electricity	10 600 GWh
Thermal energy	7 700 GWh

Of this, 2 300 GWh was biofuel generated on-site or purchased externally, and 1 630 GWh was heat recovered from the TMP process. Heat from fossil fuels accounted for 2 790 GWh, or 15 per cent of total energy consumption.

The biggest users of fossil fuel are the co-generation plants at Norske Skog Bruck and Norske Skog Parenco, where natural gas is used to generate both electricity and heat. In the Australian mills gas and coal are largely used to generate heat. Consumption of fossil fuels at these facilities accounted for almost 90 per cent of total usage by Norske Skog's mills in 2003.

Use of fossil fuels (kWh per tonne of paper)



More than 90 per cent of the electricity used in 2003 was purchased from external sources. Of this, more than 70 per cent was hydropower.

Norske Skog will continue its efforts to minimise the use of fossil fuel and thereby its emissions of carbon dioxide, one of the greenhouse gases. Organic waste produced on-site will be used as far as possible to replace fossil fuels. Among the latter, natural gas will be given priority where available.

ELECTRICITY

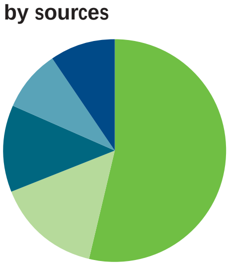
Ninety-two per cent of the electricity consumed in 2003 was purchased from external suppliers, with eight per cent generated in-house – mainly from the co-generation plants at Norske Skog Bruck and Norske Skog Parenco. Small quantities were also generated from biofuel at Norske Skog Saugbrugs, Norske Skog Bio Bio, and Norske Skog Tasman. Average specific consumption of electricity across all the mills in 2003 corresponded to 2 295 kilowatt hours per tonne of paper produced, compared to 2 315 kWh/t the year before.

THERMAL ENERGY

Heat is primarily used for drying in the paper machines. About 50 per cent of the thermal energy used in 2003 was recovered from the production process for TMP or generated from biofuel. Just under 28 per cent was produced in-house by fossil fuels. The remainder was primarily steam purchased from external suppliers as well as geothermal energy used at Norske Skog Tasman in New Zealand.

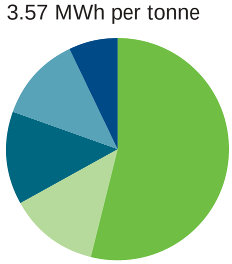
As mentioned earlier, a considerable proportion of the electricity used in the TMP process is converted to heat. Most of the Norske Skog mills based on TMP recover this energy for use in other parts of the production process. More than 20 per cent of the total energy used as electricity in these mills was recovered in the form of heat during 2003.

Energy consumption total Norske Skog, by sources



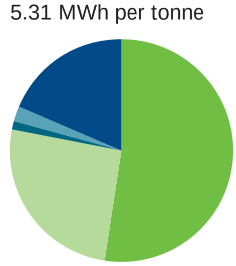
- Purchased electricity 54%
- Fossil 15%
- Bio 13%
- Recovered 9%
- Other 9%

Europe
Total: 12 300 GWh
3.57 MWh per tonne



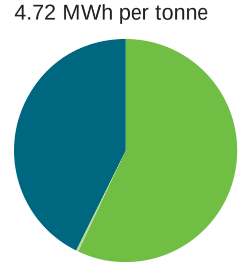
- Purchased electricity 54%
- Fossil 13%
- Bio 14%
- Recovered 12%
- Other 7%

Australasia
Total: 4 590 GWh
5.31 MWh per tonne



- Purchased electricity 52%
- Fossil 26%
- Bio 1%
- Recovered 2%
- Other 19%

South America
Total: 1 370 GWh
4.72 MWh per tonne



- Purchased electricity 57%
- Fossil 0.5%
- Bio 42.5%

Positive development for discharges to water

DISCHARGES FROM PRODUCTION

Paper is an environment-friendly product based on renewable raw materials. It can be recycled into new paper products, or utilised as biofuel for energy generation. Caring for the environment applies along the whole value chain.

Environmental loads have traditionally been related to the production process, where the main focus has been on discharges to water. These consist mainly of dissolved organic material and fibre as well as nutrients in the form of nitrogen and phosphorus compounds.

Emissions to air derive primarily from energy generation. Most mills have their own incinerators for generating thermal energy. In modern mills, organic waste from the production process is utilised as biofuel for thermal energy production. Fossil fuels are used as supplemental energy sources. The principal emissions comprise sulphur dioxide and nitrogen oxides as well as carbon dioxide from burning fossil fuels.

Discharges to water from Norske Skog's mills have shown a positive trend over the past three years. Specific discharges (the amount discharged per quantity of paper produced) of dissolved organic material (chemical oxygen demand – COD) to water fell by more than 25 per cent from 2001, while suspended solids were down by 35 per cent. Nutrients released rose about seven per cent for nitrogen compounds, while phosphorus compounds have been reduced by seven per cent.

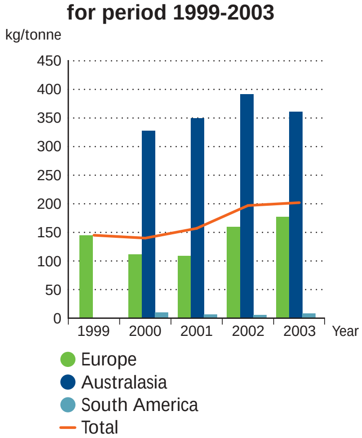
Progress was made on emissions to air of sulphur dioxide and nitrogen oxides, which both fell by almost 20 per cent. However, fossil carbon dioxide emissions rose almost 30 per cent from 2001. Much of this increase occurred in 2002 as a result of acquiring Norske Skog Parenco, which generates much of its energy in its own gas-fired co-generation plant.

Emissions and discharges from the mills are measured regularly, but measuring and reporting routines vary somewhat in line with national requirements and regulations.

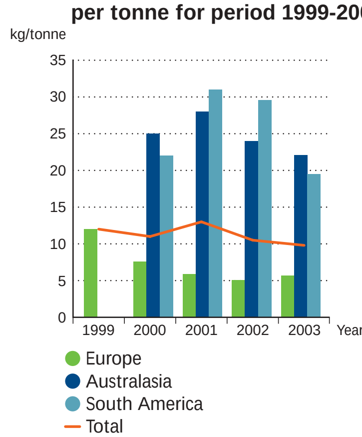
EUROPE

The process of adapting to the EU's integrated pollution prevention and control (IPPC) directive is under way at several of the European mills. Norske Skog Saugbrugs was the first Norwegian paper mill to receive a permit based on this directive, and it has until 31 December 2007 to meet its new requirements. New limits are set in the permit for emissions,

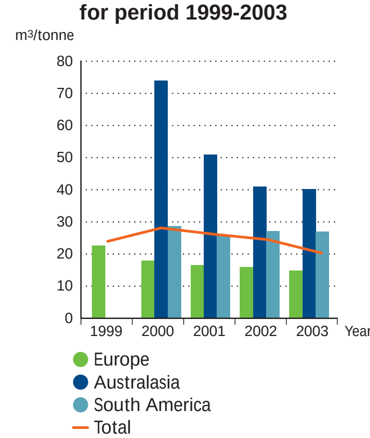
Trends in emissions of CO_2 per tonne for period 1999-2003



Trends in discharges of organic substances (COD) per tonne for period 1999-2003



Trends in discharges of waste water per tonne for period 1999-2003



Karl Hafner works on sampling and control of the effluent treatment plant at Norske Skog Bruck.

discharges and noise. Some adjustments will be required to meet these standards, but they do not call for substantial investments. Norske Skog Follum will apply for a new emission permit during 2004, including an assessment of measures required to satisfy the IPPC directive.

Reducing water consumption has been a goal for several of Norske Skog's European mills in recent years, and the volumes used show a steadily declining trend. Specific discharges of organic material (COD) for the European mills have been relatively stable over the past three years, at an average level of just above five kilograms per tonne of paper produced.

As mentioned earlier, Norske Skog experienced a significant rise in fossil carbon dioxide emissions following the acquisition of Norske Skog Parenco. These increased by a 11 per cent from 2002 to 2003, largely reflecting high hydroelectricity prices in Norway early in the year because water reservoir levels were low. As a consequence, the mills had to use more oil to generate energy.

AUSTRALASIA

Discharges to water have shown a positive trend during the past three years. Average specific water consumption at the three mills declined by 25 per cent from 2001 to 2003, while discharges of organic material (COD) fell by 21 per cent. The biggest reduction was achieved at Norske Skog Boyer, which cut organic material (COD) discharges by more than 40 per cent. A rising trend in emissions of fossil carbon dioxide from the Australasian mills was reversed in 2003, with an eight per cent reduction from 2002.

On average, discharges to water are significantly higher than at the European mills. This partly reflects particular conditions at Norske Skog Boyer. The mill does not have a biological effluent treatment plant. Further, for part of the pulp production, the mill applies an unusual process which yields higher discharges than traditional pulp production at newsprint mills. The prosess is used to utilize eucalyptus as a raw material.

An environmental impact assessment has been carried out for a planned expansion in production at Norske Skog Albury, where the aim is to increase output without raising emissions. This study has been submitted to the authorities as documentation of the environmental impact of the project.

Another project at the same mill to recover heat from the TMP process was finalised in 2003. Gas consumption was higher than usual during the project period, which lead to increased carbon dioxide emissions. The project has been a success, and fossil carbon dioxide emissions will be reduced as an outcome of the project.

SOUTH AMERICA

Norske Skog Bio Bio in Chile began using its new sedimentation plant for waste water treatment in May 2003, allowing it to meet new national discharge standards for suspended solids. The treatment facility has reduced discharges of suspended solids by 85-90 per cent, and almost halved the release of organic material measured as COD. However, the mill is not yet able to meet the national standard for easily degradable organic matter (biochemical oxygen demand over five days – BOD5). The mill is in dialogue with the authorities, and work is in progress to find the cause and identify and implement measures.

The mill will also cut boiler dust emissions by rebuilding boilers and installing an electrostatic precipitator. This project is due for completion in 2005.

Noise

Minor infringements of noise limits set by the authorities have been detected at the Norske Skog Skogn and Norske Skog Tasman mills. However, neither of them have received complaints from neighbours and remedial measures are under assessment or planned. Six of the mills received complaints from neighbours in 2003, mostly relating to specific incidents where remedial action was taken immediately.

Waste

Sludge from effluent treatment and bark are the dominant types of organic waste in the mills. They are largely incinerated to generate thermal energy. This yields substantial quantities of ash, totalling 150 000 tonnes in 2003. About 65 per cent of the ash was used as a raw material in cement production, while the rest largely went to landfills. Hazardous materials account for less than one per mille of the waste produced at Norske Skog's mills.

The volume of waste generated in the mills has risen in line with spending on biological treatment plants, which yield large quantities of sludge. To deal with these increased waste volumes, substantial investments have been made in dewatering equipment and sludge incineration to generate energy. The aim is to exploit as much biological waste as possible for energy purposes and thus reduce the amount of waste to landfills. Virtually all organic waste is now used in this way in Europe and South America. The proportion is much smaller in Australasia, where more use is made of sludge and ash for soil improvement in agriculture.

Transport

TRANSPORT OF RAW MATERIALS

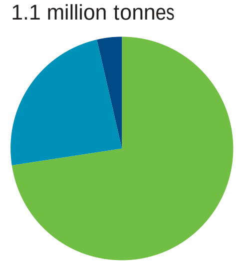
The mix of transport methods used to bring raw materials to the mills varies greatly from region to region, reflecting differences in mill location, local infrastructure and established transport patterns. Road transport dominated overall in 2003, with a 75 per cent share. Rail and maritime transport accounted for 13 and 12 per cent respectively.

The share of road transport in Europe rose from 68 per cent in 2002 to 71 per cent in 2003. Rail and maritime transport declined correspondingly, from 16 to 13 per cent for the former and 21 to 17 per cent for the latter. Australasia and South America showed no significant change from 2002.

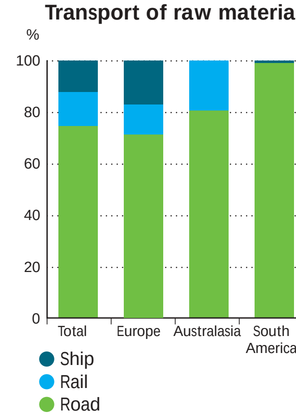
TRANSPORT OF PRODUCTS

Transport of finished products from the mills was similar to 2002, with 42 per cent going by road, 23 per cent by rail and 35 per cent by ship. Road transport dominates in South America, while it is spread more evenly between all three modes of transport in Europe and Australasia.

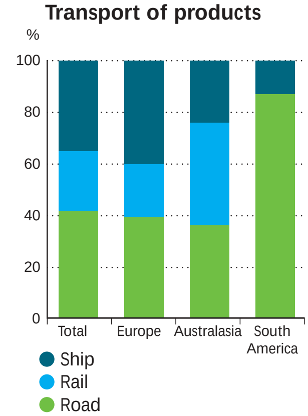
Total production waste generated by Norske Skog mills 2003
Total waste volume
1.1 million tonnes



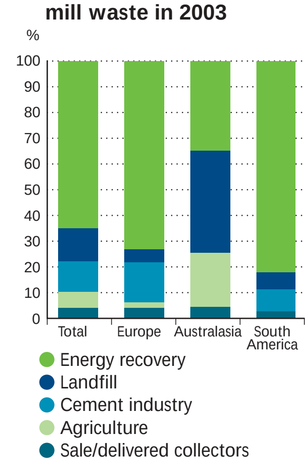
Transport of raw materials



Transport of products



Disposal of mill waste in 2003



Environment-related costs

Environment-related costs comprise environmental investments and environment-related operating costs. Costs shown here are based on best estimates and on spending which Norske Skog believes has primarily been made to achieve environmental improvements.

Environmental investments are defined as costs relating to the installation of treatment plants and waste-handling equipment, noise reduction, energy saving, environmental monitoring and environment-related rehabilitation.

Environment-related operating costs are defined as the cost of chemicals for treatment plants and sludge dewatering, maintenance of such facilities, salaries to employees involved in environment-related work and treatment plant operation, environment-related trials, surveys, fees and taxes, and the operation and maintenance of waste deposits.

Environmental investment at Norske Skog's mills in Europe, Australasia and South America totalled NOK 178.5 million in 2003. The largest projects were the construction of a new biofuel boiler at Norske Skog Parenco and the completion of a new waste water treatment plant at Norske Skog Bio Bio.

NOK 123 million was spent on the Norske Skog Parenco boiler, with work beginning in late 2002 and the facility starting up as planned in January 2004. Total investment came to roughly NOK 280 million.

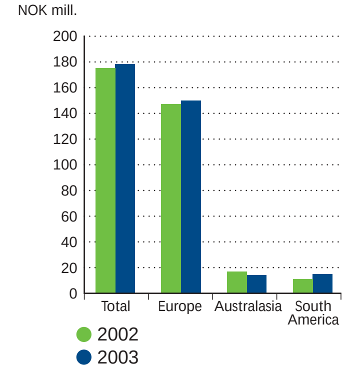
The treatment plant at Norske Skog Bio Bio became operational in May 2003 at a total investment of just under NOK 20 million, of which NOK 8.5 million was incurred in 2003.

Most of the investments were devoted to the use and handling of chemicals, waste water treatment and waste handling. This spending accounted for about 85 per cent of environmental investment.

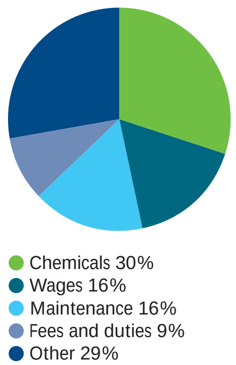
Environment-related operating costs increased by 11 per cent from 2002 to NOK 266 million. Chemicals for treatment plants and sludge dewatering accounted for 30 per cent of this outlay, and accordingly represented the largest component. The rise in spending reflects the production increase from the year before. Environment-related operating costs totalled NOK 58 per tonne of product, which is an increase of five per cent compared to the previous year.

The presentation of environment-related costs only takes account of outlays. However, many of these investments will also yield savings. Examples include spending on new, more energy-efficient equipment and on waste treatment which yields organic sludge to serve as biofuel and thereby reduce fuel purchases. Other examples are improved dewatering of sludge, which enhances its calorific value and also contributes to cut fuel purchases, and lower water consumption. The last of these reduces energy requirements because it cuts volumes that need to be heated.

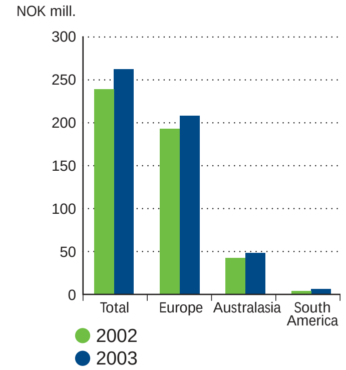
Environment-related investments

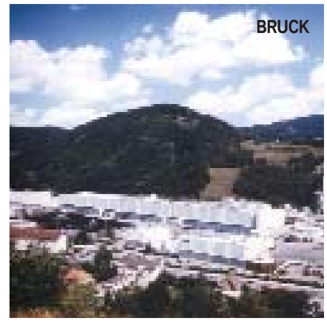


Environment-related operating costs, by type category, 2003



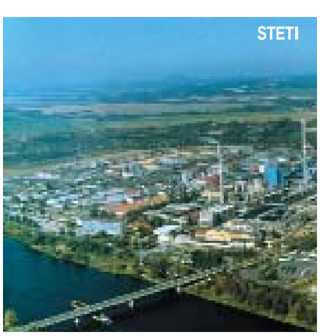
Environment-related operating costs

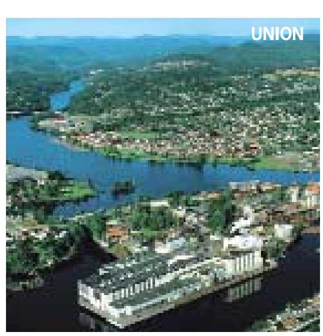


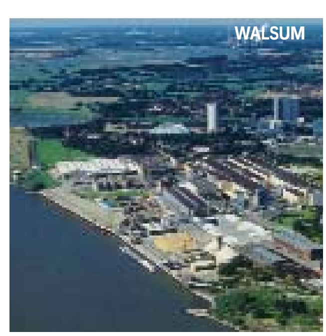


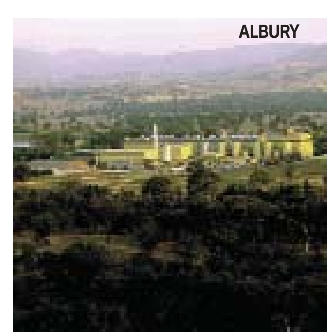
Mill figures

		EUROPE					
		BRUCK	FOLLUM	GOLBEY	PARENCO	SAUGBRUGS	SKOGN
Production	1 000 tonnes	351	378	544	427	521	519
USE OF ENERGY							
Electric power	MWh/tonne	1.26	2.74	1.79	1.59	2.60	2.59
	GWh	440	1 035	972	679	1 353	1 342
Thermal energy	GJ/tonne	4.75	5.98	4.73	5.20	5.09	5.26
	TJ	1 669	2 260	2 573	2 220	2 652	2 728
DISCHARGE TO WATER							
Effluent	m^3/tonne	11.4	16.5	10.6	11.1	17.4	13.5
	1 000 m^3	4 008	6 241	5 766	4 740	9 076	7 007
Organic material (COD)	kg/tonne	1.9	12.8	1.7	3.0	6.8	4.9
	tonnes	674	4 846	925	1 281	3 538	2 543
Suspended solids (SS)	kg/tonne	0.2	1.2	0.1	0.1	0.6	0.9
	tonnes	53	442	71	43	333	467
Phosphorous (tot-P)	g/tonne	4.6	6.4	9.4	17.1	7.5	10.1
	tonnes	1.6	2.4	5.1	7.3	3.9	5.2
AIR EMISSIONS							
CO_2 (fossil)	kg/tonne	710	10	45	591	72	7
	tonnes	249 210	3 667	24 698	252 357	37 278	3 410
WASTE							
Waste to landfill	kg/tonne	0.0	12.5	10.8	3.4	15.0	18.5
	tonnes	0	4 706	5 875	1 452	7 810	9 602
ENVIRONMENTAL MANAGEMENT SYSTEMS							
Type*		ISO	ISO/EMAS	ISO	ISO/EMAS	ISO/EMAS	ISO/EMAS

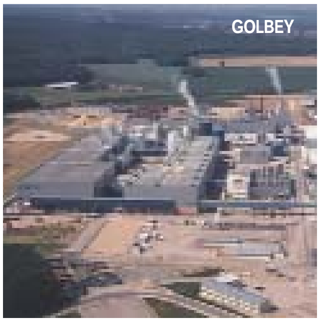


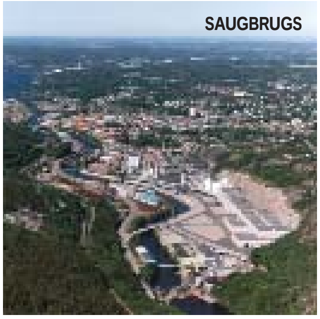




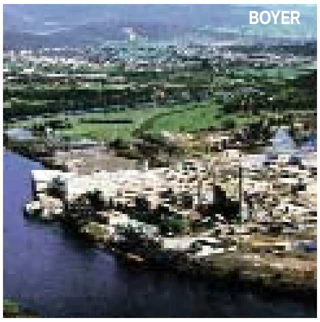


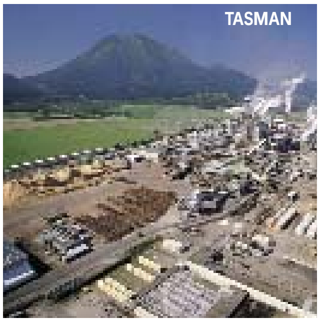
* ISO = ISO 14001, EMAS = EU Eco Management and Audit Scheme





			AUSTRALASIA			SOUTH AMERICA	
STETI	UNION	WALSUM	ALBURY	BOYER	TASMAN	BIO BIO	PISA
97	196	417	271	279	362	117	174
1.62	2.72	1.84	2.14	2.28	3.47	2.31	3.22
158	533	769	580	635	1258	270	560
4.70	5.62	5.82	7.31	8.49	9.06	4.79	8.01
456	1 102	2 429	1 981	2 369	3 280	560	1 394
29.3	17.2	12.6	11.7	47.7	49.7	39.5	17.5
2 846	3 371	5 254	3 171	13 308	17 991	4 622	3 045
6.5	10.1	3.6	2.6	43.7	10.7	43.1	3.6
632	1 980	1 489	696	12 192	3 873	5 043	630
1.2	1.8	0.2	0.2	4.0	2.9	15.6	0.3
113	347	71	43	1 116	1 050	1 825	54
10.4	27.0	9.8	8.7	25.7	n.a.	91.0	8.0
1.0	5.3	4.1	2.3	7.2	n.a.	10.6	1.4
0	81	64	335	855	30	19	0
0	15 876	26 855	90 785	238 545	10 788	2 223	0
5.9	7.7	0.2	21.5	197.1	39.7	6.0	14.3
570	1 499	71	5 832	54 991	14 379	702	2 488
2004	ISO	ISO/EMAS	2004	ISO	2004	ISO	2004





Norske Skog and the climate change issue

Climate change poses a number of questions - are we approaching a new ice age or facing global warming? Are increasing weather disaster phenomena caused by human activities or are they following a long-term natural cycle? Experts provide different answers and the topic is discussed very emotionally.

The facts show that the global average temperature has increased by about 0.8ºC over the past 140 years. Such change has of course also to been seen in a longer perspective. If we review a 1 000-year period we can observe a trend with the temperature accelerating at the end of the period. A variety of today's modern scientific tools make it possible to investigate long periods even without written documentation.

Another measurable trend is the increase of carbon dioxide in the atmosphere. This is one of the so-called greenhouse gases that have been identified as a principal driver behind the increase in the global temperature.

Powerful calculation models can now provide an indication of future trends. Over the next century, the carbon dioxide concentration is expected to almost double - in the best case - or even triple in a worst-case scenario. This could increasingly affect weather conditions and cause the sea level to rise.

It was soon recognised by the international community that this issue cannot be resolved at local or national levels. Several conferences have been held to find a common approach for solutions. These resulted in several protocols, and many industrial countries committed themselves to reduce their emissions of greenhouse gases.

The most important step was taken in Kyoto in 1997, when a number of countries committed themselves to quantified reduction targets. Known as the Kyoto Protocol, this will become operational if and when it is ratified by Russia, as the USA and Australia have already decided not to ratify the Protocol.

While the European Union has agreed to reduce its carbon dioxide emissions to a level eight per cent on average below the 1990 figure for the period 2008 to 2012, the average global commitment target is 5.2 per cent.

National targets have been set in burden sharing agreements in the EU, and directives provide the framework for national strategies, allocation plans and trading schemes for carbon dioxide quotas. Similar steps have also been taken in other regions and countries.

As a global company, Norske Skog faces different challenges at both mill and national levels. Its production processes are energy-intensive. Reducing power consumption has been and still is a continuous target, and the company will have to face this topic from an economic as well as an ecological point of view in the future.

A working group has been established by the company to approach this topic systematically. Available data are being evaluated to help identify developments and areas that can be influenced. In the long term, strategic considerations will be determined at the corporate level.

The range of responses include further reductions in consumption of energy and fossil fuels, and the kind of cross-border projects and emission trading known as flexible mechanisms in the Kyoto Protocol. Such strategies must be seen in a financial and competitive context as well as in relation to Norske Skog's corporate social responsibility.

Independent accountant's report

ABOUT THE REPORT

The environmental report contains environmental information which we believe 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 31.12.2003.

Data for the environmental accounts have been collected from the mills in accordance with established reporting routines. These consist of monthly, standardised reporting on the most relevant environmental data, as well as supplementary information collected annually – also according to standardised routines. The monthly reporting includes production volumes, consumption of raw materials, use of energy, emissions and waste handling. The figures from the reports are compared and compiled by the Corporate Environmental department into standardised monthly reports for the Corporate Management and quarterly reports to the Board.

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, the environmental report should be reliable and quality-checked. Consequently, it has, for the past eight years, been controlled by Deloitte. 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 been engaged by management of Norske Skogindustrier ASA to review certain aspects of the Norske Skog Environmental Report 2003 presented on pages 60 – 79 and the GRI Index presented on page 118 (in total referred to as the "Report") in the Norske Skogindustrier ASA Annual Report 2003. The Report is the responsibility of and has been approved by Norske Skogindustrier ASA management.

The Report discloses information on the most significant environmental aspects at Group level. The environmental data presented in the Report are based on specific reporting procedures used to collect, compile and validate environmental data from reporting units, as described on page 79 in the Report. The Report also discloses information about extent to which the Norske Skogindustrier ASA Annual Report 2003 aligns with the indicators listed in the Global Reporting Initiative (GRI) 2002 Sustainability Reporting Guidelines.

We have based our approach on the principles of the international standard ISA 100 issued by the International Auditing and Assurance Standards Board (IAASB). The standard requires that we plan and conduct our work to obtain moderate assurance on the subject matters referred to above.

Our engagement included a review on a sample basis of evidence supporting the subject matters, and performing such other analytical procedures and interviews as we considered necessary in the circumstances. In a review-level engagement, less assurance is obtained than would be the case had an audit-level engagement been performed. We believe that our review provides an appropriate basis for our conclusion on the subject matters.

In conclusion, nothing has come to our attention that causes us not to believe that:

1. The environmental aspects presented in the Report comprise the most significant ones at Group level.
2. Norske Skogindustrier ASA has applied detailed procedures for the purpose of collecting, compiling and validating environmental data from its reporting units for inclusion in the Report.
3. The aggregated information accumulated as a result of the procedures noted above is consistent with the data reported from reporting units and appropriately reflected in the Report.
4. The environmental information for 2003 reported from a sample of two reporting units visited (Norske Skog Skogn and Norske Skog Walsum) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
5. The GRI Index presented on page 118 in the Report is based on a systematical approach and appropriately reflects to what extent the Norske Skogindustrier ASA Annual Report 2003 aligns with the indicators listed in the GRI 2002 Sustainability Reporting Guidelines.

Oslo, March 4, 2004
DELOITTE
Statsautoriseret Revisionsaktieselskab

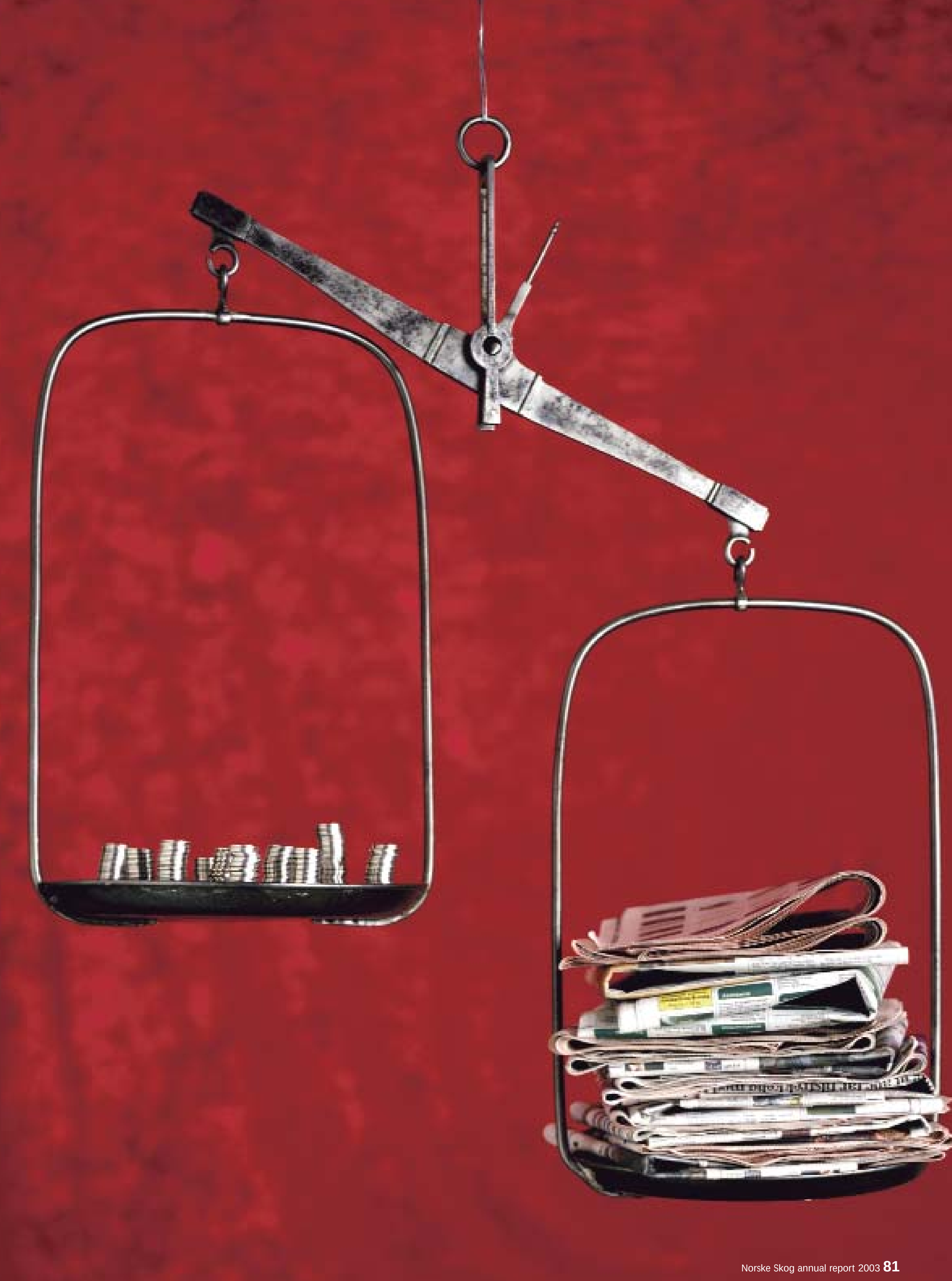
Preben J. Sørensen
State Authorised Public Accountant

Ready for a new upturn

Results for 2003 were again affected by weak markets, and cost discipline remains necessary. The group is nevertheless maintaining good operating margins and has a solid financial position, which can be attributed primarily to the ambitious Improvement 2003 programme and favourable currency developments.

Jan Reinås resigned after a 10-year contribution to the group and was succeeded by Jan Oksum on 1 January 2004.

At the beginning of 2004, Norske Skog is in a good position to meet new market growth.



Economic downturn continued in 2003

Comment on results: operating margins still good

Norske Skog succeeded in increasing sales volumes during 2003 despite difficult markets, but this only partly offset the low prices. The Norwegian krone (NOK) has been very volatile over the past two years. A strengthening in 2002 of 17 per cent against Norske Skog's trade-weighted currency basket and 10 per cent against the euro was followed during 2003 by a weakening of nine per cent against the basket and 16 per cent against the euro. Currency development during 2003 was positive for the company, especially for the Norwegian mills, which export more than 90 per cent of their total production.

Norske Skog's gross operating revenue was NOK 24.1 billion in 2003 (2002: NOK 23.4 billion), and operating earnings were NOK 1.4 billion (2002: NOK 1.9 billion) before allowing for the accounting effect of the restructuring. The weaker performance primarily reflects the continued low prices in most markets, higher raw material prices and reduced net earnings for PanAsia compared with 2002. Cash flow from operations was NOK 3 billion (2002: NOK 3.7 billion), while the gross operating margin was 19.5 per cent (2002: 22.1 per cent).

The group sold its remaining forest properties in November 2003 for NOK 153 million, resulting in a book gain of NOK 133 million. However, this gain will not be recorded until the concession process has been completed, probably not before the third quarter of 2004.

Norske Skog's holding in NorskeCanada was reduced from 30.6 to 29.4 per cent during 2003. This followed the acquisition by NorskeCanada during December 2003 of a mill in British Columbia which produces de-inked pulp (DIP) from recovered paper. The settlement for this transaction was partly in the form of shares.

Losses of NOK 160 million and NOK 87 million (2002: NOK 245 million and NOK 58 million) were recorded under affiliated companies as the company's share of the after-tax loss at NorskeCanada and Malaysian Newsprint Industries (MNI) respectively. Nordic Paper and other affiliates made a positive contribution totalling NOK 8 million.

Trading in surplus electricity on the Norwegian market yielded a total gain of NOK 196 million over the year as against NOK 77 million in 2002.

Net financial items (financial income less financial expenses) amounted to an expense of NOK 1.3 billion (2002: expense of NOK 405 million) after charging a loss of NOK 278 million relating to currency hedging. Currency hedging yielded a gain of NOK 893 million in 2002.

Net earnings were affected by a number of one-time items. The group's gain on the sale of its power stations was NOK 907 million before tax and NOK 465 million after tax. The book value of the Australian forests in Tasmania was written down by AUD 17 million (NOK 84 million), while the value of Norske Skog's holding in MNI was written down by NOK 38 million. In 2002 a restructuring provision of NOK 600 million was made. In 2003 NOK 135 million of this provision was transferred back.

When comparing the earnings for 2003 and 2002, allowance must be made for a one-off gain in 2002 of NOK 175 million from the sale of forest properties in southern Norway and Sweden.

Earnings before taxation were NOK 770 million (2002: NOK 806 million).

Tax cost for the year amounted to NOK 364 million, as against a tax gain of NOK 362 million in 2002 from large one-time items.

Net earnings came to NOK 406 million (2002: NOK 1.2 billion). Earnings per share after tax were NOK 3.04 (2002: NOK 8.79), and cash flow from operations, per share was NOK 22.45 (2002: NOK 27.89). The share price at 31 December 2003 produced price/earnings and price/cash flow ratios of 41.8 and 5.7 respectively.

Return on capital employed was 3.6 per cent in 2003 before allowing for the accounting effect of the restructuring. The group's long-term goal is an average return of 13 per cent.

The board proposes a dividend of NOK 6 per share, this is unchanged from 2002. This is in line with the company's dividend policy to pay out a consistant dividend equivalent to one third of net earnings over an economic cycle.

The board confirms that the enterprise is a going concern and the board confirms that the annual accounts have been prepared according to this.

Financial: investment grade rating

Norske Skog is rated by two of the world's leading credit rating agencies, Standard & Poor's and Moody's. Standard & Poor's rates Norske Skog as BBB, which is in line with Norske Skog's target. Moody's gives a rating of Baa3, while Norske Skog's long-term target is Baa2. Standard & Poor's changed its outlook from stable to negative in March 2003.

GEARING REDUCED

Norske Skog's goal is a ratio of net interest-bearing debt to equity (gearing) below 0.9 over a rolling five-year period. At 31 December 2003, the ratio was 0.92 as against 1.02 a year earlier. This means that the group was able to improve its debt-equity ratio despite the economic downturn. Consolidated equity at 31 December was NOK 19.4 billion (2002: NOK 17.9 billion) including minorities. This corresponds to NOK 147 per share (2002: NOK 136).

LONG-TERM BOND LOAN ENSURES FLEXIBILITY

Norske Skog took up a long-term bond loan totalling USD 400 million (NOK 2.8 billion) in September 2003. The financial market showed great interest in this transaction, which was substantially oversubscribed. The loan comprises two tranches, each of USD 200 million, with the first falling due in 2015 and the second in 2033. The interest margin on the loan is competitive, and Norske Skog is thereby one of the very few Norwegian companies that has succeeded in raising a 30-year loan. This ensures continued good financial flexibility and reduces long-term debt repayments in 2003-07 by more than USD 300 million. The maturity of the loan portfolio increased after the refinancing to more than seven years.

ADJUSTMENT OF FINANCIAL TARGETS

Norske Skog has financial targets which are intended among other purposes to support its main objective of creating value for the owners. The most important of these targets relate to the level of dividend, total return to shareholders, return on capital employed (ROCE), investment grade rating and the ratio of net interest-bearing debt to equity (gearing). In 2003, the Norske Skog board decided to adjust two of these targets. While the target for ROCE was reduced from 14 to 13 per cent, the gearing target was tightened from 1.0 to 0.9. The main reasons for these changes are the generally reduced requirements for return on equity and lower interest rates.

INVESTMENTS

Capitalised investment came to NOK 1.2 billion in 2003 (2002: NOK 1.1 billion), and comprised a number of small projects. Over the past three years, the group capital spending has been at a low level in order to reduce debt to meet the gearing target. Beginning in 2004, the capital spending will increase.

Risk management

Norske Skog's risk exposure relates primarily to changes in prices of its products, exchange rates and prices for input factors (principally wood, recycled fibre and energy). These and other risks are monitored and managed by the company's centralised risk management functions. The aim is to reduce Norske Skog's total risk and help to achieve more stable earnings.

Norske Skog hedges 50-100 per cent of expected cash flow in foreign currencies over the coming 12 months. At 31 December, the proportion hedged was about 80 per cent. Exchange rate fluctuations also affect the book value of group assets outside Norway. The group accordingly hedges its balance sheet against such fluctuations, primarily by matching the currencies in its loan portfolio with those in which its assets are denominated. The loss on cash flow hedging reflects a weakened Norwegian krone, and is accordingly positive for the group's profitability over time. This loss amounted to NOK 278 million in 2003.

Currency effects on the balance sheet were substantial in both 2002 and 2003 as a result of the sharp fluctuations in the Norwegian krone against the currencies in countries where the group has mills. While currency movements in 2002 produced a charge of about NOK 2 billion against equity, it increased equity by about NOK 1.8 billion in 2003.

To ensure stable and competitive energy prices, the group concludes long-term agreements for energy supplies. Such contracts cover all electricity requirements in Norway, Australasia and South America, and 60-90 per cent in continental Europe.

Stronger stock markets

Stock markets world-wide made good progress in 2003 compared with 2002, particularly in the second half. The Oslo Stock Exchange's benchmark index rose by 48 per cent over the year from 31 December 2002 to 31 December 2003. Including dividend, the Norske Skog share yielded a return of 36 per cent in the same period. The company also measures the return on its share against a reference group of relevant share indices and competitors. Measured in this way, the return on the share declined by 18 percentage points over the past two calendar years. To some extent, this reflects the high share price at the beginning of the period as well as the fact that currency developments, with a strong Norwegian krone, have been in the group's disfavour over much of the period. The lowest price for the Norske Skog share of NOK 86.50 was recorded in February 2003. The share price strengthened over the year to reach NOK 127 at 31 December. After the merger of the A and B shares and the international share issue in 2001, the Norske Skog share has been one of the most-traded on the Oslo Stock Exchange.

At 31 December 2003, Norske Skog was valued at NOK 16.9 billion (2002: NOK 13 billion) by the stock market, corresponding to 88 per cent of book equity. During 2003, 119 million of the shares were traded, or 90 per cent of the total number of shares. At 31 December, 62 per cent of the stock was held by individuals or companies domiciled in Norway. The forest owners' associations owned 21 per cent of the company at 31 December 2003.

Norske Skog held 732 752 of its own shares at 31 December 2003, or 0.5 per cent of the total number of shares. The board is authorised to buy back up to 10 per cent of the outstanding shares. This authorisation is valid until 10 October 2004. The board will propose to the general meeting that the authority be extended. Share capital was unchanged during 2003 and totalled NOK 1 331 370 880 at 31 December, divided between 133 137 088 shares with a par value of NOK 10 each. All the shares have equal voting rights.

Improvement programme

The Improvement 2003 programme aims to improve pre-tax earnings for 2003 and 2004 by a total of NOK 2 billion compared with the position in 2002. The programme was initiated in response to the economic downturn and to improve the group's competitiveness further. In following up the programme, adjustments are made for certain factors beyond the group's control – such as changes in exchange rates, paper prices and the cost of input factors like energy, recycled fibre and pulp.

The programme covers actions in all parts of the business, and reductions in payroll costs account for about 40 per cent of the total improvement. Otherwise, measures include raw materials procurement and services, savings on maintenance and logistics and optimisation of the sales volume and product mix. Besides the improvement programme, Norske Skog is also working to improve productivity at the mills in response to the general level of inflation on the cost side.

An important element in the improvement programme was a review of the whole group's organisational structure and the adoption of a standardised organisation and staffing in the mills, the sales offices and staff functions at all levels. This restructuring created a flatter and smaller organisation. Efficiency improvements and standardisation of working processes in administrative functions had yielded payroll cost reductions at 31 December of 30-35 per cent compared with the 2002 level.

This reorganisation took account of relevant competence, seniority and social considerations. Through close cooperation between management and unions, the need for compulsory redundancies was reduced with the aid of early retirement and the opportunity to take voluntary redundancy with a severance payment. Employees made redundant have received help in finding new jobs and individual counselling in line with the group's global guidelines. This work was kept to the planned timetable, with two-thirds of the total downsizing implemented during 2003. The workforce is thereby reduced by a total of 815 people from the level in the autumn of 2002.

Progress in the programme and the effect of the actions are followed up systematically and reported quarterly. At 31 December 2003, the group had achieved NOK 955 million of the NOK 1 billion target for this period.

	Baseline cost level 2002 NOK mill	Reduction target NOK mill	Achieved 2003 NOK mill
Mill operations			
Payroll costs in production and maintenance	2 800	450	163
Corporate and mill overhead			
Payroll costs	800	250	125
Other admin costs	1 200	200	73
Supply			
Raw material costs	4 900	150	124
Other variable costs	4 800	250	142
Maintenance, etc	2 000	200	63
Distribution			
Logistics and distr costs	1 800	150	69
Sales and prod optimisation		350	196
Total	**18 300**	**2 000**	**955**

Market and input factors

Newsprint prices in Europe and Australia declined slightly during the year. European magazine paper prices also fell a little. Overall, prices in the North American market rose by about USD 55 per tonne in 2003. These prices are indicative for price-setting in South America and Asian spot markets, which thereby also experienced increases in 2003. Combined with exchange rate developments, the North American prices lay the basis for price-setting in Australia and New Zealand, where prices are adjusted annually.

Demand for both newsprint and magazine paper rose substantially in Australasia and China, while total deliveries in western Europe increased by one and 2.5 per cent respectively. South American demand for newsprint declined in comparison with 2002, and was virtually unchanged in North America. Global demand increased by 0.6 per cent for newsprint and three-four per cent for magazine paper in 2003. In order to adjust output to deliveries, Norske Skog cut back production at its wholly-owned mills by 168 000 tonnes, or roughly 3.5 per cent of their total capacity.

The market for recovered paper is global, and is affected by Asian demand in both North America and Europe. Although prices fluctuated sharply during the year, the average euro-denominated price was roughly unchanged with 2002. Globally, chemical pulp experienced a substantial price rise during the first half year, with a continued increase towards the end of 2003. This yielded an overall price increase for the year of roughly 15 per cent measured in US dollars. At 1 January 2004, the reference price was USD 550 per tonne. The producers' stocks of chemical pulp are relatively high. Deliveries and prices for wood were stable in South America and Australasia, where the bulk of supplies are based on plantation forests. Wood prices were also stable in Europe, but available volumes in Norway have been lower than expected. This is increasingly being countered through long-term import contracts.

Capacity by regions - 2003
Inclusive of ownership in affiliated companies

Regional developments

EUROPE – DEMAND FOR MAGAZINE PAPER UP, BUT PRICES STILL LOW

The European business achieved an operating revenue of NOK 14.8 billion in 2003 (2002: NOK 14.1 billion) and operating earnings of NOK 1 billion (2002: NOK 1.2 billion). The gross operating margin was 19.2 per cent (2002: 21.1 per cent).

Europe, and Germany in particular, was affected by the economic downturn in 2003. Gross domestic product in the euro zone grew by only 0.5 per cent. Growth in the UK and southern Europe was somewhat stronger than in central Europe. At 31 December 2003, Norske Skog's stocks were virtually unchanged from the start of the year.

Downsizing in connection with the improvement programme meant that productivity at the mills failed to increase as expected in 2003. Increased attention will be paid to this area in 2004. However, safety work showed stable progress and was not negatively affected by the restructuring.

Newsprint

Annual price negotiations for newsprint in Europe led to a fall of seven to 11 per cent in prices denominated in local currencies for deliveries during 2003. Converted to Norwegian kroner, the decline averaged about four per cent over the year. Negotiations for 2004 have resulted in an average reduction of three-four per cent in prices in local currencies. The present exchange rate between the euro and the Norwegian krone to some ectent offset the price reduction for the Norwegian mills. Demand for newsprint rose by about one per cent. Total deliveries from Norske Skog's European mills increased by six per cent in 2003. This primarily reflected exports to Brazil to compensate for the loss of volumes from Klabin because this mill ceased to produce newsprint under an agreement which took effect in April 2003.

Magazine paper

Prices for magazine paper are not determined on an annual basis to the same extent as prices for newsprint. Average prices in local currencies were three per cent lower than 2002 for uncoated magazine paper and down six per cent for coated. Converted to Norwegian kroner, European prices were marginally higher than in 2002. At the beginning of 2004, European prices were expected to fall by three-four per cent in local currency from the level at 31 December 2003. Deliveries of magazine paper from Europe increased in 2003, particularly to US markets, but European demand also rose by 2.6 per cent. Norske Skog's total deliveries from Europe increased by 13 per cent in 2003, partly because its west European market share increased by roughly one per cent.

AUSTRALASIA – STRONG GROWTH IN DEMAND, LOWER PRICES

Region Australasia achieved an operating revenue of NOK 4 billion in 2003 (2002: NOK 3.8 billion) and operating earnings of NOK 455 million (2002: NOK 546 million). The gross operating margin was 29.2 per cent (2002: 31.4 per cent).

The region experienced strong economic growth in 2003, with a big rise in property prices supported by stronger currencies. Australia's gross domestic product rose by 2.8 per cent in 2003. This had a positive impact on advertising and thereby on demand for newsprint and magazine paper. Demand increased in 2003 by no less than 30 per cent for magazine paper and six per cent for newsprint. All three mills in the region had productivity growth during the year. The improvement programme was implemented as planned. Norske Skog's newsprint deliveries in Australasia increased in 2003 and its share of the Australasian newsprint market remained high, at roughly 90 per cent.

In accordance with long-term delivery agreements, prices in Australia were reduced by four per cent on 1 July 2003. The price of newsprint in New Zealand rose by three per cent in 2003, but was reduced by seven per cent on 1 January 2004. These cuts reflect the strengthening of the Australian and New Zealand currencies against the US dollar during 2003.

SOUTH AMERICA – MORE STABLE ECONOMIC CLIMATE AND A COMPETITIVE COST LEVEL

Region South America achieved an operating revenue of NOK 1.1 billion in 2003 (2002: NOK 1.1 billion) and operating earnings of NOK 113 million as against a loss of NOK 9 million in 2002. The gross operating margin was 30.2 per cent (2002: 25.4 per cent).

Brazil represents the largest national market in South America. After great economic turbulence in 2002, with a sharp fall in the value of the Brazilian real against the US dollar, the country experienced greater stability in 2003 with the economy growing by 0.1 per cent. Prices in the region increased by USD 70 per tonne during the year, and average prices in US dollars achieved by Norske Skog in South America were up four per cent from 2002. Newsprint deliveries declined slightly, but market share in the region rose by about one per cent. Part of the improvement in earnings reflects exchange rate changes, but another important reason was the competitive cost picture for both mills in the region, particularly as a result of favourable prices for wood and energy under long-term contracts.

Partly-owned companies

ASIA

PanAsia Paper achieved an operating revenue of USD 901 million in 2003 (2002: USD 840 million) and operating earnings of USD 68 million (2002: USD 153 million). The gross operating margin was 20.3 per cent (2002: 32 per cent).

Developments in Asia varied from one national market to another during 2003. Growth remained strong in China, with stable prices. Korea saw demand for newsprint weaken from the peak which was reached during 2002 in part because of the soccer World Cup and the presidential election. Combined with higher imports, this meant lower prices during the year. Southeast Asia remains very much a spot market with few domestic producers and high import volumes from other regions at times. China and Malaysia impose protective tariffs on newsprint imports, but these are being dismantled by the Chinese after their entry to the World Trade Organisation (WTO).

PanAsia Paper's results in 2003 were affected by the decline in both prices and demand in the domestic Korean market, and by continued low prices in Thailand. Earnings for the Shanghai mill were good when viewed in isolation, but this facility accounts for only nine per cent of PanAsia's total capacity. When the new mill in China's Hebei province comes on line in the second half of 2005, the combined Chinese operations will account for 25 per cent of PanAsia's total capacity.

Spot prices for newsprint increased by USD 50 per tonne from the fourth quarter, to USD 480-490. But this increase had no major effect on the 2003 accounts. Recovered paper prices were higher than in 2002, with a negative effect on operating margins. The position facing Malaysian Newsprint Industries (MNI) resembled conditions in Thailand, with increased competition and low prices. The Asian mills are very well run, with extremely high efficiency as well as good health and safety results.

NORTH AMERICA

NorskeCanada achieved a net operating revenue of CAD 1.6 billion in 2003 (2002: CAD 1.5 billion) and an operating loss of CAD 112 million versus a loss of CAD 122 million in 2002. The gross operating margin was 4.3 per cent (2002: 3.3 per cent), based on gross sales revenue.

Demand for publication paper was roughly the same as in 2002, with a small decline in newsprint consumption and an increase for magazine paper and improved newsprint qualities. NorskeCanada achieved price rises in line with the general increase in North America, but the strengthening of the Canadian dollar led to reduced prices in this currency. The company implemented downtime corresponding to 43 000 tonnes in 2003 as against 200 000 tonnes in 2002. The local improvement programme yielded CAD 83 million in improvements compared to 2002. A write-down of CAD 14 million related to phasing out of an incinerator at the Elk Falls pulp mill was taken by NorskeCanada in the fourth quarter of 2003. NorskeCanada achieved its best-ever results for health and safety.

The environment

Norske Skog's environmental target specifies that the business will be conducted in such a way that it supports sustainable development of the environment and natural resources. It aims to reduce the environmental impact to a minimum. This applies to the whole group's operations. Norske Skog works to ensure that the same environmental values also form the basis for activities in its partly-owned companies and at its suppliers. All the wholly-owned mills operate within the requirements set by the relevant authorities, and no incidents at any of the facilities in 2003 represented serious breaches of permits or regulations.

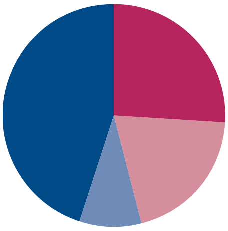
Consumption of recovered paper totalled about 1.4 million tonnes, making Norske Skog the world's fourth largest consumer of this material for publication paper and the second largest if PanAsia Paper's consumption is included. The company supports certified forest management throughout the world, while active use of certified and internationally accepted systems for environmental management is also required at all the mills. Ten of the 14 wholly-owned mills were certified by the end of 2003, and the rest will receive such certification during 2004.

Norske Skog works actively to save energy and reduce waste. About 75 per cent of the waste generated at its mills in Europe and South America is utilised as bio-energy, corresponding to a calorific value of almost 2 400 gigawatt-hours or more than 200 000 tonnes of oil. In Australasia, the waste is used to a greater extent in agriculture or deposited.

Discharges to water per tonne of paper produced have been substantially reduced in recent years. Specific discharges of organic material to water (kilograms per tonne paper) have been reduced by 25-30 per cent over the past three years. Norske Skog Bio Bio in Chile brought a new effluent treatment plant on line in May 2003. This has reduced discharges of suspended organic material by 85-90 per cent and almost halved discharges of dissolved organic material (COD).

Due to its special raw material situation and production processes, discharges to water at Norske Skog Boyer in Australia are higher than at other newsprint mills. The authorities have set a deadline of December 2007 for implementing further measures to reduce discharges from this mill. Environmental investment at Norske Skog's wholly-owned mills was NOK 182 million in 2003. The biggest project was a new bio-fuel boiler at Norske Skog Parenco in the Netherlands, which came on line in late 2003.

Distribution of fibre sources



Health and safety – best-ever H-value

A strong focus on health and safety was maintained during 2003 by Norske Skog, which gives top priority to this issue. The group achieved the best-ever result in the safety area during 2003, with an H-value (lost-time injury frequency per million working hours) of 3.6 for the wholly-owned businesses. PanAsia Paper maintained its excellent results for health and safety work, with an H-value of 1.1.

The strategy of instilling an attitude of zero tolerance towards injuries remains unchanged. To underline the importance of this issue, the organisation of each mill has been changed so that its health and safety manager now reports directly to the mill manager.

Norske Skog Walsum in Germany has shown the best progress for health and safety among the mills for the past two years. Health and safety conditions are related to productivity developments, quality and overall profitability, and this mill has also made progress in these areas. Five of Norske Skog's mills had zero lost-time injuries on a rolling 12-month basis in 2003.

Sickness absence in 2003 was 4.7 per cent, slightly up from the 2002 percentage of 4.5. The group intends to strengthen its focus on sickness absence and health conditions in 2004, and will launch a programme for preventive health care and cutting sickness absence alongside its goal of reducing the H-value.

Human resources and organisation – management training and focus on equal opportunities

The year 2003 was challenging, with restructuring and downsizing. This posed a heavy challenge on leadership throughout the organisation. Several programmes have been launched by the group to develop managers at all levels and strengthen the in-house recruitment base. Management candidates at various levels of the organisation are identified for further development and for planning their future careers. This process is followed up by the corporate management and has high priority. Preparatory work was also carried out in 2003 on a new programme for basic leadership training at all levels in the group. This will be particularly useful for first-line management in the operative units. In addition, an interactive training programme has been developed for paper machine operators. After a successful implementation in Norway, this is now being introduced to Australasia. All the Norwegian units concluded Inclusive Workplace Agreements in the course of 2003.

Efforts are being made by the directors and management of Norske Skog to improve the balance between genders and nationalities throughout the group. Changes to the corporate management in early 2004 mean that this team has a more international composition than before. The group has prioritised the work to bring more women into leading positions. Programmes are being pursued at the Norwegian mills to encourage women to qualify in skilled trades and work in the paper industry.

In Norway, the group has signed a letter of intent on the Female Future programme from the Confederation of Norwegian Business and Industry (NHO). This aims to elect more women to the boards and senior executive positions in Norway, and Norske Skog will work to appoint at least one additional woman to a senior management position within two years.

Norske Skog had 7 300 employees at 31 December 2003, including 271 in Forestia. Total employees, including Norske Skog's share in partly-owned companies, came to 9 873. In connection with the improvement programme, the number of full-time jobs in the wholly-owned businesses was reduced by 815 during 2003.

The board wishes to thank all employees of Norske Skog for their commitment in 2003, and would make particular mention of the progress with health and safety as expressed by the record-low lost-time injury frequency.

Governing bodies

The annual general meeting on 10 April 2003 amended the company's articles of association so that the board will henceforth comprise seven to 10 members as against eight to 11 before. This resolution was subsequently adopted. In line with the amendment, the corporate assembly opted to reduce the board's membership from nine directors to seven. The deputy chairman, Jon R Gundersen, stepped down on reaching the age limit. Stig Johansen ceased to be a worker director when the number of these was reduced from three to two. The other directors were re-elected. The board now comprises five shareholder-elected and two employee-elected directors. Lars W Grøholt remains the chairman, while Egil Myklebust was elected as the deputy chairman. Eight ordinary and two extraordinary board meetings were held during 2003. Full attendance was recorded at eight of these 10 meetings.

During 2003, the board reviewed its mode of working with a view to further developments in corporate governance. The board emphasises meeting requirements for its independence and integrity in relation to both management and individual shareholders. The board's remuneration committee held three meetings.

At 31 December 2003, Jan Reinås resigned at his own request from the post of CEO after a 10-year contribution for the group. He was succeeded as CEO by Jan Oksum. The board extends its thanks to Reinås for his substantial contribution to the company's growth and progress. The board welcomes Oksum as the new CEO, and looks forward to a positive cooperation.

Outlook

Norske Skog is one of the most global companies in the paper industry, with wholly- or partly-owned mills in 15 countries on every continent except Africa. The group sells its products in 66 countries. Including its share of partly-owned companies, Norske Skog has 13 and eight per cent of total world capacity for newsprint and magazine paper respectively. The publication paper industry is relatively consolidated, with five manufacturers accounting for 45 per cent of world newsprint capacity and five for some 60 per cent of global capacity for magazine paper.

Newsprint demand is governed to a great extent by advertising volume and circulation figures. The trend during the economic downturn which followed the technology boom in the late 1990s is that advertising has been transferred to some extent from paper-based media to the internet. That applies particularly to classified advertisements and advertising of job vacancies, homes and cars. At the same time, newspaper circulation figures declined in many markets and the total advertising volume contracted. The overall volume is expected to expand again in an economic recovery, but it remains too early to say what proportion of advertising will transfer permanently to the internet. How circulation figures develop is particularly dependent on whether newspapers succeed in capturing new groups of readers.

Norske Skog is following the trends closely, and will only add new capacity when justified by market conditions. However, the group has opportunities for improving efficiency by replacing old and less cost-effective machines with new and larger machines over time.

It is uncertain when paper markets in Europe and North America will improve, but demand is expected to grow in 2004. There are prospects for increased demand in Asia and South America, while the good market in Australia is expected to persist through 2004. European prices went down at 1 January by an average of three-four per cent for both newsprint and magazine paper. Prices in local currency are expected to decline in Australia from July 2004 if the Australian dollar remains strong against the US dollar. South and North America are expected to see price increases, but Canadian manufacturers expect the competitive position to remain difficult because of their country's strong currency.

Allocation of earnings

Net earnings for Norske Skogindustrier ASA were NOK 1 255 million.

The following allocation of these earnings is proposed:

Transferred to other equity	NOK	460	million
Dividend to shareholders	NOK	795	million
Total allocations	NOK	1 255	million

Following these allocations, distributable equity in Norske Skogindustrier ASA amounts to NOK 5 696 billion.

Lysaker, 4 March 2004

Lars Wilhelm Grøholt
Chairman

Egil Myklebust
Deputy chairman

Halvor Bjørken

Jan Vidar Grini

Kåre Leira

Øivind Lund

Gisèle Marchand

Jan Oksum
President and CEO

Profit and loss account

NOK Million	Notes	2003	2002	2001
Operating revenue	2	**24 068**	**23 471**	**30 354**
Changes in inventory		(26)	(206)	230
Cost of materials		11 424	10 559	11 679
Personnel costs	3,4	3 509	3 514	3 909
Other operating costs	5	4 475	4 406	6 117
Depreciation and amortisation	11	3 285	3 292	3 323
Operating expenses		**22 667**	**21 565**	**25 258**
Operating earnings before restructuring costs		**1 401**	**1 906**	**5 096**
Restructuring costs	7	135	(600)	-
Operating earnings		**1 536**	**1 306**	**5 096**
Earnings from affiliated companies	14	(239)	(290)	16
Financial items	6	(1 341)	(405)	(1 376)
Other items	7	814	195	158
Earnings before taxation		**770**	**806**	**3 894**
Taxation	8	(364)	362	(1 234)
Earnings		**406**	**1 168**	**2 660**
The minority's share of the earnings		4	6	166
The majority's share of the earnings		**402**	**1 162**	**2 494**
Earnings per share / Earnings per share fully diluted	9	3.04	8.79	20.68

Statement of cash flow

NOK Million	Notes	2003	2002	2001
Cash flow from operating activities				
Cash generated from operations		23 948	23 575	31 165
Cash used in operations		(19 731)	(18 290)	(22 141)
Cash from net financial items		(1 059)	(625)	(1 435)
Taxes paid		(185)	(973)	(537)
Net cash flow from operating activities	10	2 973	3 687	7 052
Cash flow from investment activities				
Investments in operational fixed assets	11	(1 200)	(1 146)	(1 422)
Adjustment for investments with deferred cash-effect		-	-	197
Sales of operational fixed assets		15	44	26
Other investments		(179)	170	286
Dividend received [1]		-	-	4 372
Net cash from sold shares and activities [2]		1 294	498	3 075
Net cash used for acquisitions of companies [3]		-	(6)	(11 113)
Net cash flow from investment activities		(70)	(440)	(4 579)
Cash flow from financial activities				
Net change in long-term liabilities		(1 665)	(6 411)	(2 550)
Net change in short-term liabilities		(454)	884	(121)
Dividend paid		(795)	(792)	(671)
New equity [5]		59	-	3 327
Net cash flow from financial activities		(2 855)	(6 319)	(15)
Translation difference		14	(218)	44
Total change in liquid assets [4]		**62**	**(3 290)**	**2 502**
Liquid assets as at January 1. [4]		868	4 158	8 628
Net change in liquid assets from deconsolidation of Norske Skog Canada		-	-	(6 972)
Adjusted liquid assets as at January 1.		-	-	1 656
Liquid assets as at December 31.	16	930	868	4 158

[1] Dividend received in 2001 is from Norske Skog Canada Ltd.

[2] In 2003 the amount mainly consists of sale of the power stations in Norway. In 2002 the amount consists of sale of forests in Southern Norway, forests in Sweden, and settlement of Norske Skog Flooring AS. In 2001 the amount consists of sale of Mackenzie Pulp, Tasman Pulp, shipping activities in Australasia and Norway, headquarterbuilding and the forests in Brazil.

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

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

[5] Minority interest funding in Hebei Long Teng Paper.

Balance sheet

NOK Million	Notes	2003	2002	2001
Assets				
Intangible fixed assets	11	**4 727**	**4 682**	**4 549**
Operational fixed assets	11	**31 870**	**31 127**	**36 889**
Other long-term receivables	12	353	401	672
Shares in other companies and partnerships	13	41	40	45
Shares in affiliated companies	14	2 228	1 947	3 262
Securities and long-term financial assets		**2 622**	**2 388**	**3 979**
Fixed assets		**39 219**	**38 197**	**45 417**
Inventory	15	2 321	2 080	2 172
Other short-term receivables		580	889	1 019
Accounts receivable		3 288	2 932	3 506
Short-term investments	16	596	381	1 769
Liquid assets	16	334	487	2 389
Current assets		**7 119**	**6 769**	**10 855**
Total assets		**46 338**	**44 966**	**56 272**
Shareholders' equity and liabilities				
Share capital		1 331	1 331	1 331
Own shareholding		(7)	(9)	(10)
Share premium reserve		7 121	7 116	7 088
Paid in equity		**8 445**	**8 438**	**8 409**
Other consolidated equity		10 774	9 326	10 912
Minority interests	19	197	157	205
Shareholders' equity	18	**19 416**	**17 921**	**19 526**
Deferred taxes	8	2 497	2 021	3 174
Pension obligations	4	443	352	329
Provisions		**2 940**	**2 373**	**3 503**
Interest free long-term liabilities		429	537	674
Interest bearing long-term liabilities	20	18 033	17 925	26 681
Long-term liabilities		**18 462**	**18 462**	**27 355**
Interest bearing current liabilities	21	656	1 147	297
Interest free current liabilities	22	4 864	5 063	5 591
Current liabilities		**5 520**	**6 210**	**5 889**
Total liabilities and shareholders' equity		**46 338**	**44 966**	**56 272**

Lysaker, 4 March 2004

Lars Wilhelm Grøholt
Chairman

Egil Myklebust
Deputy chairman

Halvor Bjørken

Jan Vidar Grini

Kåre Leira

Øivind Lund

Gisèle Marchand

Jan Oksum
President and CEO

1. Accounting principles

The consolidated accounts are presented in accordance with the Norwegian Accounting Act of 1998 and Norwegian Generally Accepted Accounting Principles, and is presented in NOK million unless otherwise stated.

CONSOLIDATED ACCOUNTS

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 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 of subsidiaries which are not wholly owned, minority interests are deducted and shown as separate items in the profit and loss account and balance sheet. Subsidiaries are consolidated from the time when Norske Skog obtains a controlling interest in the subsidiary. Shares in subsidiaries are eliminated in accordance with the purchase method. This means that the cost 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. Any acquisition cost which exceeds 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 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 and loss account, whilst its share of the affiliate's equity, adjusted for fair value adjustments, is classified as a fixed asset in the balance sheet.

Proportionate consolidation is used to account for interests in joint ventures. The share of income, expenses, assets and liabilities is recognised line by line in the consolidated accounts. Joint ventures are business activities run by Norske Skog in conjunction with one or more partners. The business is regulated by an agreement between the participants. A joint venture implies that no participant has a controlling interest in the business.

Consolidation of foreign subsidiaries implies conversion of the subsidiaries' accounts to Norwegian kroner. The majority of the foreign subsidiaries in the group's accounts are classified as independent entities. When consolidating independent foreign subsidiaries, balance sheet items are translated at the year-end exchange rate. Profit and loss items are translated at the average exchange rate. The translation difference is entered as an adjustment to consolidated equity.

OPERATING REVENUES

Operating revenue is the gross operating revenue less commissions, discounts and other direct price reductions. All sales are recognised as revenues at the time of delivery to the customer. The time of delivery is when all risks and rewards of the goods are transferred to the buyer and no major obligations related to the transaction are left, according to the terms of delivery.

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 them for continued use or ownership. Debts that fall due for payment later than one year after the balance sheet date are classified as long-term debts. 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 hedged by financial instruments are entered at the hedging exchange rate. Balance sheet items in foreign currencies which hedge against each other are entered at the year-end exchange rate. Gains and losses due to changes in exchange rates on debt in foreign currency which 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. Gains and losses due to changes in exchange rates on balance sheet items related to operations are included in the operating profit. Gains and losses due to changes in exchange rates on other balance sheet items are classified as financial item.

Any goodwill arising on an acquisition of a foreign entity is, when the excess values are related to global synergies, treated as an asset of the parent company, and translated at the exchange rate on the acquisition date. Other goodwill is treated as an asset of the foreign entity and translated at the year-end exchange rate.

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

All forward contracts and currency options are related to hedging of net investment in subsidiaries or hedging of future cash flows in foreign currency.

Financial instruments designated as hedges of future cash flows in foreign currency are for accounting purposes not seen as qualifying for hedge accounting and gains and losses are classified as financial items when they occur.

FINANCIAL INSTRUMENTS

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

The various types of financial instruments used for hedging interest risks are assessed as separate portfolios. These 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.

SHARES, BONDS, CERTIFICATES, BILLS ETC.

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

Shares classified as fixed assets which are not attributed to affiliated companies are strategic investments where the group cannot be said to have any significant influence. These shareholdings are valued at the lower of cost or fair value.

INVENTORY

Raw materials and other purchased goods are valued at purchase cost in accordance with the First Inn First Out (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. The acquisition cost for tangible assets with long-term future economic benefits are capitalised and classified as assets in the balance sheet. Significant spare parts are capitalised with the asset to which they pertain, while other spare parts and consumables are classified as inventory. For major investments with a long production time, interest is capitalised as part of the acquisition cost. Expenditure to increase capacity or improve quality which 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 when the use of the tangible asset commences and is calculated on the basis of the economic life of the asset.

IMPAIRMENT REVIEW

Operational fixed assets and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of the net selling price and the value in use with an impairment loss being recognised whenever the carrying amount exceeds the recoverable amount.

The value in use is based on discounted future cash flows. Trend assumptions are used for sales prices, operating rates, kraft pulp prices, recovered paper prices and exchange rates. The discount rates used are the weighted average cost of capital (WACC) for each country.

The impairment review is performed at the level of the cash generating unit (CGU). The CGU's are Europe Newsprint, Europe Magazine, South America, Australasia, NorskeCanada, PanAsia and MNI, and reflect the fact that groups of assets are managed to optimise cash flow and profitability. Other activities are reviewed at a business unit level.

A previous impairment loss is reversed if the basis for the impairment loss is no longer present. The amount is restricted to the previously recognised impairment loss. Any impairment loss on goodwill can be reversed only in certain limited cases.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as they are incurred and are classified as operating costs in the consolidated accounts.

LEASING

Leasing contracts are assessed as financial or operational leasing after an assessment is made of each contract. Leasing contracts associated with tangible assets and classified as a financial lease are capitalised in the balance sheet and depreciated on the same basis as an ordinary tangible asset. The tangible assets are capitalised at the present value of the lease payments. If the fair value of the fixed assets 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 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 employees earning pension rights steadily throughout their working period. Funds belonging to the pension scheme are assessed at their fair value and 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, providing 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 "personnel costs" and consist of the present value of pensions earned in the year, interest costs on the pension obligations, anticipated returns on pension scheme funds, the effect entered in the profit and loss account for changes in estimates and pension plans, the change entered in the profit and loss account for the difference between actual and anticipated returns, and accrued payroll tax.

The effect of changes in estimates and pension plans and the difference between actual and anticipated returns are spread forward over the average remaining service lives of employees when the cumulated effect exceeds 10 per cent of whichever is higher 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 Norske Skog bonds. Value above/below par is expensed when purchasing Norske Skog 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 on the basis of temporary timing differences between corporate financial accounts and tax accounts and any tax losses which 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 in accordance with the debt method without discounting to present value. Deferred tax in acquired companies is valued at present value when this provides a more true reflection of the underlying transaction.

CASH FLOW

Cash flow is reported using the direct method. This method provides cash flow from operational-, investment- and financing activities on a gross basis. Liquid assets comprise bank deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their value. Joint ventures are included in the cash flow through proportional consolidation.

CONTINGENT LIABILITIES

Contingent liabilities are provided for if the possibility of their settlement is greater than 50 per cent. A best estimate is used when calculating the value of the settlement. See note 26 where other material issues are commented on.

Changes in group structure

2003

In January, Norske Skog sold its Norwegian power stations. This sale resulted in a profit of NOK 907 million. The book value of the sold assets amounted to NOK 327 million.

In November NorskeCanada bought Newstech Recycling through a share issue. Newstech Recycling is a company producing deinked pulp. This reduced Norske Skog's share of NorskeCanada from 30.6 to 29.4 per cent.

2002

Norske Skog's forest properties in southern Norway were sold in December. This sale yielded a profit of NOK 159 million The total book value of the forest properties was NOK 36 million.

In May NorskeCanada carried out a share issue without Norske Skog's participation. This reduced Norske Skog's share in NorskeCanada. After the share issue Norske Skog's share was reduced from 36.1 to 30.6 per cent.

2001

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

The PanAsia Paper Company joint venture was originally owned by Norske Skog, Abitibi Consolidated in Canada, and Hansol in Korea, each with a one-third interest. In the spring Hansol offered the other two participants the opportunity to acquire its holding. The transaction took place on 16 August, and left Norske Skog and Abitibi owning 50 per cent each. The transaction increased total assets in the balance sheet by NOK 2 600 million.

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

The two pulp mills Tasman Pulp in New Zealand, and Mackenzie Pulp in Canada were sold on 30 April and 15 June respectively. As a result, Norske Skog was no longer directly involved in the production and sale of market pulp. Tasman Pulp had an annual turnover of NOK 1 500 million, and Mackenzie Pulp had an annual turnover of NOK 900 million. The contribution of these two mills to total assets in the balance sheet was NOK 1 300 million and NOK 850 million respectively.

In August NorskeCanada acquired Pacifica Papers. This acquisition was partly financed by a share issue in NorskeCanada which reduced Norske Skog's holding in that company from 50.8 to 36.1 per cent. From September, NorskeCanada was accordingly presented as an affiliated company in Norske Skog's consolidated accounts. The deconsolidation of NorskeCanda reduced minority interests in the consolidated accounts by NOK 7 057 million.

IMPLEMENTATION OF IFRS

The European Union has resolved that all listed companies within the EU must apply International Financial Reporting Standards (IFRS) in their consolidated accounts by 1 January 2005 at the latest. Under the European Economic Area (EEA) agreement, this change will also apply to Norwegian listed companies. Norske Skog expects to present its first set of financial accounts compiled in accordance with IFRS for the first quarter of 2005. This will include comparable figures for 2004 restated in accordance with IFRS.

As a result of the requirement for comparable figures, an opening balance as at 1 January 2004 must be presented on the basis of IFRS. Norske Skog has carried out a preliminary assessment of potential differences of significance between the closing balance calculated at 31 December 2003 in accordance with the accounting principles applied for 2003 and the opening balance calculated as at 1 January 2004 in accordance with IFRS. Since some of the transitional rules could be subject to change up to the date of the transition to IFRS, other significant differences could arise in addition to those outlined below.

Deferred tax

Deferred tax relating to acquisitions has been calculated at net present value when this provides a better reflection of the transaction. This practice is not expected to be possible under IFRS, and deferred tax will be calculated at nominal value in the opening balance. This will mean an increase in deferred tax, and most probably a reduction in equity. An alternative treatment would be to apply the new regulations on business combinations retrospectively, which is permitted in the transitional rules. Deferred tax relating to acquisitions is then expected to be calculated at nominal value, with increased goodwill as the contra entry. The accounting treatment of earlier acquisitions on the basis of the IFRS rules could also involve other changes in the opening balance. If one acquisition is subject to a new accounting assessment, all subsequent acquisitions up to the opening balance at 1 January 2004 must be reassessed for accounting purposes on the basis of IFRS.

Dividend

Under IFRS, a dividend can only be recorded when it is approved by the General Assembly. The current practice of recording the liability when the dividend is proposed will no longer be permitted. This will have a one-off timing effect to increase equity in the opening balance sheet.

Fair value of operational fixed assets

The transitional rules allow operational fixed assets to be reported in the opening balance in accordance with IFRS at their fair value. This implies that a new cost price is established for those assets where this is applied, but will not involve continuous revaluation in the future. Norske Skog has not concluded whether the book value of certain operational fixed assets should be adjusted.

Dismantling costs

According to IFRS, the net present value of dismantling costs must be capitalised as part of the fixed asset. The effect of capitalising dismantling costs will not influence equity in the opening balance, since the increased book value of the fixed asset will be balanced by a provision. The majority of Norske Skog's fixed assets have a very long economic life, and in most cases the net present value of dismantling costs is expected to be small. A possible increase in book value would mean higher future depreciation.

Pensions

Under the transitional rules, certain differences between IFRS and existing accounting principles for assessing pension funds and obligations can be adjusted against equity in the opening balance. This effect is not expected to be significant for Norske Skog. IFRS are expected to impose stricter requirements for updating the assumptions used to calculate pensions more frequently than has been the practice for many Norwegian companies. That could mean larger fluctuations in the value of pension funds and obligations, and bigger variations in pension costs from period to period.

The comments above specify what are expected to be the most important adjustments to the opening balance based on the IFRS, and possible future effects on results relating to these. Other expected differences between the IFRS and the present accounting principles which might be significant are outlined below. Changes to IFRS up to 2005 could mean that significant differences other than those mentioned below might arise.

Goodwill amortisation

Amortising goodwill is not expected to be permitted under IFRS. Such amortisation amounts to NOK 265 million for 2003. The rules for assessing a possible impairment of goodwill are expected to accord by and large with the principles currently applied by Norske Skog.

Decomposition of operational fixed assets

IFRS specify a stricter requirement for establishing depreciation plans for different groups of fixed assets. This might impact future depreciation. Norske Skog does not expect these effects to be substantial.

Accumulated translation differences

Under the transitional rules, currency translation differences arising from translating foreign subsidiaries up to the date for implementing IFRS can be regarded as a permanent part of equity. This means that such translation differences do not need to be shown in the profit and loss account in the event of the disposal of a foreign subsidiary. Norske Skog has not decided if this option will be utilised.

Reporting currency

IFRS are expected to permit greater freedom of choice over the reporting currency than the current Norwegian accounting principles. Norske Skog has not decided whether it would be appropriate to select a reporting currency other than the Norwegian krone, but the company's international character dictates that this option will be considered.

Hedge accounting

IFRS will set stricter requirements for hedge accounting than current Norwegian practice. Norske Skog currently practices hedge accounting for debt which hedges investment in foreign subsidiaries, and it is expected that this approach can be maintained. The company does not currently practice hedge accounting for hedging cash flow.

Proportionate consolidation

Norske Skog uses proportionate consolidation to account for joint ventures. This is also permitted under IFRS in their current form, but a possible convergence between US generally-accepted accounting principles and IFRS means that it is uncertain whether this method can be applied in the future.

Share-based compensation

IFRS are expected to require that options and subscription rights allocated to employees are posted to the accounts at their fair value at the allocation date. Current practice is to account for possible intrinsic value at the allocation date. Norske Skog has a limited options programme, and this requirement is not expected to mean significant changes.

Norske Skog will provide a more detailed specification in its 2004 accounts of changes between the accounting principles applied in 2003 and those applied in the opening balance at 1 January 2004 compiled in accordance with IFRS.

2. Business regions

Key figures from the P&L account by region

	Operating revenue			Depreciation			Operating earnings		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Europe									
Newsprint	7 558	7 556	8 850	991	961	751	313	643	2 271
Magazine paper	7 226	6 531	5 369	813	817	457	720	546	976
Total Europe	14 784	14 087	14 219	1 804	1 778	1 208	1 033	1 189	3 247
South America									
Newsprint	1 094	1 107	1 784	217	290	312	113	(9)	432
Forests	-	-	171	-	-	40	-	-	41
Eliminations	-	-	(16)	-	-	-	-	-	-
Total South America	1 094	1 107	1 939	217	290	352	113	(9)	473
Australasia									
Newsprint	4 030	3 807	4 110	720	651	687	455	546	563
Pulp	-	-	458	-	-	42	-	-	162
Eliminations	-	-	(95)	-	-	-	-	-	-
Total Australasia	4 030	3 807	4 473	720	651	729	455	546	725
Asia									
Newsprint	2 365	2 688	2 434	280	303	253	200	562	616
North America [1]									
Newsprint	-	-	3 323	-	-	282	-	-	367
Pulp	-	-	2 434	-	-	176	-	-	(43)
Eliminations	-	-	(302)	-	-	-	-	-	5
Total North America	-	-	5 455	-	-	458	-	-	329
Other activities									
Other industry in Norway [2]	533	682	930	38	58	68	16	47	98
Other revenues [3]	1 613	1 249	1 389	-	-	-	-	-	-
Total other activities	2 146	1 931	2 319	38	58	68	16	47	98
Staff/eliminations [4]	(351)	(149)	(485)	226	212	255	(416)	(429)	(392)
Restructuring costs	-	-	-	-	-	-	135	(600)	-
Total group	**24 068**	**23 471**	**30 354**	**3 285**	**3 292**	**3 323**	**1 536**	**1 306**	**5 096**

[1] North America is included up to the deconsolidation of Norske Skog Canada Ltd. on 28 of August 2001.
[2] Other industry in Norway includes particle boards, Scandinavian forests up to divestment, hydropower up to divestment, and some other minor activities.
[3] Other revenues include revenue from non-manufactured paper from PanAsia, Australasia and South America, 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 214 million in 2003, NOK 204 million in 2002 and NOK 234 million in 2001.

Operating revenue by market

	2003	2002	2001
Norway	1 766	2 116	1 598
Rest of Europe	11 428	11 587	12 080
North America	1 534	1 470	4 558
South America	1 259	1 187	2 461
Australasia	4 304	3 615	4 413
Asia	3 606	3 310	5 185
Africa	171	186	59
Total operating revenue	24 068	23 471	30 354

Investments by region

	2003	2002	2001
Europe	595	705	477
South America	84	79	111
Australasia	280	251	305
Asia	167	68	197
North America	-	-	285
Other activities	7	31	11
Staff/elim	67	12	36
Total group	1 200	1 146	1 422

Key figures from the Balance sheet by region

	Fixed assets			Interest-free current assets			Interest-free current liabilities		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Europe									
Newsprint	8 855	8 594	10 258	2 139	2 102	2 642	991	1 139	1 254
Magazine paper	8 482	8 207	9 011	1 912	1 629	2 221	943	819	988
Total Europe	17 337	16 801	19 269	4 051	3 731	4 863	1 934	1 958	2 242
South America									
Newsprint	2 162	2 388	3 380	411	507	698	134	172	670
Forests	-	-	-	-	-	-	-	-	-
Eliminations	-	-	-	-	-	-	-	-	-
Total South America	2 162	2 388	3 380	411	507	698	134	172	670
Australasia									
Newsprint	7 893	6 901	8 054	748	567	1 370	694	625	333
Pulp	-	-	-	-	-	-	-	-	-
Eliminations	-	-	-	-	-	-	-	-	-
Total Australasia	7 893	6 901	8 054	748	567	1 370	694	625	333
Asia									
Newsprint	4 044	4 320	5 517	820	760	947	342	395	404
North America									
Newsprint	-	-	-	-	-	-	-	-	-
Pulp	-	-	-	-	-	-	-	-	-
Eliminations	-	-	-	-	-	-	-	-	-
Total North America	-	-	-	-	-	-	-	-	-
Other activities									
Other industry in Norway	314	719	788	153	141	672	85	215	191
Other revenues	-	-	-	-	-	-	-	-	-
Total Other activities	314	719	788	153	141	672	85	215	191
Staff/Eliminations	120	(2)	(119)	6	195	(1 853)	1 674	1 698	1 751
Total group	**31 870**	**31 127**	**36 889**	**6 189**	**5 901**	**6 697**	**4 863**	**5 063**	**5 591**

Employees by region

	2003	2002	2001
Europe	4 956	5 664	5 943
South America	616	561	579
Australasia	1 276	1 490	1 471
Asia	1 026	1 033	1 043
Other activities	271	352	559
Staff/elim.	181	113	113
Total group	8 326	9 213	9 708

3. Personnel costs

	2003	2002	2001
Payroll costs	2 814	2 799	3 419
Social security contributions	460	360	278
National insurance, pensions and other social costs (see note 4)	236	355	212
Total	3 509	3 514	3 909

As part of the profitability improvement programme, no general pay increase was awarded to senior executives in 2003.
The basic salary of Jan Reinås, the president and CEO, also remained unchanged from 2002 and accordingly amounted to NOK 3 070 000. Payments in kind came to an additional NOK 606 459 as against NOK 579 099 in 2002. No bonus was paid to the CEO for 2002 and 2003. In 2002, the CEO received a bonus for 2001 of NOK 693 250 calculated on the basis of the return on capital employed. Total remuneration to Reinås in 2003 was accordingly NOK 3 676 459 as against NOK 3 649 099 in 2002.

Annual costs in 2003 relating to the CEO's future pension totalled NOK 1 653 389 for the funded portion of the commitment and NOK 1 030 560 for the unfunded part.

Reinås retired from his post as CEO on 31 December 2003 and became a full-time adviser to the company. He will retain his salary and terms of employment until reaching the age of 60 in July 2004. Thereafter, he will receive a pension (lifetime) corresponding to 70 per cent of his basic salary. Reinås will remain available to the company until the end of 2006. During this period, certain payments in kind such as company car and housing will be maintained in addition to his pension.

Upon taking office as new president and CEO at 1 January 2004, Jan Oksum had a basic annual salary of NOK 3 500 000. An agreement on an annual result-based bonus limited to a maximum of 50 per cent of his basic salary has been concluded. The CEO's retirement age is 62. His pension is calculated on the same basis as for all employees working in Norway, and will amount to 65 per cent of basic salary until the age of 77 and 60 per cent thereafter. The company and the CEO have the mutual right to terminate the CEO's employment when he reaches the age of 60. Should the CEO depart between the ages of 60 and 62, he will receive an early retirement pension corresponding to 90 per cent of basic salary for the first 12 months and 80 per cent thereafter.

The mutual period of notice for the CEO and other members of the corporate management is six months. If circumstances arise in which the company or the person concerned, by mutual agreement, terminate the contract of employment in the best interests of the company, the company guarantees to pay the affected person's basic salary less other remuneration for a period of 18 months from the end of the period of notice. This provision applies equally to the CEO and the other members of the corporate management with the exception of the executive vice president for Australasia, who will receive his salary for a period of one year without deduction of other remuneration.

The annual bonus agreements for the CEO and other members of the corporate management specify a maximum payment of 50 per cent of basic salary. The basis for calculating this bonus – the targets – are set annually by the board and CEO respectively. Twenty-five per cent of the bonus entitlement after tax will be paid in the form of Norske Skog shares, based on the average price for 1-15 February. These shares must be held by the recipient for three years. The shares are taken from Norske Skog's own holding or purchased in the market.

Incoming CEO Oksum and other members of the corporate management were awarded synthetic options in 2003. The strike price is NOK 134.50, and the options can be exercised from 1 July 2006 to 31 December 2006. These options are synthetic in that the difference between the share price at the date they are exercised and their strike price is paid in the form of salary, and the recipients have undertaken to purchase Norske Skog shares in the market, at market price, for the amount received after tax. The shares must be retained by the recipient for three years. It will accordingly be five-six years before a possible gain can be realised. The right to exercise these options is conditional on the recipient continuing to be in the company's employment at the date they are exercised. This arrangement has no dilution effect, since the shares are purchased in the market.

Remuneration to members of the corporate assembly and directors totalled NOK 557 500 and NOK 1 575 500 respectively.
The group had an average of 8 770 employees in 2003, including a proportionate share of employees in PanAsia. In addition come employees in other partly-owned companies.

Pay and conditions for other members of the corporate management in NOK:

In accordance with guidlines for corporate governance recommended by the Oslo Stock Exchange pay and conditions for members of the corporate management working in Norway are specified below.

	Basic salary at 31.12.03	Payments in kind, etc for 2003[4]	Bonus 2003[1]	Synthetic options	Loans at 31.12.03	Loan terms [2]
Jan Oksum	1 770 000	234 202	287 625	60 000	1 901 143	2 000 000 at 30.01.97, six-year interest free and without capital repayment thereafter interest bearing for 20 yer term
					1 960 784	2 000 000 at 26.07.01, three-year grace period there after interest-bearing for 20-year term
Vidar Lerstad	1 800 000 (net) [3]		146 250[3]	30 000	295 833	500 000 at 25.11.99, 10-year interest free and without capital repayments
Jan Kildal	1 750 000	408 124	289 250	30 000	1 605 829	2 150 000 at 27.10.00, interest-free, repayments 200 000 per year
					203 000	453 000 at 25.06.98, interest-free repayments 50 000 per year
Jarle Dragvik	1 500 000	427 632	318 750	30 000		
Ketil Lyng	1 500 000	123 295	431 250	30 000	507 870	1 500 000 at 21.03.94, interest-bearing with 15-year term
Hanne Aaberg	1 040 000	128 066	169 000	30 000		
Rolf Negård	1 350 000	149 938	219 375	30 000		

At 1 February Jan Clasen became senior vice president sales & marketing. Upon entering his position Jan Clasen has a basic annual salary of NOK 1 500 000.

1) Based on results achieved in 2003, paid in 2004.
2) The interest rate paid on all interest-bearing loans is that which at any given time represents the floor for the taxable benefit of loans from employers
3) Was posted to South America in 2003, separate agreement for temporarily-posted personnel with net pay and other special payments
4) Includes company car, interest-free loans etc.

Audit fee: (in NOK 1 000)	Total	Parent company	Subsidiaries audited by group auditors	Subsidiaries audited by other auditors
Audit fee	8 674	2 220	2 681	3 773
Audit related assistance	1 781	1 034	373	374
Tax assistance	4 789	1 786	1 547	1 456
Other fees	1 247	63	565	619
Total	16 491	5 103	5 166	6 222

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

4. Pension costs and obligations

Norske Skog has various pension schemes. Contributions to these pension schemes are made in accordance with local agreements. A total of 9 209 people are covered through pension schemes. Of these, 7 143 are covered by defined benefit plans and 2 066 by defined contribution plans.

Description of the defined benefit plans

Norske Skog has two significant defined benefit plans:	Benefits in% of pensionable earnings	Years of service	Pensionable age	Early retirement	Number of members
Norske Skogindustrier ASA	65%	30	67	62	5 460
Norske Skog Parenco	70%	40/37	65/62	60	567

Plan assets of the pension scheme in Norske Skogindustrier ASA are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. Plan assets in Norske Skog Parenco are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands. Several smaller schemes also exist. 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 for 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 on incurred pension obligations.

In addition to the benefit obligation covered through insurance arrangements, the group has uninsured benefit obligations. These include estimated future obligations relating to the Norwegian AFP early retirement arrangements. They also include obligations to former owners of subsidiaries and pensions of top managment and directors. 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 come several defined contribution schemes.

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

	2003	2002	2001
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%	2.0%	1.6%

Changes in the pension liability during the year

	2003	2002	2001
Balance 1 January	2 496	2 518	1 900
Changes due to bought/sold entities	-	-	642
Current year service cost	90	93	66
Current year interest cost	139	133	63
Pensions paid	(79)	(72)	(47)
Actuarial gains and losses	(16)	(80)	(103)
Currency translation effects	134	(96)	(3)
Balance 31 December	2 764	2 496	2 518

Status of the pension plans reconciled to the consolidated balance sheet

	31.12.03	31.12.02	31.12.01
Projected benefit obligations	(2 764)	(2 496)	(2 518)
Plan assets at fair value	2 400	2 228	2 410
Plan assets in excess of/(less than) obligations	(364)	(268)	(108)
Unamortised changes in early retirement plans (AFP)	-	(1)	25
Differences in estimates not taken to income/expense	60	106	(107)
Net plan assets/pension obligations	(304)	(163)	(190)
Accrual employer tax	(16)	(12)	(10)
Plan assets/(pension obligations) in the balance sheet	(320)	(175)	(200)
Pension obligation	(443)	(352)	(329)
Plan assets	123	177	129

Net periodic pension cost in the consolidated accounts

	2003	2002	2001
Benefits earned during the year	90	93	66
Interest cost on prior period benefits	139	133	63
Pensions cost contribution schemes	10	25	7
Expected return on plan assets	(143)	(146)	(75)
Periodic employer tax	9	3	0
Expensed portion of changes in early retirement plan (AFP)	3	2	3
Expensed portion of differences in estimates	21	16	10
Net periodic pension cost	129	126	74

A return on plan assets of NOK 143 million is estimated for 2003. The actual return on the plan assets for 2002 was NOK (95) million, compared with an estimated return of NOK 146 million. The difference between the booked return and the estimated return in 2002 is treated as an estimate difference.

5. Other operating costs

	2003	2002	2001
Distribution costs	2 103	1 865	2 499
Packaging	387	373	419
Maintenance materials, maintenance service and spare parts	1 005	1 082	1 776
Marketing costs	47	45	48
Administration costs	608	688	905
Losses on bad debt [1)]	7	29	36
Other costs	318	324	434
Total other operating costs	4 475	4 406	6 117

[1)] Losses on bad debts are included as follows

	2003	2002	2001
Amounts written off during the year	6	15	5
Received amounts previously written off	(13)	-	(1)
Changes in bad debt reserves	14	14	32
Total	7	29	36

6. Financial items

	2003	2002	2001
Dividends received	-	-	6
Interest revenue	84	164	465
Profit on securities	6	-	23
Realised/unrealised profit on foreign currency	-	893	-
Other financial income	-	-	106
Total financial income	90	1 057	600
Interest cost	982	1 367	1 696
Realised/unrealised loss on foreign currency	278	-	30
Other financial expenses	171	95	250
Total financial expenses	1 431	1 462	1 976
Net financial items	(1 341)	(405)	(1 376)

7. Special items

Items which are non recurring from one period to another are presented here. These mainly relate to sale of assets and divestment of business operations.

2003	Operating earnings	Other items
Sale of power plants in Norway	-	907
Provision related to forest properties in Australia [1]	-	(84)
Reversal of restructuring provision [2]	135	-
Other adjustments [3]	-	(9)
Total	135	814

2002	Operating earnings	Other items
Sale of forests in Southern Norway	-	159
Sale of forests in Sweden	-	16
Restructuring costs [4]	(600)	-
Other adjustments [3]	-	20
Total	(600)	195

2001	Operating earnings	Other items
Sale of Oksenøyveien 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

All items are listed at their pre tax values.

[1] The provision is related to potential loss in connection with the planned sale of forest properties in Australia

[2] Reversal of parts of the restructuring provision made in 2002 in connection with de-manning

[3] Relates to adjusment of gain/loss on previously sold assets

[4] Provision for costs related to de-manning

8. Taxes

The group's tax cost is made up as follows

	2003	2002	2001
Taxes payable			
Norway	(405)	(53)	(32)
Foreign countries	(191)	(258)	(633)
Total	(596)	(311)	(665)
Change in deferred tax			
Norway	(20)	(74)	(283)
Foreign countries	252	747	(286)
Total	232	673	(569)
Total tax cost	(364)	362	(1 234)

Deferred tax

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

	2003	2002	2001
Total short-term items	(322)	(121)	(17)
Total long-term items	11 984	8 559	11 636
Taxable losses to be brought forward [1]	(3 076)	(1 776)	(1 707)
Total temporary differences and losses to be brought forward	8 586	6 662	9 912
Deferred tax	2 497	2 021	3 174

[1] Tax losses to be brought forward in Norway amount to NOK 932 million and expire in 2013. The rest, NOK 2 144 million, is related to foreign entities and has no time limitation, except for NOK 117 million that expires in 2004 and is expected to be utilised.

Reconciliation of effective tax rate

	2003	2002	2001
Nominal tax rate Norway	28.0%	28.0%	28.0%
Different tax rates abroad	(1.8%)	2.5%	3.9%
Result affiliated companies	9.0%	10.4%	(0.1%)
Amortisation goodwill	8.1%	6.1%	1.7%
Profit and loss effect of present value of deferred tax	1.4%	2.4%	2.7%
New tax rules and new income tax rates	(2.7%)	(37.7%)	(3.2%)
Permanent differences	4.2%	(16.9%)	(0.5%)
One-off effect due to higher tax on sale of power assets [1]	23.6%	-	-
One-off effect due to positive outcome of tax case [2]	(27.6%)	-	-
Other items	5.1%	(39.7%)	(0.9%)
Effective tax rate [3]	47.3%	(44.9%)	31.7%

[1] In connection with a sale of the power stations in Norway, a special resource tax of NOK 182 million has been included.

[2] The parent company Norske Skogindustrier ASA has in 2003 prevailed in a tax matter relating to the income year 2001 for a deduction of NOK 835 million. This has resulted in a repayment of NOK 212.5 million to Norske Skogindustrier ASA.

[3] The tax cost for 2002 is positively affected by NOK 650 million from a new valuation of tax positions related to acquisitions in 2001 and new tax rules in Australia.

9. Earnings per share

	2003	2002	2001
Earnings in NOK million	402	1 162	2 494
Average number of shares in 1 000	132 415	132 194	120 604
Earnings per share in NOK	3.04	8.79	20.68

During the spring of 2001 it was decided to merge the A-shares and B-shares to one share class. A share split was carried out in this connection, and the number of shares doubled. In addition the original holders of A-shares were given the opportunity to take part in a share issue of 17 million shares at NOK 10 per share. A total of 23 million new shares were issued in the international share issue of June 2001.

10. Net cash flow from operations

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

	2003	2002	2001
Earnings before taxes	770	806	3 894
Ordinary depreciation	3 285	3 292	3 323
Share of profit/loss in affiliated companies	239	290	(16)
Gain/(loss) on sale fixed assets and other items	(814)	(195)	(158)
Taxes paid	(185)	(973)	(537)
Changes in receivables	(46)	715	1 012
Changes in inventory	(241)	93	389
Changes in current liabilities	(127)	39	(596)
Adjustments for non-cash working capital items and translation differences	92	(380)	(259)
Net cash flow from operating activities	2 973	3 687	7 052

11. Operational and intangible 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 31.12.2002	5 385	8 035	39 366	682	386	53 854
Addition 2003 at cost	172	87	503	12	598	1 372
Sales 2003 at cost	(17)	(157)	(368)	(6)	-	(548)
Reclassification	103	29	66	-	(198)	-
Translation differences	112	598	2 351	12	54	3 127
Acquisition cost 31.12.2003	5 755	8 592	41 918	700	840	57 805
Depreciation and write-downs						
Accumulated depreciation and write-downs 31.12.2002	703	2 320	14 606	416	-	18 045
Depreciation 2003	271	384	2 508	122	-	3 285
Write-downs 2003	-	84	-	-	-	84
Depreciation and write-downs on fixed assets sold in 2003	(7)	(70)	(126)	(2)	-	(205)
Reclassification	62	-	(6)	(56)	-	-
Accumulated ordinary depreciation and write-downs 31.12.2003	1 028	2 718	16 982	480	-	21 208
Book value						
Book value 31.12.2002	4 682	5 715	24 760	266	386	35 809
Book value 31.12.2003	4 727	5 874	24 936	220	840	36 597
Depreciation plan	5-20 years	10-33 years	10-20 years	3-5 years		

Real property and plants under construction are not depreciated.
The forests in Mid-Norway are sold, but the transaction was not recorded as at 31 December 2003 because the concession process is not completed.

Goodwill specification on each acquisition	Year	Depreciation plan/years	Depreciation 2003	Book value 31.12.2003
Golbey	1995	20	5	58
PanAsia	1999	20	3	45
Union	1999	20	5	61
Fletcher	2000	20	214	3 577
Walsum and Parenco	2001	20	35	653
Klabin	2003	20	3	135

Goodwill is amortised in accordance with its expected useful life based on regional and global synergies.

Operational and intangible 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
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
2003	Acquisition	172	87	503	12	598	1 372
	Disposal	-	387	861	38	-	1 296
Total 5 years	Acquisition	309	588	3 092	151	2 305	6 445
	Disposal	-	1 207	1 079	56	33	2 375

12. Other long-term receivables

	2003	2002	2001
Loans to employees	33	41	44
Sundry long-term receivables	197	183	499
Pension plan assets	123	177	129
Total	353	401	672

13. 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	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 shareholdings, each with book value less than NOK 1 million				7 021
Total				66 030
Shares owned by group companies (book value in the consolidated accounts)				
Elimination between parent company and group of shares in Nordic Paper AS				(29 845)
Other shareholdings				4 481
Total				40 666

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	100	100.0	50
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100.0	15 255 757
Lysaker Invest AS, Lysaker	NOK	1 002 914	100.0	1 502 914
Norske Skog Holding AS, Lysaker	NOK	5 000	100.0	5 000
Union Paper Co Ltd. AS, Skien	NOK	10 000	100.0	3 454
Forestia AS, Braskereidfoss	NOK	100 000	90.1	126 004
Wood og Logistics AS, Drammen	NOK	3 000	76.0	2 295
Oksenøyveien 80 AS, Lysaker	NOK	100	100.0	100
Total				16 895 574

		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	253 164	100.0	2 195 221
Pan Asia Paper Company Ltd, Singapore	Ordinary USD	USD	600	50.0	3 111 206
Pan Asia Paper Company Ltd, Singapore	Ordinary SGD	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, UK		GBP	300	100.0	-
Norske Skog Deutschland GmbH, Hamburg, Germany		EUR	1 000	100.0	10 063
Norske Skog (UK) Ltd., London, UK		GBP	100	100.0	2
Norske Skog Holland B.V., Amsterdam, Netherlands		NLG	100	100.0	400
Norske Skog Belgium S.A., Brussels, Belgium		BEF	19 375	100.0	3 235
Nornews Portugal, Lisbon, Portugal		PTE	400	75.0	-
Norske Skog Espana S.A., Madrid, Spain		EUR	90	100.0	3 607
Norske Skog (Irland) Ltd., Dublin, Ireland		IEP	2	100.0	-
Norske Skog (Schweiz) AG, Zürich, Switzerland		CHF	-	100.0	193
Norske Skog Danmark ApS, Værløse, Denmark		DKK	27	100.0	-
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	-
Norske Skog Jämtland AB, Järpen, Sweden		SEK	100	100.0	57
Norske Skog (Cypros) Ltd., Paphos, Cyprus		CYP	1	95.0	-
Norske Skog Asia Pacific Pte Ltd., Singapore		SGD	664 344	100.0	2 556 901
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	-
Norske Skog Polska Sp. z.o.o. ,Warsaw, Poland		PML	50	100.0	-
Norske Skog Hungary Trading and service Limited, Budapest, Hungary		HUF	3 000	100.0	-
Norske Skog Logistics NV, Antwerp, Belgium		BEF	2 500	100.0	540
THP Paper Company, Vancouver, Canada		USD	-	100.0	-
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	Preference	MYR	382 855	100.0	894 595
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	Ordinary	MYR	-	100.0	-
NSI Forsikring A/S, Hvidovre, Denmark		DKK	20 000	100.0	16 552
Norske Skog Walsum GMBH, Duisberg, Germany		EUR	130 025	100.0	2 603 577
Norske Skog Pisa SA, Rio De Janeiro, Brazil	Preference	BRZ	24 550	100.0	-
Norske Skog Pisa SA, Rio De Janeiro, Brazil	Ordinary	BRZ	113 768	100.0	1 137 704
Norske Skog Adria d.o.o., Ljubljana, Slovenia		SIT	164	100.0	-
Papeles Bio Bio SA, San Pedro, Chile		CLP	77 715	100.0	91
Norske Skog Industries Australia Limited, Sydney, Australia		AUD	-	100.0	16 551
Norske Skog Holdings BV, Amsterdam, Netherlands		EUR	170 100	100.0	2 225 972
Total					15 148 282
Total shares owned by the parent company					32 043 856

	Currency	Share capital NOK 1 000	Ownership %
Shares in Norwegian subsidiaries owned by consolidated companies			
Oxenøen Eiendom AS, Oslo	NOK	100	100.0

Shares in foreign subsidiaries and joint ventures owned by consolidated companies	Currency	Share capital NOK 1 000	Ownership %
Norske Skog Italia s.r.l., Milan, Italy	EUR	10	100.0
Norske Skog Paper (Schweiz) AG, Zug, Switzerland	CHF	130 100	100.0
Norske Skog Holdings (Schweiz) AG, Zug, Switzerland	GBP	1 001 100	100.0
Norske Skog (USA)Inc.Southport, USA	USD	-	100.0
MV Verkstad AB, Mariestad, Sweden	SEK	3150	100.0
Norske Skog Capital (Australia) Pty Ltd, Sydney, Australia	AUD	223 000	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 (Australia) Limited, Tasmania, Australia	AUD	7 539	100.0
Norske Skog Forests (Australia) Pty Ltd, Tasmania, Australia	AUD	2 002	100.0
Norske Skog Capital NZ Ltd, Aukland, New Zealand	NZD	1	100.0
FC Asia Paper Sales Pte Ltd, Singapore	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
Norske Skog Florestal S.A., Brazil	BRZ	13 659	100.0
Norske Skog Jaruariavia SA, Pisa, Brazil	BRZ	31 505	100.0
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	36	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, UK	GBP	100	100.0
Swale Speciality Papers Limited, Edinburgh, UK	GBP	14 000	100.0
Norske Skog Australia Limited, N.S.W., Australia	AUD	-	100.0
Norske Skog Industries (UK) Limited, Cardiff, UK	GBP	569 065	100.0
Norske Skog Forest Holdings AG, Zurich, Switzerland	CHF	63 173	100.0
Parenco Assurantien BV, Renkum, Netherlands	NLG	-	100.0
Parenco Finance BV, Renkum, Netherlands	NLG	40	100.0
Parenco Hout BV, Renkum, Netherlands	NLG	50	100.0
Parenco Van Gelder GMBH, Dusseldorf, Germany	DEM	200	100.0
Reparco Nederland BV. Arnhem, Netherlands	EUR	227	100.0
Sapin SA, Harze, Belgium	BEF	8 125	50.0
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
Norske Skog Chile Industrial Limitada, Concepcion, Chile	USD	15 000	99.9
33039 YUKON INC, British Columbia, Canada	USD	27 382	100.0
Paroco GMBH, Essen, Germany	DEM	130	51.0
Reparco Nijmegen BV, Arnhem, Netherlands	EUR	18	100.0
Reparco Randstad BV; The Hague, Netherlands	EUR	14	100.0
Reparco Renkum BV, Arnhem, Netherlands	EUR	18	100.0
Reparco Trading BV, Nijmegen, Netherlands	EUR	386	100.0
Reparco Zutphen BV, Zutphen, Netherlands	EUR	1 134	100.0
Simon Daadler Winterswijk BV, Zutphen, Netherlands	NLG	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	PTE	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, Netherlands	NLG	166 282	100.0

14. 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.

NOK Million	Ownership	Book value 01.01.03	Bought shares	Share of profit for the year	Dividend/ other equity corrections	Book value 31.12.03
Affiliated companies						
Malaysian Newsprint Industries SDN BHD,						
Kuala Lumpur, Malaysia	33.7%	383	-	(87)[1]	(29)[2]	267
Nordic Paper AS, Greaker, Norway	45.0%	8	-	9	-	17
Norske Skog Canada Ltd., Vancouver, Canada	29.4%	1 551	-	(160)	545[3]	1 936
Other Affiliated Companies		5	-	(1)	4	8
Total		1 947	-	(239)	520	2 228
Joint Venture						
Norske Skog Klabin Comersio E Industria LTDA, Parana, Brazil	50.0%	27	(27)	-	-	-
Pan Asia Paper Co. Pte Ltd, Singapore	50.0%	3 307	-	87	(284)[4]	3 110
Total		3 334	(27)	87	(284)	3 110

[1] Includes a write down of the investment in MNI of NOK 38 million.

[2] Currency translation differences MYR/NOK and other adjustments.

[3] Currency translation differences CAD/NOK.

[4] Including received dividend of NOK (202) million and currency translation differences USD/NOK of NOK (82) million.

Norske Skog Canada Ltd. has a total equity as of 31.12.2003 of CAD 1 069 million.

15. Inventory

	2003	2002	2001
Raw materials and other production materials	1 076	955	1 135
Semi-manufactured materials	44	34	37
Finished goods	1 201	1 091	1 000
Total	2 321	2 080	2 172

16. Liquid Assets

	2003	2002	2001
Cash and bank deposits	334	487	2 389
Short term investments	596	381	1 769
Total liquid assets	930	868	4 158

The large cash-reserve in 2001 was mainly a result of a divestment of forest in Brazil. This divestment took place late in 2001, and the cash was not utilized before 2002.

The group has limited access to liquid assets in the joint ventures and in companies with large minority interests. In 2003 this was NOK 150 million. In 2002 this was NOK 141 million and in 2001 NOK 151 million.

Restricted bank deposits in 2003 amount to NOK 0 million. In 2002 this was NOK 17.7 million and in 2001 NOK 2 million.

Short-term investments	2003 Average interest rate	2003	2002	2001
Bank/insurance		94	-	229
Other financial institutions		46	-	183
Energy		156	-	-
Industry/commerce/shipping		151	196	92
Total bonds	7.99%	447	196	504
Certificates		43	165	620
Short-term bank deposits		104	20	645
Quoted investment shares		2	-	-
Total		596	381	1 769

Commercial papers are classified as current assets and valued as a portfolio. Net unrealised gain on the portfolio was NOK 5.77 million. The corresponding value for 2002 was an unrealised profit of NOK 0.02 million, and for 2001 there was an unrealised profit of NOK 3 million. NOK 196.4 million of total bonds has a floating interest rate, with the next interest fixing on 9 January 2004. The rest of the bond portfolio has a fixed interest rate.

17. Joint venture

Norske Skog participates in a joint venture through PanAsia Paper Company. PanAsia Paper Company is located in Singapore and is owned 50% by Norske Skog and 50% by Abitibi Consolidated, Canada. Until August 2001 Norske Skog's ownership in PanAsia was 1/3. In August 2001 Norske Skog increased its ownership to 50%. The joint venture Norske Skog Klabin is included until it was dissolved in March 2003.

Share of the operating earnings	2003	2002	2001
Operating revenue	2 436	3 438	3 204
Operating expenses	2 251	2 907	2 566
Operating earnings	185	531	638
Share of the balance sheet			
Operational fixed asets	4 222	4 488	5 609
Long-term receivables	17	47	71
Total fixed assets	4 239	4 535	5 680
Inventory	224	236	236
Short-term receivables	596	608	699
Other liquid assets	142	141	151
Total current assets	962	985	1 086
Deferred tax	287	281	305
Long-term debt	1 061	1 235	1 998
Short-term debt	743	670	516
Total debt	2 091	2 186	2 819

18. Shareholders' equity

	2003	2002	2001
Consolidated equity			
Share capital NSI ASA*)	1 331	1 331	1 331
Own shares NSI ASA*)	(7)	(9)	(10)
Share premium reserve NSI ASA*)	7 121	7 116	7 088
Other equity NSI ASA*)	5 757	5 247	5 015
Other consolidated equity	5 017	4 079	5 897
Total consolidated equity excluding minority interests	19 219	17 764	19 321
Shareholders' equity			
Shareholders' equity 31.12, excluding minority interests	17 764	19 321	14 490
Earnings for the year	402	1 162	2 494
Share issues	-	-	3 327
Provision for dividend	(795)	(795)	(792)
Change in own share holding	14	47	5
Translation difference	1 834	(1 971)	(203)
Shareholders' equity 31.12, excluding minority interests	19 219	17 764	19 321
Minority interests	197	157	205
Total shareholder's equity	19 416	17 921	19 526

*) Norske Skogindustrier ASA

At 31 December 2003 Norske Skog held 732 752 of its own shares in all, equivalent to 0.55% of the total number of shares. These shares were aquired through the merger with Aktieselskapet Union (Union Co) in 1999, and are primarily used for the share ownership program for employees and for settlement of bonus agreements. The general meeting of 10 April 2003 authorised the board of directors to acquire up to 10% of the company's shares on certain conditions. This authority was given for a period of 18 months. Shareholder's equity in Norske Skog increased by NOK 1 834 during 2003 owing to the weakening of the NOK against the currencies of the other countries in which the group operates. The increase of the equity relates to the translation of foreign subsidiaries.

19. Minority interests

	2003	2002	2001
Minority at 01.01.	157	205	7 861
Changes in minority owing to sales/purchases1)	59	-	(760)
Share of net earnings	4	(6)	166
Dividend paid	(15)	1	(4 323)
Deconsolidation of Norske Skog Canada	-	-	(2 487)
Currency translation differences	(8)	-43	(252)
Minority at 31.12	197	157	205

Dividend paid for 2001 includes NOK 4 241 million paid to minorities in Norske Skog Canada.

1) The minorities' share in Hebei Long Teng Paper.

20. Interest-bearing long-term liabilities

	2003	2002	2001
Bonds	10 218	8 490	9 527
Debt to financial institutions	7 815	9 435	17 154
Total	18 033	17 925	26 681
Senior long term debt in NOK	4 259	4 949	7 205
Senior long term debt, foreign currencies	13 774	12 976	19 476
Total	18 033	17 925	26 681

Senior long-term debt by currency

Senior long-term debt by currencies, current portion included:

	Currency amount million 31.12.2003	Currency rate 31.12.2003	NOK million 31.12.2003	Average interest rate 31.12.2003
USD	1 130	6.6750	7 542	4.0%
EUR	611	8.4225	5 145	3.1%
NZD	26	4.3799	115	7.1%
AUD	50	5.0137	251	5.8%
KRW	108 438	0.0056	607	5.3%
SEK	114	0.9277	106	4.3%
MYR	3	1.7566	4	4.4%
BRL	2	2.3001	4	14.5%
Total debt in foreign currencies in NOK			13 774	
Total senior long term debt in NOK			4 259	5.1%
Total long term debt			18 033	

Repayment of debt

The company's total debt as at 31 December 2003 matures as follows.

	Debt banks	Bonds	Total
2004	887	151	1 038
2005	702	-	702
2006	656	2 001	2 657
2007	1 897	1 377	3 274
2008	1 796	-	1 796
2009	1 798	-	1 798
2010	75	-	75
2011	33	4 005	4 038
2015	154	1 335	1 489
2033	-	1 335	1 335
Total	7 998	10 204	18 202

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 amortized in the P&L account over the lifetime of the issued bonds. At 31 December 2003 a premium of NOK 14 million exists in the account. The repayment schedule does not include unrealised currency effects on forward contracts. At 31 December 2003 this increased debt by NOK 484 million. NOK 318 million of this is due in 2004.

At 31 December the holding of the company's own bonds amounted to NOK 1 967 million nominal. This is deducted from interest-bearing debt in NOK.

On existing domestic bond loans Norske Skog can draw additional NOK 1 005 million.

In October 2003 Norske Skog issued two US bond loans, amounting to USD 200 million each. The tenors were 12 and 30 years. Both of the loans have fixed interest rate coupons but are swapped into floating rates.

At the end of 2003 Norske Skog has NOK 5 900 million in unused long-term credit lines.

Norske Skog has given declarations of negative pledge when raising long-term loans. Furthermore some of the loan contracts contain requirements to certain financial ratios relating to solvency, and other requirements usual in syndicated loan agreements, these are:

- net equity capital (equity capital minus intangible assets) minimum NOK 9 billion, and
- net interest bearing debt / equity capital maximum 1.4.

Norske Skog complies with each and all of these requirements.

PanAsia Paper has a covenant in one of their loan agreements that EBITA shall be at minimum USD 150 million on a 12 months rolling basis. PanAsia was not in compliance with this covenant at 31 December 2003, the banks in the syndicate accepted this and a waiver has been granted for 2003 and 2004. PanAsia has a good financial position with a strong balance sheet.

21. Other current liabilities

	2003	2002	2001
Short-term bank debt	656	681	275
Other long-term interest bearing liability	-	466	22
Total	656	1 147	297

The group has unused bank overdrafts of NOK 200 million. No restrictions are placed on the use of the facility.

22. Interest free current liabilities

	2003	2002	2001
Duties and holiday pay	635	583	517
Accounts payable	1 649	1 665	1 678
Sundry interest-free current debt	561	899	233
Provision for dividend	795	795	792
Accrued expenses	1 008	881	1 556
Taxes payable	216	240	815
Total	4 864	5 063	5 591

23. Foreign exchange and interest off-balance instruments

Foreign exchange contracts

NOK million Currency	Purchase contracts equivalent	Sales contracts equivalent
AUD	483	3 535
CAD	209	1 010
CHF	16	-
CZK	149	19
DKK	31	201
GBP	12	1 219
JPY	-	7
NOK	10 466	1 879
SEK	118	219
USD	2 837	2 117
BRL	-	72
KRW	-	582
THB	7	79
NZD	424	-
EUR	981	5 159
Total	15 733	16 098

The sum of the principal in foreign currencies is translated into NOK at spot rates on 31 December 2003.

All forward contracts and currency options are related to hedging of net investment in susidiaries or hedging of future cash flows in foreign currencies. All existing forward contracts and currency options will mature during 2004.

Currency options

The group uses currency options in its cash flow hedging program in AUD, EUR, GBP and USD.

The groups currency option strategy is based on a combination of purchased vanilla options and sold exotic barrier options. This combination is giving a similar cover when NOK is strenghtening as for foreign exchange contracts. If NOK weakens within an interval in sold barrier options the loss will not be as big as if one had been using ordinary foreign exchange contracts. If NOK weakens more than the level in the barrier option the loss will be similar to use of ordinary FX-contracts in the hedge. The option strategy has equal premium on both bought and sold options. This is giving a net cost of zero when the contracts are done. Changes in option values are booked in profit and loss. Professional option pricing methods are used together with currency and interest rate volatility curves as per 31 December 2003. Total unrealised profit on currency options is NOK 2.6 million per 31 December 2003. All currency options mature in 2004.

Interest rate- and cross currency swaps

Currency receive leg	Currency pay leg	Nominal value in currency receive leg	Nominal value in currency pay leg	Market value (NOK million)	Receives	Pays	Maturity
NOK	EUR	250.0	30.6	5.5	Fixed	Fixed	2007
NOK	NOK	50.0	50.0	4.0	Fixed	Floating	2006
NOK	NOK	50.0	50.0	3.8	Fixed	Floating	2006
NOK	NOK	50.0	50.0	3.2	Fixed	Floating	2006
NOK	NOK	300.0	300.0	30.0	Fixed	Floating	2006
NOK	NOK	55.0	55.0	4.7	Fixed	Floating	2006
NOK	NOK	100.0	100.0	5.4	Fixed	Floating	2004
NOK	NOK	75.0	75.0	6.7	Fixed	Floating	2006
NOK	NOK	50.0	50.0	3.1	Fixed	Floating	2004
USD	USD	50.0	50.0	20.3	Fixed	Floating	2011
AUD	AUD	54.9	54.9	(4.8)	Floating	Fixed	2005
NOK	NOK	250.0	250.0	3.2	Fixed	Floating	2007
USD	USD	75.0	75.0	(10.9)	Fixed	Floating	2033
USD	EUR	45.0	38.8	(42.5)	Fixed	Floating	2033
USD	EUR	80.0	69.0	(69.2)	Fixed	Floating	2033
USD	EUR	75.0	64.2	(12.8)	Fixed	Floating	2015
USD	EUR	50.0	42.8	(33.6)	Fixed	Floating	2015
USD	USD	55.0	55.0	(5.8)	Fixed	Floating	2015
NOK	NOK	500.0	500.0	9.5	Fixed	Floating	2007
NOK	NOK	100.0	100.0	2.5	Fixed	Floating	2007
USD	AUD	44.9	62.0	(17.2)	Floating	Fixed	2011
USD	AUD	54.6	75.0	(13.3)	Floating	Floating	2011
USD	AUD	81.0	110.0	(9.8)	Floating	Floating	2011
NOK	EUR	526.5	64.8	(5.6)	Floating	Fixed	2007
USD	USD	400.0	400.0	192.4	Fixed	Floating	2011
USD	USD	100.0	100.0	47.3	Fixed	Floating	2011

If the interest rate is reduced, the group will profit from receiving fixed interest and paying floating interest. Market values are calculated by using market rate curves as at 31 December 2003. The group uses interest rate swaps for interest rate hedging. Unrealised market-to-market revaluation are not booked in the P&L account. This is in line with the underlying debt being kept at cost. For combined interest and currency swaps unrealised currency effect is included. Currency effects are booked against translation of underlying debt and translation differences on equity in the group. This accords with the fact that all combined currency and interest swaps are in hedge portfolio hedging net investments in foreign subsidiaries.

24. Mortgages

The following loans are secured by mortgages on real property at 31 December

	2003	2002	2001
Outstanding balance, other mortgage debt	228	253	1 302
Total	228	253	1 302

Book value of assets securing this debt as at 31.December

Machinery	361	293	1 770
Buildings	-	-	448
Forest, land and other real property	-	-	24
Total	361	293	2 242

Norske Skogindustrier ASA and subsidiaries pledge no assets, since the loan agreements contain a negative pledge clause. This does not apply to PanAsia Paper which has pledged some of its assets.

25. Environment

NOK 178.5 million was devoted to environmental investments in 2003, as against NOK 175 million the year before.

The largest items were the construction of a biofuel furnace at Norske Skog Parenco and completion of a new sedimentation basin for waste water treatment by Norske Skog Bio Bio.

Work on building a new biofuel furnace at Norske Skog Parenco began in late 2002, and the unit became operational as planned in January 2004. The investment totalled NOK 280 million, with NOK 128 million incurred in 2003.

Norske Skog Bio Bio's new treatment facility became operational in May 2003. This investment totalled just under NOK 20 million, including NOK 8.5 million incurred in 2003. The plant has cut discharges of suspended materials by 85-90 per cent and almost halved discharges of dissolved organic materials measured by chemical oxygen demand (COD).

Its special position for wood and its production process mean that discharges to water at Norske Skog Boyer in Australia are higher than at other newsprint mills. The authorities have set a deadline of December 2007 for implementing further measures to reduce discharges from this mill.

26. Other commitments

In 1998 Norske Skog finalised a lease and buy back arrangement with American investors 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 investors. Although the sum has been deposited, Norske Skog is not exonerated from liability for payment. However, the credit risk is extremely low as the funds are held in a bank with an "A grade" 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 unlikely. 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 the 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 area should take place through PanAsia, and that PanAsia should have a growth strategy. Australasia is not included in the market area of PanAsia. According to the shareholder's agreement, PanAsia has an option to buy Norske Skog's 33,65% equity share in Malaysian Newprint Industries at an agreed price.

Norske Skog and Klabin Fabricadora de Papel e Celulose SA each owned 50% of the shares in the joint venture Norske Skog Klabin in Brasil. Norske Skog bought out Klabin at the termination of the joint venture agreement in March 2003 for USD 28 million. 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 from the termination of the agreement.

Moelven ASA has in accordance with agreement the right to acquire Norske Skogs shares (90.1%) in Forestia AS within the end of 2004. The shares must be purchased at market price. If Moelven ASA does not execute this right, Norske Skog is obligated to acquire Moelvens shares (9,9%) in Forestia AS at market price, but the compensation should not be less than NOK 8 million, and not more than NOK 12 million.

27. Financial risk

Transaction risk currency

The group has revenues and costs in various currencies.
The major currencies are EUR, NOK, USD, GBP, AUD and NZD.
Transaction risk is the potential difference in the future value of outgoing or incoming funds in different currencies used by the group.
The group calculates a 12-month future expected cash flow in each currency on a rolling basis. Fifty to 100 per cent of the company's expected cash flows is hedged at any time.
Only accounts of wholly-owned subsidiaries, in which Norske Skog has direct access to the accounts, are included in the hedging.
The result of the hedging is included under "Financial Items" in the consolidated profit and loss account.
Cash flow hedging generated a loss of NOK 292 million in 2003.
Currency loss or income will, over time, offset increased or reduced future net operational income.

Translation risk currency

Up to 2003 the currency mix of debt was aimed at neutralizing currency movements effecting corporate gearing. Considerable repayment of debt last year has improved the gearing. From an economic perspective the group in 2003 changed the mix of currencies in order to achieve a more optimal hedging. Debt is drawn in currencies where the group has net revenues in order to reduce its exposure and over time contribute to a more sustainable cash flow. This is also currencies where the group has assets and therefore contributes to reduce fluctuations in group booked equity as a consequence of currency movements. For all practical purposes this has led to debt in NOK being swapped into debt in EUR. The result of the translation risk hedges are booked against equity and are offset by translation differences from assets in subsidiaries.
The result of the balance sheet hedging booked against equity was in 2003 NOK 1 611 million. Use of forward contracts for adjusting currency allocation on debt will offset other liquidity outcomes linked to exchange rate movements, than the use of traditional currency debt.

Interest rate risk

Norske Skog considers a floating interest rate on its corporate 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 corporation has outstanding certificates and fixed interest rate bonds with a nominal value of NOK 10 008 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.

Duration table

Interest period,in effective terms, of Group's debt.	USD	EUR	AUD	KRW	CAD	Total
Currency allocation in NOK billion [1)]	3.1	10.5	3.8	0.4	0.9	18.7
Duration per currency [2)]	1.3	0.6	1.1	0.2	0.4	0.8

[1)] The table presents the currency split of the Group's debt. The figures show the debt face value. (Cross currency and FX swaps used to modify the currency mix are included). PanAsia Paper's debt is not included.

[2)] Duration is calculated for each currency and indicates the interest rate fixing period in number of years. PanAsia Paper's debt is not included in the duration calculation.

Liquidity risk

Norske Skog is exposed to liquidity risk when payments on financial liabilities are not corresponding to the groups cash flow from net profit. To offset these effects the group is spreading payments related to financial liabilities throughout the year. In addition to this the groups policy is to have a liquidity reserve on NOK 1 billion. The group has unused facilities on NOK 5.9 billion at year end 2003.

Credit risk

Norske Skog is making a credit evaluation of all opposite parties on financial trading. The opposite parties must be at least an A-rated company. For non rated companies there are calculations made where the minimum criteria's to key figures are as for an A-rated company. Based on the rating and other calculations all opposite parties are given a limit on the credit exposure. The limits are followed continuously related to unrealized profit on financial instruments and placements.

The Credit policy for sales is centralized at Oxenøen and the authority to grant credits to customers is decentralized to the sales units. The receivables are monitored closely through a comprehensive rating- and insurance program and overdue amounts followed closely.

Energy risk

A major part of Norske Skog's global energy demand is hedged through long term contracts. Norske Skog also uses financial instruments for limited parts of the hedging. The hedging ratio represents a trade off between risk exposure and opportunities to take advantage of short term price drops.
Contracted volumes have rated counterparts.

Profit and loss account

NOK million	Notes	2003	2002	2001
Operating revenue	2	**6 933**	**6 979**	**9 079**
Changes in inventory		30	(66)	25
Cost of materials		3 788	3 616	4 010
Personell costs	3	1 287	1 337	1 317
Other operating expenses	4	786	979	1 214
Depreciation and amortisation	7	593	630	640
Operating expenses		**6 484**	**6 496**	**7 206**
Operating earnings before restructuring costs		**449**	**483**	**1 873**
Restructuring costs	4	(50)	(111)	-
Operating earnings		**399**	**372**	**1 873**
Group contribution		924	-	-
Financial revenue		820	1 409	537
Financial expenses	10	(1 797)	(494)	(3 287)
Financial items, net		(53)	915	(2 750)
Other items		935	240	115
Earnings before taxation		**1 281**	**1 527**	**(762)**
Taxation	5	(26)	(496)	359
Earnings/(loss) for the year		**1 255**	**1 031**	**(403)**
Group contribution given, after tax		-	274	-
Application of profit for the year:				
Allocated from/to other equity		(460)	(236)	1 195
Dividend to shareholders		(795)	(795)	(792)
Total		(1 255)	(1 031)	403

Statement of cash flow

NOK million	Notes	2003	2002	2001
Cash flow from operating activities				
Cash generated from operations		7 051	7 169	8 976
Cash used in operations		(6 008)	(5 888)	(7 008)
Financial revenue received		820	1 405	499
Financial expenses paid		(1 507)	(1 091)	(2 124)
Taxes paid		53	(283)	(166)
Net cash flow from operating activities	6	409	1 312	177
Cash flow from investment activities				
Investments in operational fixed assets	7	(231)	(224)	(293)
Sales of operational fixed assets	7	3	35	12
Net change in intercompany receivables		2 270	961	2 859
Net financial investments		(660)	135	(3 095)
Net cash flow from investment activities		1 382	907	(517)
Cash flow from financial activities				
Net change in long-term liabilities		(945)	(3 256)	(2 228)
Dividend paid		(795)	(792)	(551)
Share issues		-	-	3 327
Net cash flow from financial activities		(1 740)	(4 048)	548
Total change in liquid assets		**51**	**(1 829)**	**208**
Liquid assets as at January 1		520	2 349	2 141
Liquid assets as at December 31		571	520	2 349

Balance sheet

NOK million	Notes	2003	2002	2001
Assets				
Intangible fixed assets	7	**67**	**73**	**72**
Operational fixed assets	7	**4 793**	**5 457**	**5 907**
Intercompany receivables		5 199	5 908	8 812
Other long-term assets		59	75	203
Pension plan assets	3	63	110	129
Shares in other companies		66	62	54
Shares in subsidiaries		32 044	29 145	28 601
Securities and long-term financial assets		**37 431**	**35 300**	**37 799**
Fixed assets		**42 291**	**40 830**	**43 778**
Finished goods		366	396	329
Raw materials and work in progress		192	168	236
Inventory		558	564	565
Intercompany receivables		2 372	702	452
Other receivables		111	292	528
Accounts receivable		844	767	925
Provision for bad debts		(39)	(39)	(43)
Receivables		3 288	1 722	1 862
Commercial papers		106	105	1 100
Bonds		441	196	504
Cash and bank deposits		24	219	745
Liquid assets		571	520	2 349
Current assets		**4 417**	**2 806**	**4 776**
Total assets		**46 708**	**43 636**	**48 554**
Liabilities and shareholders' equity				
Paid-in capital:				
Share capital		1 331	1 331	1 331
- Own shares		(7)	(9)	(10)
Share premium reserve		7 121	7 116	7 088
Retained earnings:				
Other equity		5 757	5 247	5 015
Shareholders' equity	8	**14 202**	**13 685**	**13 424**
Deferred taxes	5	425	373	288
Pension obligations	3	85	87	81
Intercompany long-term liabilities		10 849	5 479	3 793
Other long-term liabilities		15 946	16 851	20 689
Long-term liabilities		**27 305**	**22 790**	**24 851**
Other short-term liabilities		1 276	1 459	3 177
Intercompany short-term liabilities		2 557	4 482	5 768
Accounts payable		336	307	481
Duties and holiday pay		54	53	49
Provision for dividend		795	795	792
Tax payable		183	65	12
Current liabilities		**5 201**	**7 161**	**10 279**
Total liabilities and shareholders` equity		**46 708**	**43 636**	**48 554**
Guarantees	9	1 301	2 159	4 565

Lysaker, 4 March 2004

Lars Wilhelm Grøholt
Chairman

Egil Myklebust
Deputy chairman

Halvor Bjørken

Jan Vidar Grini

Øivind Lund

Kåre Leira

Gisèle Marchand

Jan Oksum
CEO

1. Accounting principles

The company's accounting principles are the same as those applied for the consolidated accounts, as described on page 92 to 95. Only those notes which are materially different from the group notes are shown below. Investments in subsidiaries are valued at historical cost. All figures are in NOK million unless otherwise stated.

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

2. Operating revenue

Operating revenue includes NOK 1 266 million in ordinary revenue from the sale of goods and services to companies within the group in 2003. The corresponding figure was NOK 1 366 in 2002 and NOK 1 858 million in 2001. All intercompany deliveries, profits and debts between departments are eliminated in the accounts.

3. Pension costs and obligations

Net periodic pension cost	2003	2002	2001
Benefit earned during the year	53	50	49
Interest costs on prior period benefit	66	62	57
Expected return on plan assets	(68)	(70)	(70)
Periodic employer tax	7	2	1
Expensed portion of changes of AFP	3	2	2
Expensed portion of differences in estimates	10	8	4
Net periodic pension cost	71	54	43

Status of pension plans reconciled with the balance sheet:

	2003	2002	2001
Projected Benefit Obligations	(1 295)	(1 221)	(1 123)
Plan assets at fair value	1 105	1 143	1133
Plan assets in excess of/(less than) obligations	(190)	(78)	10
Unamortised changes in early retirement plan AFP	-	-	22
Differences in estimates not taken to income/expences	184	109	23
Net plan assets/pension obligations	(6)	31	55
Accrual employer tax	(16)	(8)	(7)
Plan assets/(pension obligations) in the balance sheet	(22)	23	48
Pension obligation	(85)	(87)	(81)
Pension assets	63	110	129

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

4. Other operating expenses and restructuring costs

Restructuring costs of NOK 50 million is presented on a separate line. The provision will cover costs related to workforce reductions.

5. Taxes

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

Taxation basis	2003	2002	2001
Earnings before taxation	1 281	1 527	(761)
Permanent differences	(939)	(200)	(77)
Group contribution	-	(381)	153
Equity items	-	-	(133)
Currency items	(693)	8	464
Change in temporary differences	(529)	(303)	420
Basis for taxation	(880)	651	66

Taxation	2003	2002	2001
Tax payable including withholding tax	(182)	(234)	(14)
Tax payable former year	207	(263)	-
Tax group contribution	-	(107)	-
Tax credit	-	193	-
Sum tax payable	25	(411)	(14)
Change in deferred tax	(51)	(85)	373
Total tax cost	(26)	(496)	359

Norske Skogindustrier ASA was successful during 2003 in a tax claim relating to the 2001 fiscal year for a deduction of NOK 835 million. This has resulted in a repayment of NOK 212.5 million to Norske Skogindustrier ASA. In connection with a sale of the power stations in Norway, a special resource tax of NOK 182 million has been included.

Deferred tax

A specification of temporary differences and deferred tax is shown below. (Tax rate 28% in 2001, 2002 and 2003)

	2003	2002	2001
Reserve in accounts receivable	(37)	(38)	(122)
Reserve in inventory	98	115	83
Other short-term items	(109)	(198)	(214)
Total short-term items	(48)	(121)	(253)
Accelerated depreciation	1 344	1 379	1 525
Deferred capital gains	686	150	219
Pension plan assets	63	110	129
Pension obligations	(85)	(87)	(81)
Other long-term items	373	375	(38)
Total long-term items	2 382	1 927	1 754
Loss to carry forward Norway	(814)	-	-
Total temporary differences	1 519	1 806	1 501
Deferred tax on termporary differences	425	505	419
Tax credit carry forward	(50)	-	-
Tax on currency items	50	(132)	(131)
Total deferred tax	425	373	288

6. Net cash flow from operations

The connection between earnings before tax and cash flow from operations is shown below.	2003	2002	2001
Earnings before tax	1 281	1 527	(762)
Ordinary depreciation	593	630	640
Taxes paid	53	(283)	(166)
Gain/loss on sale fixed assets and other items	(935)	(240)	(115)
Group contribution	(923)	-	-
Change in receivables	104	395	143
Change in stocks	6	1	25
Change in current liabilities	472	(300)	1 024
Adjustments for changes in working capital without cash effect	(242)	(418)	(612)
Net cash flow from operating activities	409	1 312	177

7. Operational and intangible 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 31.12.2002	104	2 938	10 553	322	120	14 037
Addition 2003 at cost	6	39	83	-	109	237
Sales 2003 at cost	(12)	(155)	(304)	(1)	-	(472)
Reclassification	-	(1)	(8)	9	-	-
Acquisition cost 31.12.2003	98	2 821	10 324	330	229	13 802
Depreciation and write-downs						
Accumulated ordinary depreciation and write-downs 31.12.2002	31	1 355	6 864	257	-	8 507
Ordinary depreciation 2003	7	95	457	34	-	593
Depreciation on fixed assets sold 2003	(7)	(61)	(90)	-	-	(158)
Write-downs 2003	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Accumulated depreciation and write-downs 31.12.2003	31	1 389	7 231	291	-	8 942
Book value						
Book value 31.12.2002	73	1 583	3 689	65	120	5 530
Book value 31.12.2003	67	1 432	3 093	39	229	4 860

Goodwill specification on each acquisition	Year	Depreciation plan/years	Depreciation 2003	Book value 31.12.2003
Union	1999	20	5	61

Goodwill is amortised in accordance with expected useful life based on regional and global synergies.

Operational and intangible 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
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
2003	Acquisition	6	39	83	-	109	237
	Disposal	-	380	855	38	-	1 273
Total 5 years	Acquisition	13	255	771	90	929	2 058
	Disposal	-	655	882	51	11	1 599

8. Shareholders' equity

	Share Capital	Share premium reserve	Other Equity	Total
Shareholders' equity 31.12.2002	1 322	7 116	5 247	13 685
Share issues	-	-	-	-
Change in own shareholding	2	5	7	14
Earnings	-	-	1 255	1 255
Provision for dividend	-	-	(795)	(795)
Other adjustments	-	-	43	43
Shareholders' equity 31.12.2003	1 324	7 121	5 757	14 202

At 31.12.2003 the share capital was divided into 133 137 088 shares, each with a nominal value of NOK 10. Own shareholding was 732 752 shares.

Principle shareholders	Ownership in %
State Street Bank & Trust Co., USA	9,7
Folketrygdfondet, Oslo	8,5
Viken Skogeierforening, Hønefoss	8,1
JP Morgan Chase Bank, UK	7,1
Agder-Telemark Skogeierforening, Skien	4,1
Skogeierforeningen Nord, Trondheim	2,6
Mjøsen Skogeierforening, Lillehammer	2,4
JP Morgan Chase Bank, USA	2,3
Mellon Bank NA, USA	1,8
Vital Forsikring ASA, Bergen	1,7
Glommen Fond AS, Elverum	1,5
Rederiaktieselskapet Henneseid, Skien	1,5
VPF Skagen Vekst, Stavanger	1,1

Shareholders in Corporate Assembly	Number of shares
Elected by the shareholders	
Ivar B. Korsbakken, Oslo, Chairman	1 252
Emil Aubert, Porsgrunn	16 718
Ole H. Bakke, Trondheim	53
Svein Haare, Hokksund	555
Olav Hørsdal, Frolands Verk	3 310
Halvard Sæther, Lillehammer	2 517
Torstein A. Opdahl, Namnå	613
Svein Aaser, Drøbak	475
Elected by the employees	
Stig Arnegård, Skogn	113
Per Kristian Dahl, Saugbrugs	555
Magnus Straume, Union	38
Stig Johansen, Forestia Braskereidfoss	335
Observers from the employees	
Ove Magne Anseth, Forestia Braskereidfoss	110

Shareholders in Board of Directors	Number of shares
Lars Wilhelm Grøholt, Hov, Chairman	1 480
Halvor Bjørken, Verdal	1 490
Øivind Lund, Drammen	767
Elected by the employees	
Kåre Leira, Skogn	820
Jan Vidar Grini, Union	453

Shareholders President and Executive Staff	
Jan A. Oksum	6 827
Jan Kildal	13 566
Rolf Negård	653
Hanne Aaberg	1 189
Jan-Hinrich Clasen	473
Jarle Dragvik	2 098
Ketil Lyng	3 186
Rob Lord	810
Antonio Dias	820
Vidar Lerstad	3 980

9. Guarantees

The company has guaranteed debt totaling NOK 1 298 million for its subsidiaries. Other guaranties amounts to NOK 3 million.

10. Other items

Other items consists in 2003 of gain on sale of power stations in Norway. Other items in 2002 include 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 agains Norske Skog Flooring Holding AS (NOK 64 million). Other items in 2001 include profit form 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).

11. Repayment plan interest-bearing debt

The company's total debt as at 31.12.2003 matures as follows.

	Debt banks	Bonds	Total
2004	19	151	170
2005	370	-	370
2006	370	2 001	2 371
2007	995	1 377	2 372
2008	1 525	-	1 525
2009	1 795	-	1 795
2010	73	-	73
2011	33	4 005	4 038
2015	154	1 335	1 489
2033	-	1 335	1 335
Total	5 334	10 204	15 538

Debt in foreign currencies is entered at current rate in the installment profile. Debt used as hedging instruments for hedging of net investments in foreign currencies is entered at historic cost in the balance sheet.

Auditor's report for 2003

We have audited the annual financial statements of Norske Skogindustrier ASA as of 31 December 2003, showing a profit of NOK 1 255 million for the parent company and a profit of NOK 406 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 the 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 and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. 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 2003, 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 information 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 allocation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 4 March 2004
ERNST & YOUNG AS

Henning Strøm
State Authorised Public Accountant (Norway)

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

The corporate assembly's statement to the annual general meeting

The Corporate Assembly recommends that the Annual general meeting approves the profit and loss statement and balance sheet for 2003 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, 4 March, 2004

Ivar B. Korsbakken
Corporate assembly chairman

GRI index

GLOBAL REPORTING INITIATIVE (GRI)

The GRI is an independent institution dedicated to producing global and generally-accepted guidelines for reporting on sustainable development. This work is pursued through a process involving the participation of groups of independent interests. The guidelines are voluntary, and cover reporting under the three pillars for sustainable development – economic growth, environmental performance and social responsibility.

Norske Skog supports efforts to establish a global standard for sustainability reporting. As in 2002, it has integrated reporting on environmental performance and social responsibility in its regular annual report for 2003. For the first time, the GRI guidelines have been applied as a tool in the continued work of developing Norske Skog's reporting.

The reporting for 2003 is somewhat deficient on a number of points in relation to the GRI guidelines. This either reflects the absence of in-house reporting systems in every area or the fact that the area in question is not very relevant to our business. Norske Skog will work to eliminate these deficiencies. The aim is to report for 2004 in accordance with the GRI guidelines.

The table provides references to where information relevant to the various elements in the GRI guidelines can be found in the report. This information may appear in several places, and be collectively more or less sufficient for the description in the GRI guidelines. Those elements where no information has been provided in this year's report are labelled n.a. (not reported) in the table. For more details on the individual elements and general information about the GRI, see the web site at:
www.globalreporting.org

Glossary

BASIS WEIGHT (SUBSTANCE):
The weight of paper in grams per square metre. In North America other units are used (lb per 3 000 square feet).

BIOFUEL:
Renewable fuel from the vegetable kingdom, such as bark, wood residues and sludge from wastewater treatment plants.

BIOLOGICAL TREATMENT:
A method of cleansing waste water in which micro organisms convert dissolved organic material in the effluent to water, carbon dioxide and combustible sludge.

BLEACHING:
Removal or modification of the coloured components in the pulp to improve its brightness. Mechanical pulp is mainly bleached by sodium hydrosulphite and hydrogen peroxide.

CELLULOSE:
Organic substance, which is the most important component of the cell walls in wood fibre.

CHEMICAL OXYGEN DEMAND (COD):
Measure of the amount of oxygen needed to completely degrade the mainly organic compounds in the effluent.

CHEMICAL PULP:
Pulp in which the fibres have been separated through a chemical process, normally through cooking. Chemical pulp consists mainly of cellulose.

COATING:
A process in which the paper sheet is given a thin coating of kaolin or other pigments, to give the sheet a good printing surface.

DE-INKED PULP (DIP):
Pulp produced by de-inking recovered paper from newspapers and magazines.

ECO-MANAGEMENT AND AUDIT SCHEME (EMAS):
EU standard for environmental management.

ENVIRONMENTAL MANAGEMENT SYSTEM:
An overall management system providing systematic implementation of the company's environment policy. Can be structured in accordance with EMAS and/or ISO 14001.

EXTERNAL TREATMENT:
Treatment of discharge water outside the actual production process. There are three main types: mechanical, biological and chemical.

FILLERS:
Inorganic fillers are used as additives in paper production to, among other things, give the paper a more even and brighter surface. Various types are used, such as finely ground marble and kaolin.

GROUNDWOOD PULP:
Pulp produced by pressing debarked logs against a rotating grinding stone.

H-VALUE:
Lost time injuries per million hour worked.

ISO14001:
International environmental management standard.

LIGNIN:
Organic substance binding the wood fibres together.

LONG FIBRE PULP:
Chemical pulp produced from softwood such as spruce or pine.

LWC (LIGHTWEIGHT COATED) MAGAZINE PAPER:
Wood-containing coated publication paper.

MECHANICAL PULP:
A mixture of fibres separated through mechanical processing in refiners or grinders.

NEWSPRINT:
Wood-containing publication paper containing up to 100 per cent mechanical pulp and/or de-inked pulp.

PUBLICATION PAPER:
A general term for newsprint and magazine paper grades.

PULP:
Semi-finished product for papermaking, made from wood or recovered paper.

RECOVERED PAPER:
Used newspapers and magazines, paper recovered from offices and printing works, used packaging.

REFINER:
A machine which makes mechanical pulp by treating wood chips between rotating steel discs. The surface pattern of the discs helps separate the individual fibres in the wood.

SC (SUPER CALANDERED) MAGAZINE PAPER:
Wood-containing uncoated publication paper. This paper is given a mechanical surface treatment to provide a smoother surface and better printing characteristics.

SEDIMENTATION PLANT:
Mechanical treatment of effluent in which fibre and suspended solids are separated out.

SHORT FIBRE PULP:
Chemical pulp produced from hardwood such as birch or eucalyptus.

SUSPENDED SOLIDS (SS):
Amount of particles that can be separated/filtered out from effluent with the help of a fine-meshed filter.

THERMOMECHANICAL PULP (TMP):
Mechanical pulp produced by refining chips that are pre-heated to 100-115 ºC. The high temperature softens lignin and helps separate the fibres, thus yielding longer and stronger fibres than with grinding.

WOOD-CONTAINING PUBLICATION PAPER:
General term for paper containing mainly mechanical pulp and/or de-inked pulp. The most common grades are newsprint, SC magazine paper and LWC magazine paper.

WOOD:
General term for wood as a raw material for sawmills and pulp and paper mills.

Articles of association of Norske Skogindustrier ASA

(Last amended 10 April 2003)

§1 NAME

The Company is a public limited company. The name of the Company is Norske Skogindustrier ASA.

§2 OBJECTS

The object of the Company is to carry out pulp and paper operations and any activities connected with this. The Company may also participate in other enterprises by share subscription or similar.

§3 REGISTERED OFFICE

The Company is a Norwegian company with its management and registered office in Bærum municipality.

§4 SHARE CAPITAL AND SHARES

The Company's share capital amounts to NOK 1 331 370 880 divided into 133 137 088 shares, each with a nominal value of NOK 10. The Company's shares shall be registered with the Norwegian Registry of Securities (VPS).

§5 TRANSFER OF SHARES

Any transfer of shares shall be reported to the Company's Board of Directors for approval. Shares which are transferred to a new owner do not carry voting rights until eights (8) days after the Company has been notified of the transfer.

§6 BOARD OF DIRECTORS

The Company's Board of Directors shall consist of a minium of 7 and maximum of 10 Directors. Directors are to be elected by the Corporate Assembly for terms of two years. No one can be elected to the Board after reaching the age of 70. The Corporate Assembly shall elect the Chairman and Deputy Chairman of the Board for terms of one year. The Corporate Assembly is to determine the remuneration payable to Directors. The Board of Directors is responsible for appointing a Managing Director, to be known as President and Chief Executive Officer, and for determining his/her remuneration. The Board of Directors can authorise its Directors, the Managing Director or certain designated employees to sign for the Company.

§7 CORPORATE ASSEMBLY

The Company shall have a Corporate Assembly consisting of 18 Members, of whom 12 Members and four Alternate Members are to be elected by the Annual General Meeting. Members are elected by the Annual General Meeting for terms of two years at a time. Alternate Members are elected for terms of one year at a time. The Corporate Assembly shall elect two of its members to act as Chairman and Deputy Chairman for terms of one year at a time.

§8 NOMINATION COMMITTEE

The Company shall have a Nomination Committee consisting of the Chairman of the Corporate Assembly and three Members elected by the General Meeting for terms of one year at a time. The Nomination Committee shall be chaired by the Chairman of the Corporate Assembly.

§9 GENERAL MEETING

Notice of a General Meeting shall be given, within the time limit stipulated in the Norwegian Public Limited Liability Companies' Act, by the publication of newspaper notices in Aftenposten and Dagens Næringsliv. The notice may state that any Shareholder wishing to attend the General Meeting must notify the Company within a certain time limit, which must not expire any earlier than five days before the General Meeting. Shareholders failing to notify the Company within the given time limit may be denied entrance to the General Meeting. The General Meeting shall be held in the municipality where the Company has its registered office or in Oslo.
The Annual General Meeting shall:

The Annual General Meeting shall:

1) Deal with the Company's annual report and accounts and the consolidated report and accounts and approve the profit and loss account and balance sheet.
2) Determine the application of the profit or covering of the loss for the year stated in the approved balance sheet, including the declaration of any dividend.
3) Determine any remuneration to be paid to Members of the Corporate Assembly.
4) Elect the Shareholders' representatives in the Corporate Assembly.
5) Elect three Members of the Nomination Committee.
6) Approve the Auditor's fee.
7) Deal with any other business stated in the notice of the meeting.

Shareholders wishing to have any matters dealt with at the General Meeting must give notice in writing of these to the Board of Directors within at least one month prior to the General Meeting. Notice of the General Meeting shall be given and the General Meeting shall be chaired by the Chairman or Deputy Chairman of the Corporate Assembly or, in their absences, by the Chairman of the Board of Directors.

§10 AMENDMENTS

Any amendments to the Articles of Association shall be made by the General Meeting. A valid resolution requires 3/4 majority of the votes cast and these votes must represent 3/4 of the share capital represented at the General Meeting.

Annual general meeting

The annual general meeting will be held on Thursday, 15 April, at the Felix conference centre, Aker Brygge, Oslo, Norway at 13:00.

Financial information 2004

Shares will be listed ex-dividend on 16 April. Payment of dividend is made at 30 April to shareholders who are listed in the company's register of shareholders at 15 April.

Publication of quarterly results 2004

Q1 – 4 May 2004
Q2 – 3 August 2004
Q3 – 3 November 2004

Additional information

Additional information concerning Norske Skog may be found at www.norske-skog.com

This includes:

- All result reports
- Press releases
- Presentations to the stock market
- Information about the group's organisation, management and activities
- Information about mills, products and markets
- Information about environmental questions
- Links to other relevant sources

Contact information

MEDIA/EXTERNAL AFFAIRS:

Senior vice president Hanne Aaberg,
Telephone: +47 67 59 90 00
info@norskeskog.com

FINANCE MARKET/ANALYSTS:

Vice president Jarle Langfjæran,
Telephone: +47 67 59 93 38
jarle.langfjaran@norskeskog.com

Addresses

CORPORATE HEADQUARTERS

Norske Skogindustrier ASA
Oksenøyveien 80
P O Box 329
N-1326 Lysaker
Norway
Telephone: +47 67 59 90 00
Telefax: +47 67 59 91 81

REGIONAL OFFICES

NORSKE SKOG SOUTH AMERICA

Norske Skog do Brazil Ltd.
Rua Pasteur 463
10 andar Centro
Empesarial Jatobá
80250-080 Curitiba
PR-Brasil
Telephone: +55 41 340 2000
Telefax: +55 41 342 8772

NORSKE SKOG AUSTRALASIA

Norske Skog (Australasia)
Pty. Limited
Level 22, 1 Oxford Street
Darlinghurst, NSW
P.O. Box 485
Darlingshurst
NSW 1300
Australia
Telephone: +61 2 9283 1444
Telefax: +61 2 9283 3033

PARTIALLY-OWNED COMPANIES

NORTH AMERICA

Norske Skog Canada Ltd.
16th Floor, 250 Howe Street
Vancouver, British Columbia
Canada V6C 3R8
Telephone: +1 604 654 4000
Telefax: +1 604 654 4048

ASIA

PanAsia Paper Co. Pte. Ltd.
4 Shenton Way,
29-01 SGX Centre 2
Singapore 068807
Telephone: +65 6327 4188
Telefax: +65 6327 4262

Norske Skogindustrier ASA

Oksenøyveien 80
P O Box 329
N-1326 Lysaker
Norway
Telephone: +47 67 59 90 00
Telefax: +47 67 59 91 81
www.norske-skog.com

Design:
Engen & Harlem AS

Print:
Artko AS

Photos:
Pow-Wow Studio
Bård Gudim
Kaia Means
Håvard Solerød
Scanpix Norge A/S

Paper:
This annual report is printed on 80 g Norcote Silk H, an LWC magazine paper grade from Norske Skog Bruck, Austria. The cover is printed on 200 g Galerie Art.