Norske Skog

Norske Skogindustrier ASA
Oksenøyveien 80
Postboks 329
1326 Lysaker
Telephone: 67 59 90 00
Telefax: 67 59 91 81
www.norskeskog.com

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Annual report 2005

ANOTHER STEP TOWARDS GLOBAL LEADERSHIP

Norske Skogindustrier ASA

NORSKE SKOG ANNUAL REPORT 2005

and sustainability reporting

Another step towards global leadership

Norske Skog

The world of Norske Skog

Norske Skog is one of the leading companies in the paper industry, producing publication paper in Europe, Australasia, Asia and South America. The company has 19 mills in 14 countries. The constructive cooperation of people from different cultures working together for a common goal is what makes Norske Skog unique. We embrace the concept of local responsiveness combined with global strength.

ACTING PRESIDENT AND CEO
Vidar Lerstad

BUSINESS DEVELOPMENT
Senior vice president
Vidar Lerstad

FINANCE
Senior vice president and CFO
Christian Rynning-Tønnesen

COMMUNICATION
Senior vice president
Hanne Aaberg

HUMAN RESOURCES & IT
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REGION PANASIA
Executive vice president
Dag Tørvold

SALES & MARKETING
Senior vice president
Jan H Clasen

SUPPLY & LOGISTICS
Senior vice president
Ketil Lyng

2005 in brief

Norske Skog has delivered unsatisfactory financial results since 2002. Excess capacity has meant a low utilisation factor for the company's mills and low prices for its products. Against that background, a number of measures were implemented with the aim of restructuring the business so that the portfolio of mills and investments strengthen Norske Skog's position as a world leader in the paper industry.

Market

Demand for Norske Skog's products was good during 2005 in most countries and regions, although the growth rate was, as expected, lower than in 2004. The company's overall sales and production volumes were roughly on a par with the year before, and average capacity utilisation was 93 per cent.

Price trends were also generally positive, and prices rose in Europe after three years of decline. They have developed negatively in Australia since July 2004 because the formula-based pricing system in this region is partly a function of exchange rates.

No increase occurred in global newsprint capacity during 2005, since expansion in China was offset by closures/conversions in North America. Capacity expansion was also low for lightweight coated (LWC) magazine paper, while new capacity for super calendared (SC) magazine paper came on line towards the end of the year.

Financial performance

Norske Skog's operating revenues totalled NOK 25.7 billion in 2005, compared with NOK 25.3 billion the year before. Comparable gross operating earnings were NOK 4 056 million as against NOK 4 303 million, and net operating earnings came to NOK 984 million compared with NOK 1 210 million. These figures exclude provisions and impairments.

A total of NOK 1 247 was charged to expenses as provisions and impairments in connection with the closure of Norske Skog Union, the disposal of the shares in Catalyst Paper and Forestia, and the sale of forest properties in Australia.

The board has proposed a dividend of NOK 5.50 per share for the 2005 fiscal year. That corresponds to 25.7 per cent of cash flow per share. Dividend for fiscal 2004 was NOK 6 per share, which corresponds to NOK 5.43 after adjusting for the rights issue in the autumn of 2005.

Main financial figures

Definitions		2005	2004	2003	2002	2001
PROFIT AND LOSS ACCOUNT (NOK MILL)						
Operating revenue		25 726	25 302	24 068	23 471	30 354
Gross operating earnings	1	3 950	4 240	4 686	5 198	8 419
Operating earnings		630	1 037	1 536	1 306	5 096
Earnings before financial expenses	2	(51)	868	1 381	1 180	5 581
Earnings before taxation		(1 004)	210	770	806	3 894
Earnings for the year		(854)	621	402	1 162	2 494
BALANCE SHEET (NOK MILL)						
Fixed assets		43 740	37 057	39 345	38 330	45 417
Current assets		8 293	7 238	7 119	6 769	10 855
Total assets		52 033	44 295	46 464	45 099	56 272
Shareholders´ equity incl. minority int.		22 679	19 195	19 322	17 827	19 526
Long term debt		21 700	20 493	21 622	21 062	30 858
Current liabilities		7 654	4 607	5 520	6 210	5 888
Total liabilities and shareholders equity		52 033	44 295	46 464	45 099	56 272
Net interest-bearing debt		19 063	16 871	18 016	18 467	22 820
PROFITABILITY						
Gross operating margin %	3	15.4	16.8	20.0	22.1	27.7
Net operating margin %	4	2.4	4.1	6.3	5.6	16.8
Net profit margin %	5	(3.3)	2.5	1.7	5.0	8.2
Return on assets %	6	(0.1)	1.9	3.0	2.3	9.5
Return on equity % *	7	(4.1)	3.2	2.2	6.2	11.9
Equity ratio	8	43.8	43.3	41.6	39.5	34.7
Net interest-bearing debt/equity		0.84	0.88	0.93	1.04	1.17
Return on capital employed %	9. 15	2.80	3.20	3.60	3.20	13.7
Net earnings per share after tax (NOK)	10	(5.98)	4.69	3.04	8.79	20.68
Net earnings per share fully diluted (NOK) *	10	(5.98)	4.69	3.04	8.79	20.68
Cash flow per share after tax (NOK)	11	21.42	22.04	22.45	27.89	58.47
Cash flow per share fully diluted (NOK) *	11	21.42	22.04	22.45	27.89	23.29
LIQUIDITY						
Liquid assets (NOK)	12	902	889	930	868	4 158
Cash flow (NOK)	13	3 061	3 132	2 973	3 687	7 052
Current ratio	14	1.08	1.57	1.29	1.09	1.84

DEFINITIONS MAIN FINANCIAL FIGURES

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses
2. Earnings before financial expenses = Operating earnings + Interest income + Share of 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 cash flow statement)
14. Current ratio = Current assets/Current liabilities
15. Capital employed = Total assets less affiliates, interest free current liabilities and interest bearing assets

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

05 The year in pictures

Major world news stories give a solid boost to circulation figures for newspaper and magazine publishers. Holding events between your own two hands is a special feeling.

NEWS IS BEST ON PAPER

Further chapters were added to the Harry Potter saga in 2005, with a new film, a new book and masses of publicity. Pages 14-15

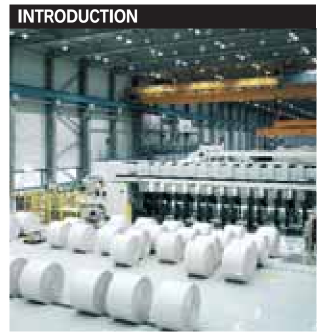
Lance Armstrong won the Tour de France for the seventh and last time, and was acclaimed by the whole world press. Pages 28-29

Bob Geldof organised 10 Live 8 concerts in four continents, 20 years after Live Aid. Pages 50-51

When Pope John Paul II died, millions of people shared the sorrow through newspapers and magazines. Pages 76-77

Democratic elections were held in Iraq for the first time in more than 50 years. Pages 88-89

INTRODUCTION



«Our aim is improved profitability»

MARKET

Large regional variations

SOCIAL RESPONSIBILITY

Profitability and social responsibility

CAPITAL MARKET

Shareholder values in the paper industry

Photo:
Kaia Means
Inge Fjelddalen/Telemarksavisa
Håvard Solerød
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Sonja Evang
Tynning
Peter MacCallum
Oscar Malpica
Norske Skogs billedarkiv

Design:
Dinamo

Print:
Norprint

Binding:
Norprint

ANNUAL GENERAL MEETING
The annual general meeting will be held at 13.00 on Thursday 20 April 2006 at Norske Skog´s headquarters at Oksenøyveien 80, NO-1326 Lysaker, Norway.

DIVIDEND PAYMENT
Shares will be listed ex-dividend on 21 April. Dividend will be paid on 3 May to shareholders listed in the company´s register of shareholders at 20 April.

PUBLICATION OF INTERIM RESULTS IN 2006
First quarter: 4th of May
Second quarter: 3rd of August
Third quarter: 1st of November

FURTHER INFORMATION ON THE INTERNET
Additional financial data for Norske Skog can be found at www.norskeskog.com

INFORMATION AVAILABLE THERE INCLUDES:
- All annual and interim reports
- Press releases
- Presentations to the stock market
- Information on Norske Skog´s organisation management and activities
- Details about mills, products and markets
- Information on environmental issues and the company´s social involvement, as well as its guidelines on the environment, social responsibility and business ethics

CONTACT INFORMATION
Media and external affairs:
Hanne Aaberg, senior vice president
Telephone: + 47 67 59 90 00
info@norskeskog.com

Financial market:
Jarle Langfjæran, vice president
Telephone: +47 67 59 93 38
jarle.langfjaran@norskeskog.com

Environment:
Rune Andersen, senior advisor
Telephone: +47 67 59 90 23
rune.andersen@norskeskog.com

Social responsibility:
Pål Stensaas, director
Telephone: +47 67 59 93 47
paal.stensaas@norskeskog.com

ADDRESSES
Corporate headquarters
Norske Skogindustrier ASA
Oksenøyveien 80
P O Box 329
NO - 1326 Lysaker
Norway
Telephone: 67 59 90 00
Telefax: 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
Darlinghurst
NSW 1300
Australia
Telephone: +61 2 9283 1444
Telefax: +61 2 9283 3033

Norske Skog PanAsia
Norske Skog PanAsia.
4 Shenton Way,
29-01 SGX Centre 2
Singapore 068807
Telephone: +65 6327 4188
Telefax: +65 6327 426

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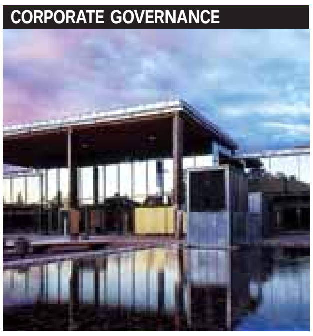
PRODUCTION

«Head start for the future»

ENVIRONMENT

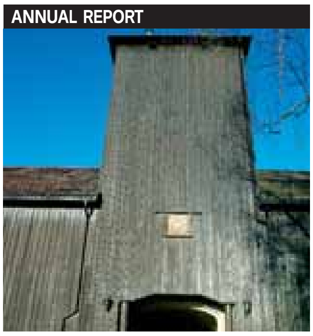
Norske Skog with high credibility

CORPORATE GOVERNANCE



How Norske Skog is organised

ANNUAL REPORT



Annual report

Introduction

Our aim is improved profitability

The acquisition of PanAsia means we have taken another long step towards being recognised as a world leader in the paper industry and towards better profitability.

Like the rest of the industry, we are struggling with weak prices for magazine paper and newsprint and generally high costs for energy. Low prices have been an industry problem since 2001, despite the global economic boom. Although we are not expecting major changes in 2006, the picture is brighter in a number of markets. The coming year will accordingly see a rise in prices for our products, viewed overall.

A number of measures are being pursued in-house to improve profitability. A restructuring process was launched in Europe during 2005 with the decision to close the Norske Skog Union paper mill in Norway.

We will continue to develop our production facilities during 2006. Phasing out additional capacity is also relevant, or possibly converting to other products. Among other decisions in 2006, we will be clarifying whether a new paper machine should be built in Brazil.

We intend to get better at continuous improvement. This will be part of our everyday mode of working. That means we will do better at each mill while viewing all our units in an overall perspective. Every year, we will be producing more efficiently and at lower cost throughout the value chain.

After visiting our Asian mills, my conviction that we have the right expertise to achieve this objective remains unaltered. I have seldom seen such enthusiasm and commitment. Just as Norske Skog PanAsia has a lot to learn from the rest of our organisation, it can also teach us a great deal.

A solid values base with which people can easily identify is vital for a global organisation like ours. Our core values of openness, honesty and cooperation mobilise and motivate people in all parts of the world. Good and open cooperation between all employees is very important. We have subscribed to the UN's Global Compact, and were the first pulp and paper company to sign a global cooperation agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) which secures the rights of our workers worldwide. We also report according to the Global report Initiative (GRI).

We have also expanded the collaboration with our customers –through, the World Association of Newspapers – on improving reading skills among children and young people, and thereby securing new generations of readers for the print media.

Our targets are ambitious, we take risks and we do what we say we will. We demonstrated that in 2005 through the acquisition of PanAsia. By being a low-cost manufacturer which delivers top quality as well as profitable growth, and focusing complete attention on our core business, we aim to deliver the best shareholder value in the paper industry. Our human resources make me confident that we will achieve that goal.

LARS WILHELM GRØHOLT
CHAIR OF THE BOARD

From Norske Skog Golbey in France.

The soul of Norske Skog

What do we have in common? What makes us unique, what differentiates us from our competitors and what promises can we make to all those we do business with?

Paper means much more to us than a simple fibre-based surface for printing or writing on. Paper connects people to society, liberates ideas and expresses emotions. It is timeless in its ability to surprise, entertain and involve. Paper reaches out to everyone – rich and poor, young and old, in every corner of the world.

Our commitment to paper is demonstrated in a high level of quality technical service and a determination to make constant improvements to our product.

We know that our future will depend not only on the future of paper, but also on the continued loyalty of our customers. We have earned customer loyalty over time by cultivating relations with customers, by seeking their feedback, by listening to their needs and by sharing our passion for paper with them. In this way we prove our commitment and exceed their expectations. This is also the reason why we are collaborating with our customers to secure new generations of newspaper readers through the Young Reader projects in both new and established markets.

Introducing *Future on Paper*

"*Future on Paper* reflects what we are," says Hanne Aaberg, senior vice president for corporate communications. "We believe in the future of paper and in continuous development of quality and service."

She explains that *Future on Paper* will occupy a central place for both employees and customers. Not only because it will be printed on our new paper reels but also because it will take a prominent position in all of our communication materials.

The corporate brand promise

Our goal has been to establish a tagline that quickly communicates what Norske Skog does, what our image is and what position that image occupies. In professional marketing jargon, this is known as a brand promise – one which both company and products live up to.

A methodical and detailed process underpins the new tagline, according to the team behind the project. Employees from operators to top executives have been interviewed in an extensive survey. They were consulted to establish an accurate image of the company which we can also live up to in future.

Strengths and weaknesses

The survey revealed that Norske Skog has both strengths and weaknesses. Many people felt that we could become more market-oriented, that our product portfolio is rather narrow and that we are too production-oriented.

One of the strengths recorded in the survey was that Norske Skog has dedicated employees who know their jobs and the business. Many are also happy with the corporate culture at the mills and that there is a strong belief and close relationship with paper.

"We want our customers to know that Norske Skog will give them a different experience than other companies can," says Aaberg. "That means we must live up to our values. These guide the way we behave and must become part of us, just as they are part of the products we make and the services we offer. Given everything we now know, we beleive that *Future on Paper* represents a good and appropriate tagline for us."

On the paper reel

The purpose of adopting a new tagline and design is for Norske Skog to be easily identified and to distinguish itself clearly from its competitors.

"We want to be at the forefront of people's awareness," emphasises senior adviser Anneli Skudal. "When our customers or employees see *Future on Paper* they will think Norske Skog. When they think of paper, they will think Norske Skog. Nike uses "Just do it" as their tagline and Avis uses "We try harder", Norske Skog uses says *Future on Paper*."

What is a tagline?

A tagline is a precise expression (typically seven words or less) which communicates a unique and powerful brand promise – a message about a brand (company) or a product. The brand promise message must reach and be readily understood by its target audience. Companies around the world have used taglines for more than a century to tell themselves and others something important about themselves or the products they sell.

Designer Ernie Mah at Ken Allan Design Group has created the new design for the paper reel wrapper. Note the blue lines which are woven together like fibre.

Norske Skog's corporate brand promise

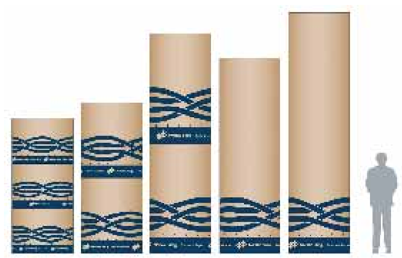
OUR PROMISE
At Norske Skog we believe in paper as a timeless source of communication.

THE TAGLINE
Future on Paper

THE BACKGROUND
The purpose of paper is to connect people, liberate ideas and express emotions. It is timeless. It is unmatched by any other communication channel in its ability to surprise, entertain and involve. Paper reaches out to everyone – rich and poor, young and old, in every corner of the world.

Because we are committed to the the future on paper, we are committed to:

- ***The people who make paper***
- ***The quality of technical service and continual improvement of paper***
- ***The future generations of readers***
- ***The communities that support papermaking***
- ***Paper as a sustainable product***



Creative and modern

Packaging says a lot about a company, so a great deal of thought goes into designing it. The new wrap for our reels is no exception. Fresh and bold, it can be identified at great distance, and stands out in the thickest crowd.

Its inspiring design provides a starting point for our imagination, and for the imagination of our customers. What does your imagination see in the unending lines? Is it Asian dragons? Viking ornaments? North American tribal art? Is it magnified fibre, a Maori weaving, or perhaps a metaphor for eternity? If we let ourselves dream, it can be all these things and more.

It's the mark of a creative, modern company that challenges the imagination and embraces all the different cultures that contribute to its strength – now, and into the future.

Mystic mustard campaign

What happens when a completely unknown brand of mustard is offered plenty of free newspaper advertising? A "mystery campaign" in Norway proved the answer.

Sponsored by Norske Skog and in cooperation with major newspapers, the Norwegian Media Business Association (MBL) ran a nationwide newspaper advertising campaign dubbed “the mustard case” – also known as “the big mystery campaign.” Very few people knew that it was selling more than mustard. When the campaign had finished, it was revealed that the award-winning advertisements were promoting both newspapers and Dijon mustard at the same time.

The question was simple – can newspapers reposition themselves at the forefront of “image” advertising, ahead of TV? Such ads seek not only to sell products, but also to build brand identity and recognition. What better way to find the answer than to conduct a research campaign, so that experts could measure the pure effect of advertising in newspapers alone?

This project aimed to increase advertising and circulation for newspapers, a goal shared by both Norske Skog and its customers. The team was prompted to do its own Norwegian trial after a Danish “ketchup case” had yielded great results. Criteria for the project required a product which had been on the shelves for some time without ever being advertised in Norway. A typical niche product, Edmund Fallot Dijon mustard, was chosen.

Higher level

A secret campaign was launched in close cooperation with the Shnel & Melnychuck advertising agency.

Project leader Erik Heisholt at Shnel & Melnychuck wanted to take the ads to a level higher than Norwegian readers are used to. “I’ve missed seeing really good newspaper ads that challenge you,” he says.

Using ads with large amounts of text, based on a mystery theme, the campaign received the Best Advertising award for November from Oslo daily Aftenposten. The ads were praised as elegant and classic in style.

Competing importers wanted to know why such a large four-week drive – with five different full-page ads in 54 newspapers nationwide – was being devoted to a niche product.

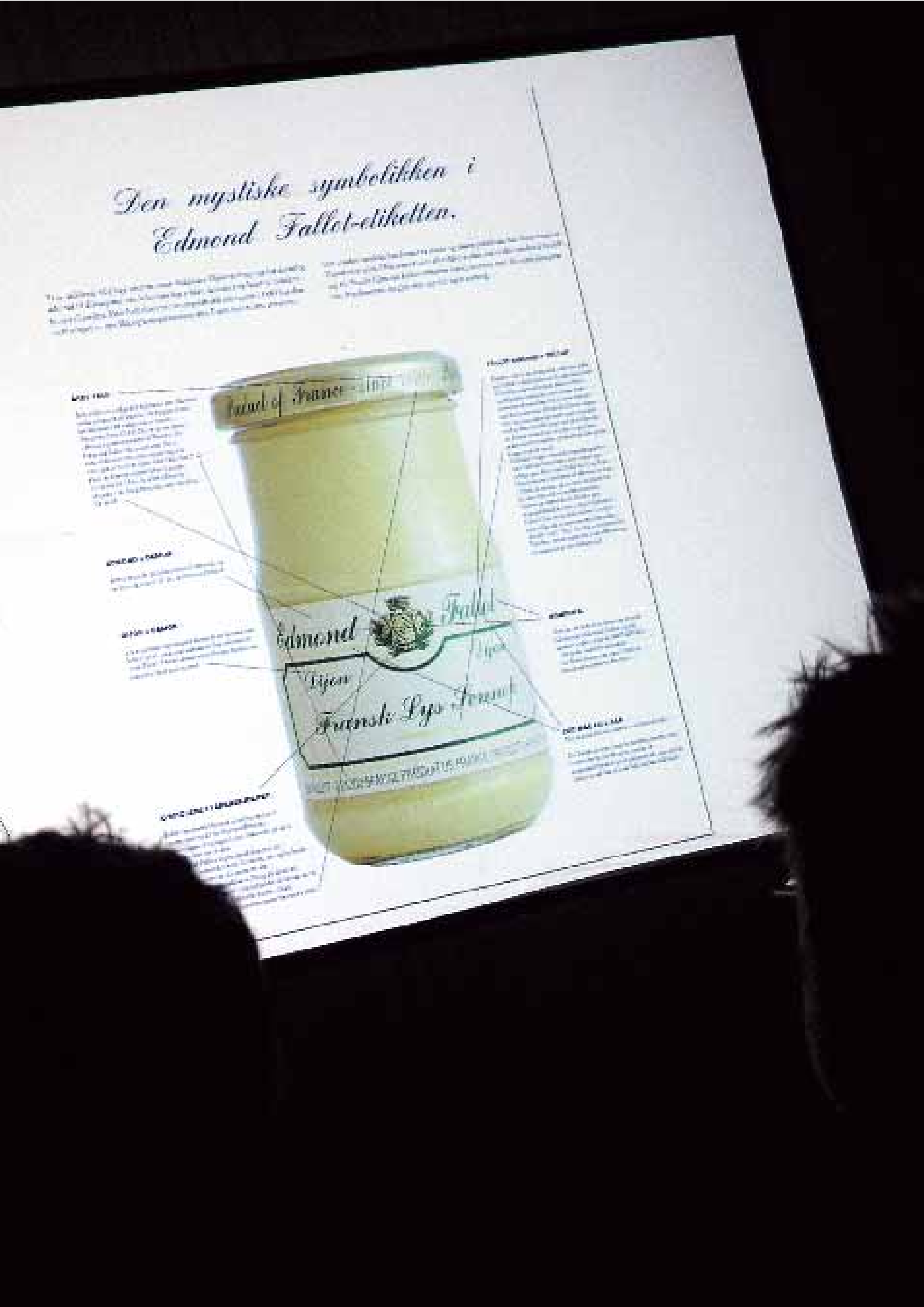
The Dijon variety accounts for only 15 per cent of total mustard consumption in Norway. Edmond Fallot had an initial market share of just 1.8 per cent and distribution to only 10 per cent in Norway’s grocery shops. Annual sales in Norway have been worth about NOK 3.5 million.

Even the sales corps at importer Oluf Lorentzen were kept in the dark and not informed in advance about the campaign.

The results were immediately visible. Pollster TNS Gallup measured product recognition before, during and after the campaign among the target group of people aged 30 to 59. Recognition of Edmond Fallot Dijon mustard shot up from a mere 19.8 per cent before the campaign to 42.2 per cent. Most notably, the percentage of people who preferred this brand over other brands surged from three to 12 per cent. Sales also more than doubled despite the absence a coordinated in-store marketing campaign.

The Danish ketchup case

An advertising campaign in Danish newspapers during 2003 helped to boost sales of the local Mutti ketchup brand by no less than 442 per cent. It transformed the product from the least-known ketchup in Denmark, familiar to only 0.8 per cent of the population, to one which every fifth Dane had heard of.


Den mystiske symbolikken i
Edmond Fallot-etiketten.
Edmond
Dijon
Fransk Lys


Aftenposten
KLEINE ZEITUNG
自由時
THE AUSTRALIAN
THE WALL STREET JOURN
Frankfurter Allgemeine
Los Angeles Times
LA STAMPA
TECHNOLOGY'S NEXT WAVE
The San Diego Union-Tribun
THE TIMES
De Telegraaf
EL PAIS
Le Mon
THE Daily Telegraph
BITTER LOSS FOR ANGELS
WHEN THE NET WENT MAINSTREAM
THE ORANGE COUNTY Register
Neue Zürcher Zeitung
USA TODAY
The Sydney Morning
Jose Canseco to Yankees, 1B
Newsline
Rock, rap and broken bones
WIN A HONDA S2000
Bondi's beach just fine and sandy, thanks

Global markets:
Large regional variations

Printed media still occupies a unique position with consumers, in its ability to attract, involve and entertain readers worldwide.

Publication paper – the global market
After the top of the economic cycle was reached in 2004, with robust growth in global gross domestic product (3.8 per cent in real terms), the latest estimates for 2005 show a healthy but more moderate expansion of about 3.3 per cent.

GDP growth drives advertising expenditure, which is in turn a main driver of demand for publication paper. The latter was flat in 2005 after healthy growth in 2004. Volumes for publication paper have increased by 7 per cent or 4.7 million tonnes since 2002.

With the exception of North America, every region has shown solid growth over the past three years. Publishers have taken a number of initiatives to maintain product appeal in many countries as a response to the increase in consumer wealth, greater urbanisation and growing consumer sophistication.

North America has enjoyed growth in magazine grades. However, poor overall performance reflects declining newsprint consumption owing to a reduction in classified advertising, lower basis weights, reduced page sizes and smaller circulations.

Newspapers and magazines dominate applications for publication paper, but the market for dedicated advertising uses (catalogues, flyers and inserts) continues to grow.

Being able to change and develop has also allowed publications to attract more display and retail advertising revenue, although demand for classified ads has weakened. Whilst internet penetration of households is increasing around the world, the advertising spend and demand for print media continue to grow.

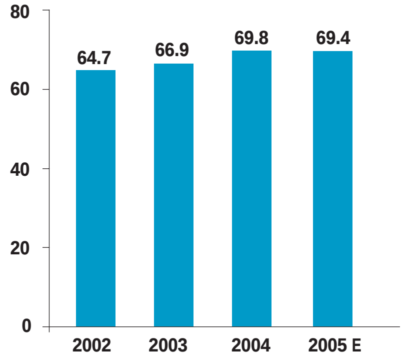
Publications still occupy a unique place with the consumer through their ability to attract, involve and entertain readers. This is particularly true for more affluent consumers, a key target group for many advertisers. Traditional electronic media hold little appeal for this group, and the internet serves not as a substitute for print media but rather as an additional means of obtaining information.

Publishers will continue to respond to changing consumer demand by offering innovative solutions:

- **the surge in popularity of free newspapers such as Metro is a positive trend, targeting a non-traditional newspaper audience and a younger demographic segment**
- **paid newspapers are moving to enhance their aesthetic appeal with higher-grade papers and improved press facilities – the increasing number of supplements, special sections and high-quality inserted magazines form part of this enhancement**
- **links to internet resources maximise synergies from both types of media**
- **magazines are appealing to more niche markets with highly-targeted content.**

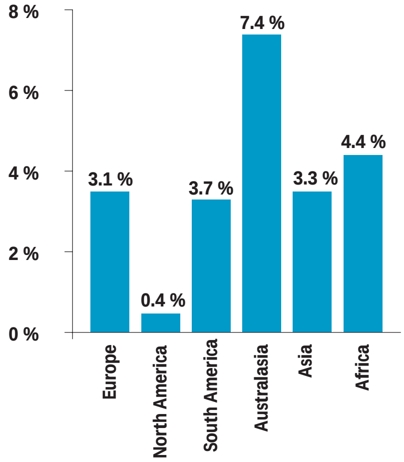
Norske Skog is the most global publication paper company in the industry, with worldwide sales and production facilities. Where newsprint is concerned, Norske Skog holds a particularly strong position in Australasia, non-Japan Asia and South America. It has a limited presence in North America, the weakest region in terms of demand growth.

World publication market demand
Million tonnes



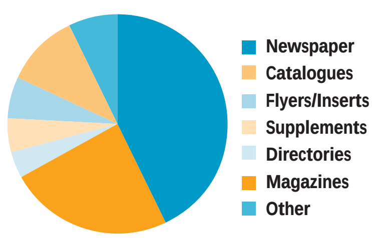
Source: PPPC

Publication papers growth by geographical region
% growth 2002-2005



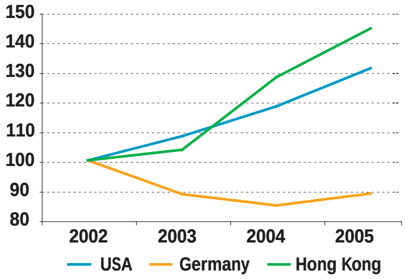
Source: PPPC

Publication paper – end use applications



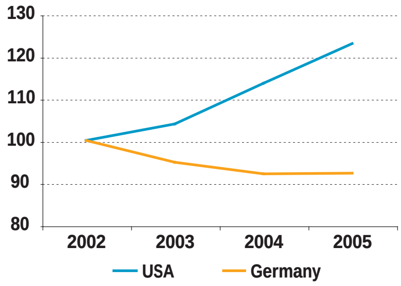
Source: AMEC

Newsprint price index
Local currency, base 2002



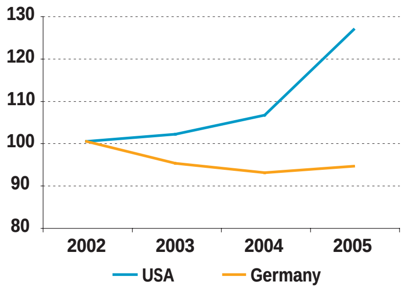
Source: RISI

SC price index
Local currency, base 2002



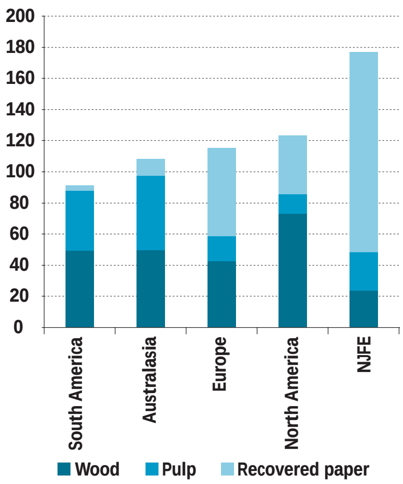
Source: RISI

LWC price index
Local currency, base 2002



Source: RISI

Regional fibre costs
USD tonne



Source: Jaakko Pöyry Q3 2005 cost level

Newsprint remains the largest of the publication paper grades. In the more mature economies, the higher grades – improved newsprint (highwhites), and magazine (SC and CMR grades) – are taking an increasing share of total sales.

Norske Skog's strength in the newsprint market, particularly in the key developing regions of non-Japan Asia and South America, emerges clearly from the chart below. The high-growth regions are crucial, and the company has already acted decisively to ensure a solid presence there.

MAGAZINE

	Europa	North America	South America	Austral-asia	Asia*
Magazine growth past 3 years	10%	10%	24%	73%	33%
Magazine Share of PP market	46%	38%	22%	30%	18%

* Non-Japan Asia: Source: PPPC, Internal

NEWSPRINT

	Europa	North America	South America	Austral-asia	Asia
Newsprint growth last 3 years	7%	(9%)	5%	10%	13%
NSI Share Share of market	15%	1%	22%	90%	15%*

* Non-Japan Asia: Source: PPPC, Internal

Price developments

Price development has varied considerably between world markets, with North America experiencing significant price increases. Prices in newsprint export markets, expressed in USD, have also followed the same trend. European prices increased somewhat in 2005 after a three-year decline.

Newsprint prices in Australasia were adversely affected by the weak USD. The formula-based pricing system in the region is partly a function of exchange rate developments. The Australasian currencies have been at historically high levels against the USD, and prices have consequently weakened.

Market competitiveness

Norske Skog aims to reinforce its position even further as a highly competitive supplier throughout the world. This goal is being pursued through two key strategies:

- **identifying high growth markets and ensuring that the company has a strong local presence there.**
- **ensuring that Norske Skog's facilities are located in areas which will enable it to deliver the most cost-competitive products in the future.**

South America and Australasia are areas which offer low-cost production opportunities based on fast-growing plantations and competitive fibre costs, supporting the low-cost producer strategy.

Restructuring

A number of measures were implemented during 2005 to ensure low production costs for the company and maintain its ability to deliver. The closure of the Norske Skog Union mill was a step in this regard to improve overall competitiveness and profitability.

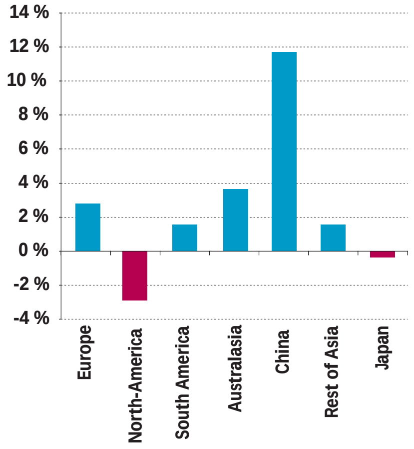
The situation in the North American newsprint market is noteworthy. Whilst consumption has declined by 9 per cent from the 2002 level and by more than 20 per cent since 2000, the price of newsprint has increased by over 30 per cent during the past three years. Older, non-competitive assets have been shut down or rebuilt to produce other grades in response to declining demand for newsprint. More than three million tonnes of capacity have been taken out of the market in North America over the past five years.

Norske Skog's global operating perspective is focused on ensuring sustainable profitability through efficient low-cost production.

Pursuing a low-cost global strategy enables the company to optimise trade flows between markets and to secure supply for its customers.

Newsprint growth by region

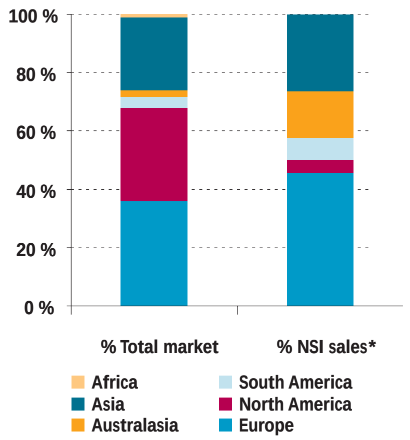
2002-2005 % annual growth



Source: PPPC

Publication papers by region

Tonnes

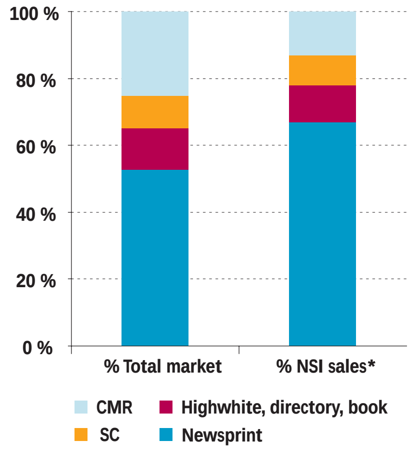


*Including 100% of PanAsia

Source: PPPC/Norske Skog

Publication papers by paper type

Tonnes



*Including 100% of PanAsia

Source: PPPC/Norske Skog

Norske Skog is working hard to ensure that its position is as competitive and secure as possible.

Closure of Norske Skog Union

The decision to close the Norske Skog Union mill in the first quarter of 2006 because of inadequate profitability was taken to improve competitiveness in Europe.

Restructuring in Australasia

In Australasia, capacity at the Norske Skog Albury mill is being expanded by 50 000 tonnes per year. Two of the machines at Norske Skog Tasman in New Zealand are being expanded by an annual total of 65 000 tonnes, whilst the third Tasman machine is shut down. This will mean a greater proportion of tonnage being supplied from the Australian mills, with improved service levels and major savings in freight. At the same time, Norske Skog Tasman's fixed cost base is being reduced.

New mill in China

The Hebei mill in northern China came on line last year with a potential annual capacity of 330 000 tonnes. This facility is located close to some of the largest urban areas in China, including Beijing, and is ideally positioned to service one of the key Asian growth markets. The mill joins the Shanghai Potential mill as an efficient quality producer in mainland China.

Representatives from Norske Skog Bio Bio accept the Nor brand award during the 2005 Core conference.

Bio Bio achieves the Nornews brand

Norske Skog Bio Bio in Chile received the prestigious Nor brand for its newsprint product on 29 August 2005. This award is a major achievement in the production of high-quality paper, and also reflects the results of the two most recent customer satisfaction surveys in South America.

Former chief executive Jan Oksum presented the award to mill manger Carlos Germany at the annual Core meeting in 2005.

This important event was attended by Chilean union president Ricardo Gutiérrez in addition to more than 150 representatives from Norske Skog mills around the world.

The Nor brand represents an important milestone in Norske Skog, which encourages continuous improvement in order to maintain consistent product performance and market competitiveness. It also gives employees a sense of ownership in helping to sustain the company's reputation as the preferred supplier in the region.

Norske Skog Bio Bio now aims to secure the Nor brand for its upgraded newsprint and directory papers before the end of 2006.

Head of global TCS, Howard Burvill, and Vice president account mangement and marketing, Chris van Zijl.

Delivering the best package

To be recognised as a world leader by its customers, Norske Skog needs to deliver not only a high-quality paper but also the best total package. The technical customer service function (TCS) plays a key role in reaching this goal.

n TCS is not confined to acting as a technical consultant for customers, but covers cooperation along the whole value chain. Its expertise is useful all the way from the mill production line to the publisher, says vice president Howard Burvill.

"In the mill, our role is to be the 'technical conscience' on behalf of the customer. This means that we'll act as the customer's ambassador and take part in process development at the mill. In this way, we ensure that our product quality is in line with customer expectations."

"We will focus our resources on our most valuable and influential customers, according to our segmentation strategy", says vice president account mangement and marketing, Chris van Zijl.

Providing guidance

Norske Skog is dedicated to the success of its customers, who can also rely on the company for product guidance and for solving technical problems in the press room. TCS is also directly involved when customers commission new press lines. This has recently been the case in both Australia and the UK.

"This commitment to helping achieve a successful press line start-up is a Norske Skog global standard for technical customer service," explains Burvill. "We learn with the customer and offer a global network of technical experience to make sure the start-up goes as smoothly as possible. Future service is enhanced because our technical personnel on the ground gain an intimate understanding of the new plant. Our success as a preferred supplier will be achieved through the success of our customers."

Utilising the worldwide TCS team has high priority. Annual global meetings are arranged to build the team and share expertise.

"Our goal isn't nessesarily to be bigger in terms of numbers than our competitors, but to be better," says Burvill. "That'll be our contribution to delivering the best package."

Good outcome to collaboration with customer

Working together with a major customer our Technical Customer Support was able to identify an ongoing cause of web breaks in a pressroom.

In this highly automated pressroom, transport of rolls around the press hall was conducted using Automatic Guided Vehicles (AGVs). The rolls were lifted up with the AGVs by a set of forks, otherwise known as tines, for movement around the press hall.

The partnership approach utilised Norske Skog Europe Research-designed high speed camera equipment that had been installed at this site. Using the camera system and working with the pressroom personnel, an investigation into a number of similar breaks was conducted. The problem was caused by double sided tape being stuck to the AGV tines. This, in turn, was causing damage to the outer sheet of the roll. This damage to the roll, which appeared as a slight tear in the edge of the roll, was captured using the high speed camera equipment just prior to a web break occurring.

The double sided tape had stuck to the AGV tines after pre-prepared paste patterns that were left facing down on the rolls were loaded onto the AGVs.

To stop this issue occurring pressroom practices were changed to ensure rolls with pre-prepared patterns were turned to face up prior to being placed on the AGVs.

It had been estimated that this issue had caused in excess of 180 paste breaks per year in this pressroom, at a cost of approximately $180,000.

Products

Market

This overview presents the complete product range, with name, appropriate printing methods and production site(s).

Nornews

Newspapers today must cover a broad range of activities, and must present them in new ways to new readers. 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 16 production units around the world using a combination of virgin and recycled fibres.

PRODUCT BRANDS
Nornews

END USE
Newspapers, free-sheets, directories, supplements, inserts/flyers

PRINTING METHOD
Cold set web offset
Flexo
Letterpress

MILLS
Albury, Bio Bio, Boyer, Bruck, Chongwon, Follum, Golbey, Hebei, Jeonju,Parenco, Pisa, Shanghai, Sing Buri, Skogn, Steti, Tasman

Directory paper

Directory paper is produced in Australasia and South America. This is a lightweight paper with good sheet strength aimed at achieving exceptional press performance whilst still providing the opacity and brightness required to attain superior colour reproduction - including sharper four colour images.

PRODUCT BRANDS
Bio Bio Directory
Tasman Directory

END USE
Telephone directories, catalogues

PRINTING METHOD
Cold set web offset
Heat set web offset

MILLS
Bio Bio, Tasman

Norbright, Norstar and NorX

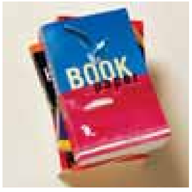
This product range embraces paper grades suited for both coldset and heat set web offset printing. The feel and apperance of these products are different from newsprint in terms of surface and bulk. This allows their use for innovative and cost-effective advertising, inserts end flyer production.

PRODUCT BRANDS
Norbright
Norstar
NorX

END USE
Supplements, inserts/flyers, direct mail, newspapers, freesheets, directories, magazines, books

PRINTING METHOD
Cold set web offset
Heat set web offset
Letterpress

MILLS
Bio Bio, Boyer, Follum, Golbey, Parenco, Pisa, Tasman



Norbook*

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

PRODUCT BRANDS
Norbook

END USE
Books, supplements, crosswords, comics

PRINTING METHOD
Cold set web offset
Heat set web offset

MILLS
Union

** Norbook is being removed from Norske Skog product range in the first half of 2006.*

Norsc

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 thermo-mechanical pulp and a small amount of high efficient filler result in a bulky and stiff base sheet. This combined with on-machine film coating and soft calendaring to optimise surface and paper strength.

PRODUCT BRANDS
Norsc

END USE
Magazines, catalogues, inserts/flyers, direct mail supplements

PRINTING METHOD
Heat set web offset
Rotogravure

MILLS
Saugbrugs

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 thermo-mechanical pulp and a small amount of high efficient filler result in a bulky and stiff base sheet. This combined with on-machine film coating and soft calendaring to optimise surface and paper strength

PRODUCT BRANDS
Norset

END USE
Magazines, catalogues supplements, inserts/flyers, direct mail, books

PRINTING METHOD
Heat set web offset

MILLS
Follum

Norcote

Lightweight coated (LWC) paper is produced in several variants with standard and improved brightness levels, gloss or matt finish and a wide selection of basis weights for printing magazines, catalogues, promotion 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.

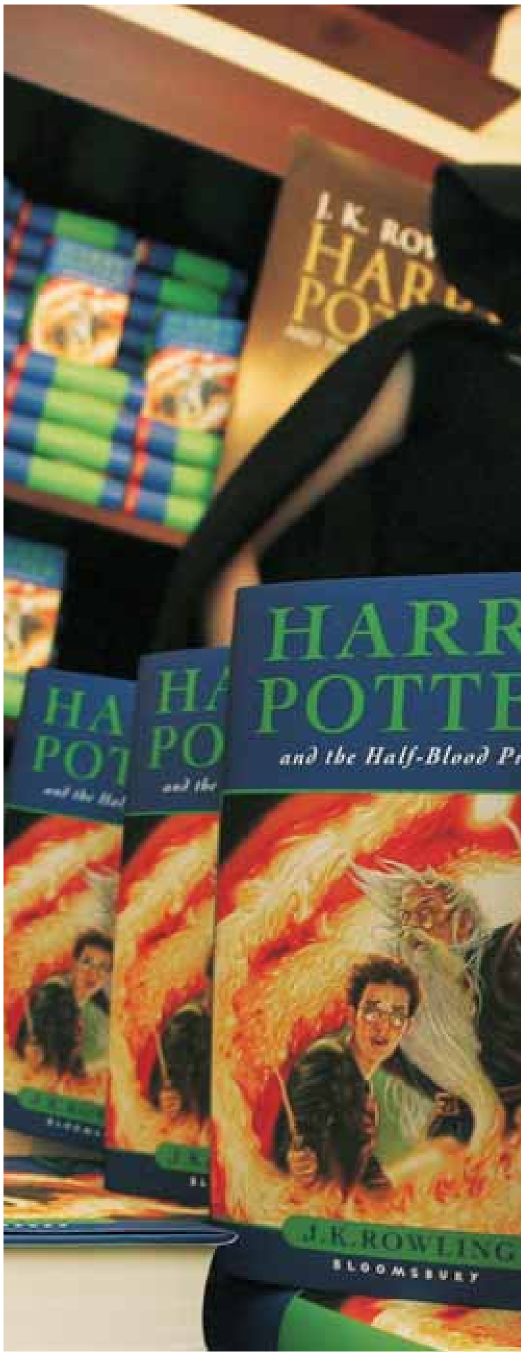
PRODUCT BRANDS
Norcote

END USE
Magazines, catalogues supplements, direct mail, inserts/flyers

PRINTING METHOD
Heat set web offset
Rotogravure

MILLS
Bruck, Walsum

Daniel Radcliffe, Rupert Grint and Emma Watson have long been among the world's most talked-about teenage idols after their appearances in the Harry Potter films.



POTTER FEVER

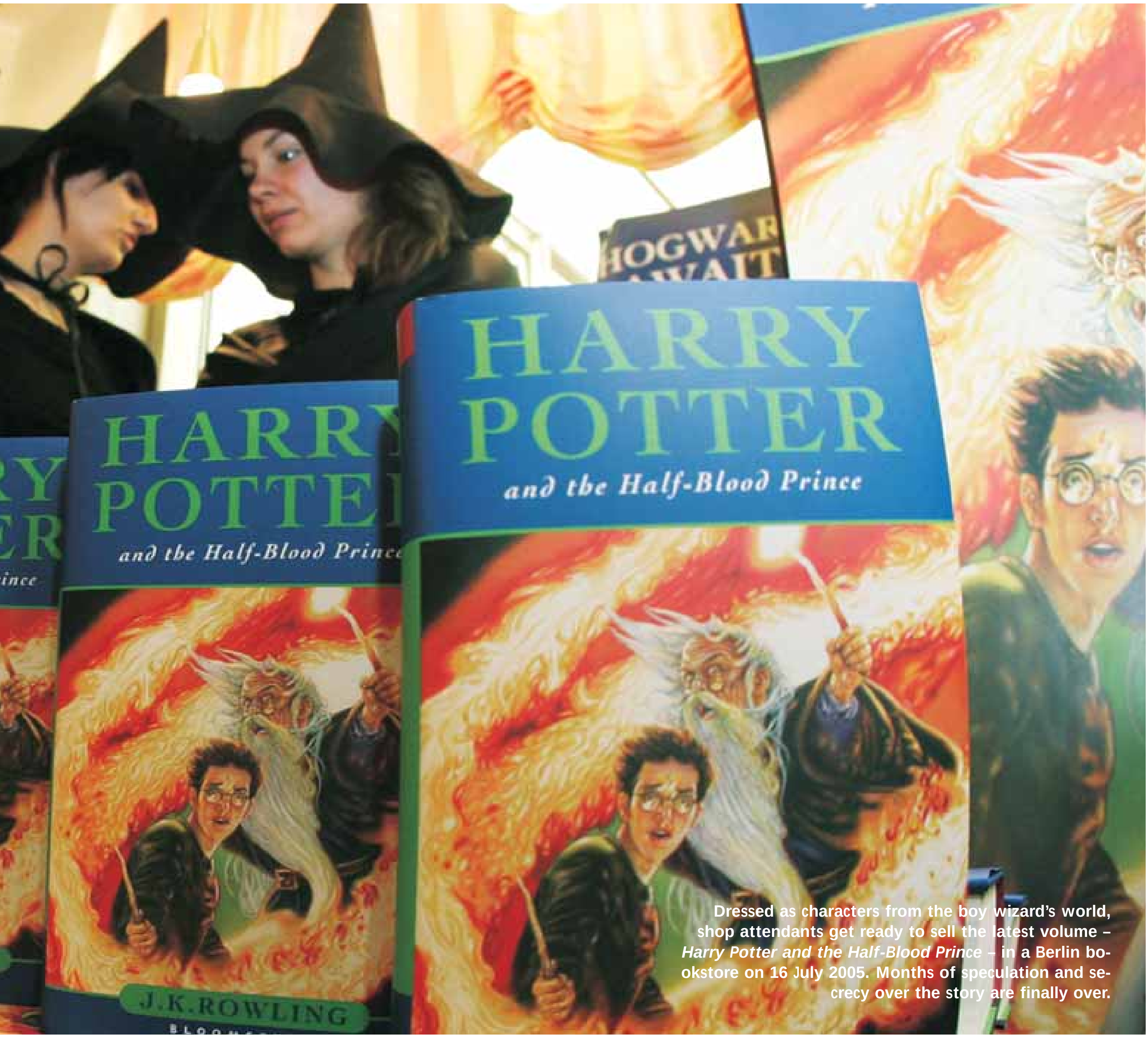
Harry Potter is hotter than ever. This was confirmed when the latest book about him, *Harry Potter and the Half-Blood Prince*, hit the bookstands. And the interest was just as high when the fourth film, *Harry Potter and the Goblet of Fire, opened worldwide.*

05 Main stories of 2005
Harry Potter

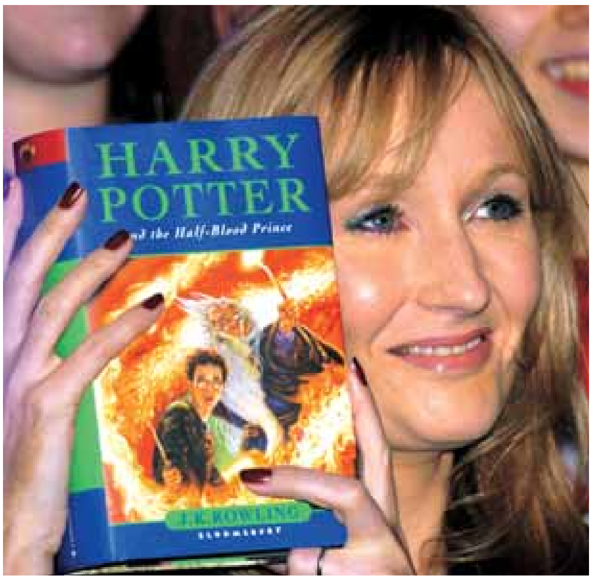
According to distributor Warner Bros, Harry Potter and the Goblet of Fire did much better at the box office than its three predecessors. Ticket sales were boosted in part by very good reviews in the US media. This demonstrates the way editorial coverage in newspapers and magazines is essential for success, even for a wizard like Harry Potter

NEWS IS BEST ON PAPER

Eager fans hope to catch a glimpse of the stars at the London premiere of *Harry Potter and the Goblet of Fire* in November 2005.



Dressed as characters from the boy wizard's world, shop attendants get ready to sell the latest volume – *Harry Potter and the Half-Blood Prince* – in a Berlin bookstore on 16 July 2005. Months of speculation and secrecy over the story are finally over.



J K Rowling is the creator of Harry Potter, who was voted the greatest-ever fantasy hero in July.

Two German girls with their copies of *Harry Potter and the Half-Blood Prince* minutes after it went on sale in Berlin.

Diagnosis made, treatment in progress:

Head start for the future

Both Norske Skog and its competitors are finding it difficult to make money despite the economic upturn. This time around however, poor industry earnings is down to structural projects rather than recession.

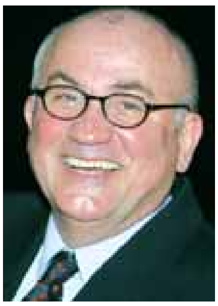
"The future will be tough," says senior vice president Vidar Lerstad, who is responsible for business development and strategy at Norske Skog. "We face big challenges, but have taken action and are working continuously to improve profitability on the basis of the structural changes we see in the market. And we've positioned ourselves in a way which gives us a head start over our competitors in this work."

Lerstad can look back on an eventful year. The company took new steps to strengthen its position in future growth markets. The acquisition of the whole of PanAsia made it the world's largest newsprint manufacturer and the company is solidly placed in attractive South American markets.

But Lerstad nevertheless sees no reason for Norske Skog to rest on its laurels.

The big traditional markets for Norske Skog's principle product newsprint are changing as consumption in North America clearly declines and European growth is replaced by stagnation. Eastern Europe is the exception. Growth in newsprint consumption can be seen in Asia's developing economies, particularly China and India. South America also shows a positive growth in newsprint. Modern new capacity has been built up in regions – especially Asia – which were previously major importers.

These changes have created excess capacity in North America and Europe. With the raw material for newsprint today just as likely to be recovered paper as virgin fibre, the industry's location has changed as well as the relative competitiveness between regions.



Vidar Lerstad

North American and European manufacturers face two problems – declining domestic markets and reduced competitiveness. Companies in Europe are also burdened by strong currencies measured against a weak US dollar.

Asked what the industry is doing to make money in a mature market, Lerstad explains that the response in North America has been to close mills and shut down capacity permanently.

"At the same time, they're choosing to make products with a more positive growth in consumption than newsprint. The European industry hasn't responded as strongly to the structural changes in the market."

Everyone talks about restructuring, but this has yet to be translated into much action. Too much uncompetitive production capacity remains in place. All the companies are also pursuing continuous rationalisation and cost efficiencies.

A clear trend can also be seen towards greater interest in shifting to areas with continued growth (Asia, particularly China) or access to cheap fibre from fast-growing plantations (South America).

"We've adopted a low-cost strategy which provides guidelines for future investment," Lerstad notes when asked how the company is responding. "This approach reflects the fact that we produce an international commodity with reduced growth in consumption."

Norske Skog's positioning in markets with solid growth and where it can be a low-cost producer because of access to inexpensive wood gives it an edge over its competitors.

The company has begun the restructuring process by closing down a mill, Norske Skog Union in Norway, which had ceased to be competitive or to satisfy the company's profitability requirements. However, Norwegian energy prices remain competitive compared

« We know what the challenges are, and what we have to do to meet them and improve our profitability. »

with many other countries, and as a result cost-effective modern units continue to have a future there.

"We still face major challenges with our portfolio of mills, primarily in Europe but also in other parts of the world such as Korea and Australasia," says Lerstad. "Our positions in growth markets give us good opportunities for successful restructuring and improvement of our overall profitability by investing in new competitive capacity while shutting down facilities which cannot achieve sufficient profitability."

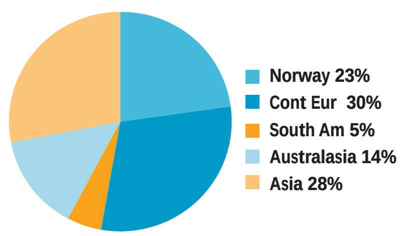
He emphasises that restructuring is not the only way of improving Norske Skog's profitability. "We're thinking several thoughts simultaneously. Our size, our presence in every continent and the fact that we produce the same product with the same technology everywhere provides a unique opportunity to secure synergies by introducing standard work processes globally.

"Standardising the information technology systems which support our work processes and developing the organisation's ability to utilise modern IT technology also offer a substantial improvement potential."

When asked whether he is optimistic on the company's behalf, Lerstad observes that both Norske Skog and the industry as a whole face major challenges.

"But we know what these are, and what we have to do to meet them and improve our profitability. We have a solid head start on our competitors in the markets which will continue to grow in the future, and we aim to maintain that lead. I can't be anything but optimistic."

Norske Skog's capacity by region – 2006



Newsprint: 79% of total
Magazine: 21% of total
35% of total newsprint capacity is in Asia

The smooth feel of paper. Marianne Fredriksen at Norske Skog Saugbrugs.

Norske Skog's acquisition of PanAsia and a necessary restructuring characterised the company in 2005.


Full control of pulp production. Allan Simonsen is an operator in the TMP facility at Norske Skog Follum.

Europe Satisfactory production

The European mills had a combined production capacity of 3 810 000 tonnes in 2005, which broke down into 2 295 000 tonnes of standard and upgraded newsprint and 1 370 000 tonnes of magazine paper.

n Production and demand in the magazine paper segment were very good. Newsprint output must also be characterised as highly satisfactory, although capacity utilisation was weaker than for magazine paper.

Health and safety

Sickness absence in the region declined over the year to a level of 4.4 per cent as a whole compared with 4.2 per cent the year before. The norwegian units where sickness absence had previously been relatively high achieved results more in line with those seen at the continental mills.

The region suffered 13 lost-time injuries in 2005. This gives a lost-time injury frequency of 1.8, on a par with the good result recorded the year before.

Production volume/capacity utilisation

The European region produced a total of 3 560 000 tonnes of publication paper in 2005, a decline of 40 000 tonnes from the year before. This reduction reflected weaker demand for newsprint.

Weak demand is also reflected in capacity utilisation, which was 92 per cent for the European newsprint mills compared with 96 per cent in 2004. The corresponding figures for the magazine paper mills were 97 per cent and 96 per cent.

Four of the region's mills – Norske Skog Bruck, Norske Skog Saugbrugs, Norske Skog Steti and Norske Skog Union – set production volume records in 2005. Average productivity improved by 1.3 per cent, and four of the mills – Norske Skog Bruck, Norske Skog Golbey, Norske Skog Saugbrugs and Norske Skog Skogn – achieved record productivity.

Improvement activities

Work has begun on revising the Norske Skog operation standard (NSOS). This is intended to provide a unifying superstructure as well as a description of the way continuous improvement is structured and pursued. A key element in the work has been the introduction of standard performance management processes and tools in all parts of the organisation.

Investments have been made in a new thermo-mechanical pulp (TMP) line at Norske Skog Walsum. This facility is delivering the expected quantities, and has also contributed to an overall improvement in quality and stability for all TMP.

Shutdown at Norske Skog Follum

As a consequence of the somewhat weak demand for newsprint during 2005, the group decided to optimise production through a market-related shutdown of a few machines.

PM2 at Norske Skog Follum experienced the longest of these stoppages. It was shut down on 1 July and remained inoperative for the rest of the year. This shutdown was more favourable in cost terms than spreading shorter shutdowns over more machines. Among other effects, the mill's groundwood pulp facility was idle for virtually the whole period. The shutdown was utilised for necessary maintenance of the paper machine and pulping line.

Intensive theoretical training to secure officially-approved skill qualifications was provided for personnel in this period. Sixty-five employees completed these courses, and the proportion of skilled workers will rise from 60 per cent to 80 per cent by 1 July 2007.

Norske Skog Union

Like other companies involved with wood-containing publication paper, Norske Skog's profitability has been far from satisfactory in recent years. The market has been characterised by surplus capacity, which in turn has meant a loss of competitiveness for older and more costly mills.

The company is in a position where capacity must be tailored more closely to market demand. Combined with the need to restructure mills into fewer, larger and thereby more profitable units, this led Norske Skog's corporate assembly to decide on 4 October to close down Norske Skog Union within six months. PM7 ceased production on 31 January 2006 and PM6 on 1 March. The bulk of their output has been transferred to other machines in the group, including PM2 at Norske Skog Follum after it resumed production on 9 January.

Staffing and cooperation with workforce

The region had 4691 employees at 31 December, down from 4754 at the end of 2004 as a result of early retirement at some units.

Cooperation with union officials was pursued in local bodies, the national works council and the European Works Council (EWC). This collaboration was heavily affected by the discussion over the closure of Norske Skog Union. The importance of the issue and the huge media interest it generated made the situation even more difficult for those directly involved. It nevertheless proved possible to establish good collaboration with union officials to ensure that the Norske Skog Union workforce could secure new jobs as soon as possible.

Outlook

The overall outlook for the European region looks somewhat better than in 2005. A good basis exists for high capacity utilisation in the newsprint sector over the coming year, partly because of rather strong demand for the company's products and reduced capacity. Capacity utilisation also looks somewhat high for magazine paper, but expansion by competitors could have a negative effect on the overall balance between supply and demand.

South America
Preferred supplier once again

PM 1 at Norske Skog Pisa.

The latest annual independent Newsprint for Newspapers survey conducted by US market analyst MTG ranked Norske Skog once again as the preferred supplier of this product in South America.

Norske Skog's South American mills produced a total of 289 931 tonnes of paper, a two per cent reduction from 2004 which reflected certain production problems in the first half-year. Corrective actions have brought productivity for the last five months of 2005 to a level simular to the best five- month periods of the last three years. Capacity utilisation averaged 96 per cent.

Lowest cost for delivered products
For the third year in a row, Norske Skog Bio Bio in Chile has the lowest costs for delivered products in the Group.

Operating costs up
Despite important improvements in operating earnings and stable costs for raw materials and services, the South American region experienced a decline in net operating earnings for the first time in three years. Some of its operating costs rose substantially during the year. The three most important reasons were:

- higher kraft pulp consumption due primarily to changes in the wood mix used in Brazil;
- stronger local currencies in Brazil and Chile – up by 16.8 per cent and 8.5 per cent respectively against the US dollar over the year, which affected the cost of local input factors; and
- a provision of USD 10.1 million in respect of a dispute between Norske Skog and a local electricity grid operator.

Employees in focus
Action by the management meant that Norske Skog South America became even better at health and safety in 2005. Norske Skog Pisa achieved 953 working days without lost-time injuries, and Norske Skog Bio Bio suffered only two minor injuries in the first half of 2005.

A regional employee forum focusing on the development on our employees was hosted by Norske Skog Pisa during the year.

Leadership in Norske Skog (Lens) is a global programme to drive actions and improve results. The second edition was completed by 21 employees in the South American region during 2005.

Low investment
Investment in existing operations remained low at both mills in 2005. The most important projects were the installation of an electrostatic precipitator at Norske Skog Bio Bio and the completion of phase one for an upgrading of thermomechanical pulp (TMP) quality and capacity at Norske Skog Pisa. Phase two of this upgrade is under way and due to be completed by the end of 2006. The project will further increase TMP capacity, improve the quality of fibre refining and reduce energy consumption.

New PM at Norske Skog Pisa
Norske Skog worked on a project during the first eight months of 2005 which aimed to develop the detailed designed of new newsprint machine at Norske Skog Pisa, to define the technical spesifications and conduct negotiatiation with equipment suppliers and to confirm its profitability. Limited investments were also made in forests to secure access to wood for the new production line and to continue developing relevant fibre properties.

A Federal Law signed by the President of Brazil on 29 December means that paper manufacturers are now entitled to VAT-like credits. This change was one of the important conditions for implementing the project, which will allow Norske Skog to achieve one of its main strategic targets.

Did you know that:

«The French magazine sector has the highest readership in Europe. More than two billion magazines are sold every year, and the average person in France reads seven magazines.»

Source: Amec


Maintenance work is a significant part of daily life in a paper mill. Stu Willis (left), John Hoogstraten and Peter Paton at Norske Skog Tasman check the TMP refiner.

Australasia

Impressive year for health and safety

Restructuring the production facilities in Australasia is in full swing, and calls for a big commitment. The region nevertheless achieved very good health and safety results in 2005, and increased productivity.

Productivity

Production in 2005 totalled 875 570 tonnes, just 0.6 per cent below the 880 662 tonnes recorded for 2004 but well ahead of the 861 277 tonnes in 2003. Productivity was actually the highest on record. However, some lengthy scheduled shutdowns and four days of industrial action at Norske Skog Tasman affected overall production performance for the year.

People development

The region ran a very successful leadership programme in 2005. Twenty-two employees participated in workshops hosted at each of the mills.

Significant progress was made with a regional review and redevelopment of Australasia's human resource management systems. Achievements to date include a review of the current payroll outsourcing, with a recommendation to move payroll into a shared services centre, a comprehensive review of the current performance and development planning process, and a streamlining of the region's annual remuneration review process.

Australasia once again had an outstanding year for health and safety. All the mills continued to achieve a lost-time injury frequency of zero. The region also saw a significant reduction in the number of total injuries. Regional sickness absence continued to reflect best practice performance, at below two per cent. Norske Skog Albury was also awarded the Norske Skog president's award for health and safety.

A highly successful professional education programme has been established by Australasia for paper mill operators. Each of the three mills hosted an intensive training workshop, with tutorial support provided at the sites to ensure outstanding results.

Costs targeted with OFI programme

To support Norske Skog's strategy of being a low-cost producer, the Australasia information technology team developed an online opportunity for improvement (OFI) programme to replace the existing manual system.

Employees can now input cost-saving ideas directly from their computer. The moment an idea is lodged in the OFI system, an automatic e-mail is sent to the people who would implement the saving. Regular reminders will be issued until the idea is acted upon. The system allows updates of actions to be recorded until the idea has been realised and captured in value terms.

This solution has been very successful across the Australasian region, with savings of AUD 40 million – either one-off or annualised – achieved in 2005. Part of the secret of this success is the system's ease of use, since it is web-enabled and accessible online to everyone.

Restructuring on track

Due to be completed in 2006, the Australasian restructuring was a significant area of focus in 2005. Engineering, training and general preparations were in full swing throughout the year.

Preparatory work for rebuilding the Norske Skog Albury paper machine in February-March 2006 progressed well. This included installation of a new Voith winder and reel-handling system, a new TMP storage tank, and rebuilding and upgrading various parts of the TMP and effluent treatment plants.

The rebuild of the Norske Skog Albury machine will include installation of a new press section, including a shoe press and a new paper machine electric drive, plus work on most other parts of the machine.

Agreement was reached on 118 voluntary early retirements at Norske Skog Tasman in anticipation of the shutdown of PM1 in 2006. A number of redundancies remain to be finalised in 2006.

Preparations for rebuilding PM3 at Norske Skog Tasman were completed and the shutdown and rebuild of that machine took place from 27 June-18 July 2005. Within six weeks of start-up, the machine was able to reach a speed of more than 1 125 meter per minute compared with the former figure of 1 060 meter per minute. During the shutdown, most sections of the machine were rebuilt and a completely new electric drive was installed.

Preparations to shut down PM2 at Norske Skog Tasman in the second quarter of 2006 are under way. Rebuilding this machine will again involve most of its sections.

PanAsia

New mill in Hebei was highlight of the year

PanAsia changes its corporate identity to Norske Skog.

Norske Skog took over as sole owner of PanAsia Paper Company on 18 November. In production terms, starting up the new mill in Hebei, China, was the high point of the year.

n PM4 at the Jeonju mill in Korea was temporarily shut down in the second quarter of 2005, due to a decreased demand in the domestic Korean markets. This caused a decrease in the overall output at the four Asian mills last year. The company produced 1 372 806 tonnes of newsprint and other publication paper grades compared with 1 394 340 tonnes in 2004.

About 67.5 per cent of Norske Skog PanAsia's production was delivered to its domestic markets in Korea, China and Thailand. The remainder was mainly sold elsewhere in the region. The company also distributed 315 000 tonnes from Europe, North America – including former shareholder Abitibi Consolidated Inc – and Australasia.

Debt issuance programme

In the second quarter of 2005, the company issued a five-year SGD 20 million bond in the multi-currency debt issuance programme. This has total bonds issued of USD 75.75 million and SGD 61 million (totalling USD 112.97 million). The amounts in Singapore dollars were then swapped to US dollar floating-rate notes.

A USD 70 million syndicated term loan facility and a USD 50 million revolving credit facility were also successfully launched in September 2005, with the amount fully subscribed. However, these facilities were subsequently aborted with the acquisition by Norske Skog.

Hebei in operation

With the mill at Zhaoxian and a sales and procurement office in Beijing, the Hebei mill has a total of 300 regular employees. Ten expatriates currently hold key management and specialist positions. The mill is owned 80 per cent by Norske Skog PanAsia and has a full production capacity of 330 000 tonnes annually.

Equipped with the best available technology in China, the mill produced its first reel of newsprint in the second quarter of 2005. Trial tests conducted throughout China showed that runnability and printability of its newsprint was excellent. Hebei's start-up has made Norske Skog PanAsia the largest newsprint manufacturer in Asia, with an overall capacity of 1.8 million tonnes.

HR, organisation and the environment

The region has 2 327 staff at nine sites in four countries. They act as strategic partners to tackle challenges and to improve the company's performance. Norske Skog PanAsia maintained its excellent health and working environment performance, with a lost-time injury frequency of 0.9 in 2005.

The focus on health and safety remained strong, and Norske Skog PanAsia maintained high standards of quality and environmental excellence in its mill operations. To sustain this world-class performance, it identifies and prioritises key environmental issues on a continuous basis to ensure that appropriate measures are taken to meet changing environmental regulations.

Integration project

In the third quarter of 2005, Norske Skog announced that it was to acquire the remaining 50 per cent of PanAsia. This acquisition was approved by all the relevant authorities and came into effect on 18 November with the closure of the transaction.

A joint Norske Skog-PanAsia project was then launched to ensure a successful integration of PanAsia into the existing Norske Skog global corporate structure. This kicked off successfully. Senior management at Norske Skog and PanAsia met for two days in a spirit of cooperation, and established the process and desired outcomes for the integration task.

Did you know that:

«A Chinese person devotes 56 minutes per day to reading newspapers, an American 25 minutes and a Pole 15 minutes.»

Source: Amec

Malaysian Newsprint Industries (MNI)

Market and production

Norske Skog owns 34 per cent of MNI, which is Malaysia's only newsprint mill. It competes primarily in the domestic market.
Norske Skog's share of MNI's net earnings in 2005 totalled NOK 11.5 million, compared with NOK 5 million the year before.

Total sales rose from 232 070 tonnes in 2004 to 246 300 tonnes.

Human resources and the environment

MNI has 350 employees, and suffered one lost-time injury in 2005.
All environmental parameters were within the limits set by the authorities. MNI is certified to the ISO 14001 standard.

Outlook for 2006

Newsprint prices in the region are expected to increase somewhat during 2006 in line with good and stable demand.

KEY FIGURES

	2005	2004	2003
Operating earnings in USD mill	144.5	125.1	101.1
EBITDA in USD mill	50.2	41.7	18.6
EBITDA margin	35%	32%	17%

Catalyst Paper

Norske Skog owned 29.4 per cent of the shares in Catalyst Paper (formerly NorskeCanada) throughout 2005. This listed company is the fourth-largest manufacturer of newsprint and magazine paper in North America, with four mills in British Columbia which have a combined capacity of 1.85 million tonnes. In addition they produce 115 000 tonnes of wrapping paper and 400 000 tonnes of market pulp.

Demand for standard newsprint declined by 5.5 per cent in North America during 2005, while other publishing papers showed a rather better development. Catalyst Paper has largely switched its production away from standard newsprint to catalogue, magazine and other publication papers.

Catalyst Paper made an operating loss of CAD 25.1 million in 2005. The main reason for this performance was the strengthening of the Canadian dollar against the US dollar. Norske Skog's share of the 2005 loss was NOK 43 million.

On 30 January 2006, Norske Skog reached agreement on the sale of all its shares in Catalyst Paper. This disposal yielded a book loss of NOK 729 million, which has been recorded in the group accounts for 2005.

KEY FIGURES

	2005	2004	2003
Gross operating earnings in CAD	1823,9	1878,3	1591,2
EBITDA in CAD mill	(25.1)	(31.3)	(111.6)
EBITDA margin	(1.4%)	(1.7%)	(8.2%)

Difficult energy market

Demanding conditions in the global energy sector have prompted Norske Skog to guard against major surprises in the near future.

n High prices for oil and carbon dioxide allowances, and extremely high charges for gas, drove up the cost of electricity in Europe throughout 2005. New Zealand also experienced very high power prices because of drought. South America was also unable to escape high energy costs.

Norske Skog is well hedged in the Norwegian, Australian and South American power markets through long-term contracts, and will not be exposed to extreme prices in these markets during 2006. In Europe, the company has hedged the price of 70 per cent of its consumption in 2006 and 30 per cent in 2007, but at a high level. Asian energy markets have not been liberalised, and electricity prices paid by Norske Skog are set by the authorities. However, oil is largely purchased in the spot market.

The company sees prospects for a decline in energy prices over the next 12-18 months.

Norway imported less wood

A storm in early January 2005 damaged large forest areas in southern Sweden, and more than 70 million cubic metres of trees which had been blown down had to be removed. The wood market in Scandinavia and the Baltic states was strongly affected by this harvest. Availability of wood was good in 2005, with declining prices. The harvest caused by the storm will also have a positive effect on wood availability in the first half of 2006. Supplies of wood and sawmill chips in continental Europe were satisfactory and with stable prices.

The closure of Norske Skog Union in March 2006 will reduce Norwegian wood imports.

Recovered paper

Prices have risen in the global market for recovered paper during recent years, and analyses indicates that this trend will continue. Norske Skog nevertheless succeeded in stabilising purchase prices for the third year in a row as a result of excellent long-term cooperation with suppliers over achieving stable prices, availability and demand.

Other input factors

Measured in US dollars, the cost of chemical pulp fell by about eight per cent in 2005. Assuming average economic growth, this price is expected to rise slightly during 2006. Because of high energy costs, prices paid by Norske Skog for chemicals and other energy-related input factors have come under pressure. Increased transport costs, also derived from higher energy prices, also contributed to high costs. The company expects this development to persist through 2006, and a number of measures to avoid or reduce cost increases have been initiated.

More by rail in Europe

Transport costs have been under global pressure because of high oil prices, but this had only a limited effect on wood costs in 2005.

Norske Skog Golbey signed a contract with a private rail operator to construct and develop a joint railway terminal.

Norske Skog Logistics will continue to study opportunities for increased use of rail transport in Europe, combined with a better system for short-sea shipments. Potential global synergies in distribution, particularly through containerisation, will be realised.

Paper from Norske Skog Bio Bio in Chile is transported to the argentinian newspaper Los Andes in the Andes.

South America
Both the Chilean peso and the Brazilian real strengthened substantially against the US dollar during 2005, by eight per cent and 12 per cent respectively. This increased local costs proportionately when translated to US dollars. The biggest items of expenditure are wood for both mills and electricity in the case of Norske Skog Pisa in Brazil.

Demand for wood is rising in South America, primarily because of substantial investment in the chemical pulp industry. Particularly if the mill in Chile, felt this trend. Norske Skog Pisa in Brazil is better protected against the effect of rising demand for wood, because of long-term delivery agreements.

Norske Skog PanAsia
Norske Skog worked purposefully to improve recovery of paper in Asia, and the proportion of locally-recovered paper in Korea and China rose by five percentage points from 49 per cent in 2004 to 54 per cent in 2005. This reflected a long-term commitment to expanding local paper collection.

Although newsprint production will expand substantially in 2006 at the Hebei mill, the proportion of locally-recovered paper in the final product is being increased to 55 per cent.

Electricity prices in Korea are relatively stable, but the sharp rise in oil prices prompts concern for the future costs of energy.

Australasia
Oil prices had a negative effect on distribution costs. The need to build up stocks in the region ahead of the conversion of the machines in the first half of 2006, combined with higher-than-expected sales to destinations with higher freight charges, also had a negative effect.

Long-term contracts for wood, energy and transport have protected the region's costs to some extent from volatile raw material prices.

Lasse Blom (left) and Liz Reeves inspect membranes in a pilot plant for ultrafiltration at the Norske Skog Albury mill in Australia.

Improving the quality of water

Modern paper-making techniques are using progressively less water in the manufacture of each tonne of paper. A consequence of this trend is that greater effort has to be directed to maintaining an acceptable quality of water used to make the paper, and to treating the water returned to the environment so that it has a minimal impact.

n Norske Skog R&D has been investigating the use of membrane processes to remove both organic and salt residues from water used to make paper. Membrane technology works on the principle of filtering out residues according to their size. Careful selection of the membrane pore size enables multi-stage membrane processes to be designed to successively remove smaller and smaller molecules. Removal of salt residues leaves very pure water that may be re-used either in paper-making or for agricultural irrigation.

The R&D investigations span Norske Skog operations in Europe and Australia and are currently focussing on treatment of both internal process waters and end-of-pipe effluent using a combination of ultra-filtration, nano-filtration and reverse osmosis technology. The challenge of this research is to develop a technology that can readily remove residues such as salt while still being commercially viable.

Problem-solvers in Norske Skog

Understanding customer business models and processes is crucial for Norske Skog's ability to help solve the most complex problems in their production and processes.

The company's technical customer service staff and Norske Skog Research & Development (NSR&D) are closely involved in problem-solving and optimisation in printing works. Help and support have also been provided for changing to other paper grades, which is greatly appreciated.

Print quality and paper properties

Tougher standards for print quality and runnability have gradually shifted the attention of R&D from the level of quality to a focus on both quality level and stability. That also includes the properties of the print surface. The bulk properties of the paper sheet have proved increasingly important for print quality as the demands made on customer get increasingly tougher. NSR&D's work in recent years has shown that variations in the properties of a paper can be just as important as its level of quality.

NSR&D plays a leading role in the company's efforts to adopt the expertise found globally within its organisation. An in-house development programme embracing both quality level and stability has been implemented, with participation by company mills in every region. This programme is Norske Skog's most important tool for ensuring the adoption of best practice from all mills worldwide.

Evaluating print quality on an industrial scale provides the necessary feedback on quality developments in the market, and on how the printability of Norske Skog's products compares to its competitors.

Lisa Grimstad checks the paper quality in one of our Tapio-analysis machine.

PRODUCTION CAPACITIES 2005 (in 1 000 tonnes)

Mills	Country	Newsprint [1]	Other uncoated papers	SC magazine paper	LWC magazine paper	Total publication paper
Europe [2]:						
Norske Skog Skogn	Norway	590				
Norske Skog Saugbrugs	Norway	550				
Norske Skog Follum	Norway	130	145	135		
Norske Skog Union	Norway	115	150			
Norske Skog Golbey	France	615				
Norske Skog Bruck	Austria	125		250		
Norske Skog Steti	Czech Republic	120				
Norske Skog Walsum	Germany			435		
Norske Skog Parenco	Netherlands	450				
Total Europe		**2 145**	**295**	**550**	**820**	**3 810**
Australasia [3]:						
Norske Skog Tasman	New Zealand	350	50			
Norske Skog Albury	Australia	240				
Norske Skog Boyer	Australia	215	85			
Total Australasia		**805**	**135**			**940**
South America:						
Norske Skog Pisa	Brazil	185				
Norske Skog Bio Bio	Chile	60	65			
Total South America		**245**	**65**			**310**
Asia:						
Norske Skog PanAsia Jeonju Mill	Republic of Korea	865	135			
Norske Skog PanAsia Cheongwon Mill	Republic of Korea	190				
Shanghai Norske Skog Potential Paper Co Ltd	China	145				
Hebei Norske Skog Long-Teng Paper Co Ltd	China	330				
Norske Skog Singburi Mill	Thailand	125				
Total Norske Skog PanAsia		**1 655**	**135**			**1 790**
Total consolidated capacity		**4 850**	**630**	**550**	**820**	**6 850**
Malaysian Newsprint Industries Sdn Bhd (MNI) [4]	Malaysia	**250**				**250**
Total including share of MNI [5]		**5 100**	**630**	**550**	**820**	**7 100**

1 Newsprint capacity is based on 45 g/m² in Europe and Asia, and on 48.8 g/m² in other regions
2 Norske Skog Union in Norway, with a capacity of 115 000 tonnes of newsprint and 150 000 tonnes of other uncoated publication paper, was shut down in the first quarter of 2006.
3 Following the shutdown of PM1 at Norske Skog Tasman in the summer of 2006 and the upgrading of Norske Skog Albury, the distribution of capacity between the mills in the Australasian region will be changed. Overall capacity will not be significantly affected.
4 Capacity for MNI is included on a 100 per cent basis. Norske Skog owns 33.65 per cent of this company and uses the equity method to consolidate its share of the result.
5 Norske Skog owned 29.4 per cent of the shares in Canada's Catalyst Paper at 31 December 2005, but reached agreement in January 2006 on a sale of these shares. Catalyst Paper has four mills with a combined capacity of roughly 1.8 million tonnes of publication paper as well as packaging paper and market pulp.

Lance Armstrong raises the prestigious Tour de France trophy for the last time. The bike rider's day was definitely done in France with the 2005 race. He is accompanied by his three children: son Luke and twins Grace and Isabelle.

FINAL VICTORY FOR LANCE

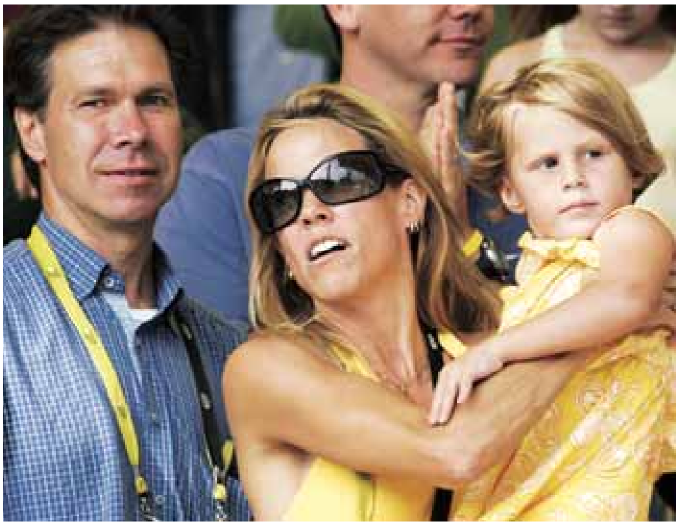
Lance Armstrong achieved his seventh Tour de France win in a row, and was thereby acclaimed as US sporting personality of the year for the fourth time.

05 Main stories of 2005
Tour de France

The great sporting events attract much attention in the media, and the focus on the Tour de France is no exception. Newspapers around the world attract many extra readers when major events fill their columns. Numerous special supplements are produced during the big bike race, following developments from day to day. Sports supplements alone account for a solid proportion of Norske Skog's newsprint production.
NEWS IS BEST ON PAPER

Lance Armstrong raises seven fingers to illustrate the number of consecutive times he has won the Tour de France. Photo: AFP PHOTO JAVIER SORIANO

The American from Austin, Texas, on course to win his seventh straight Tour de France title in Paris on 24 July.



Lance Armstrong's then partner, Sheryl Crow, was in the audience.

EUROPE'S BIGGEST:
Axel Springer is Europe's largest publisher of newspapers and magazines. "Modern suppliers in this industry have made big advances on the environment front," says Herbert Woodtli (left). "The good stories must be told," adds Florian Nehm.

Norske Skog with high credibility

Norske Skog is an organisation with great abillity and high environmental standards, says Florian Nehm, environmental manager at Axel Springer AG, Europe's largest newspaper and magazine publisher. "But you could be better at telling people about the good work you're doing in this area."

150 TITLES: Axel Springer publishes more than 150 magazines and newspapers, including *Bild Zeitung.*

Axel Springer publishes more than 150 newspapers and magazines in 27 countries, and has 10 700 employees. Of the 550 000 tonnes of newsprint and magazine paper it consumes annually, Norske Skog supplies 100 000 tonnes.

The group's head office is in Berlin. With many news-hungry journalists on the payroll, it knows how to keep to the straight and narrow in its own environmental performance. Axel Springer regards sustainable growth as part of its journalistic integrity and social responsibility.

It has pursued several environmental projects together with Norske Skog since the late 1990s.

Traceability and transparency

Modern suppliers to newspaper and magazine racks, whether they are publishers or paper manufacturers, know exactly what their logistics chain looks like.

"We've launched a pilot project in cooperation with Norske Skog and others to exploit this information," explains Nehm. "The goal is a system which constantly shows where our raw materials originate, how recycling happens, which chemicals are used, ecological and social standards at the manufacturers and so forth.

"This concept builds on an efficient management system utilising factual information on orders, invoices and other sources, which can be traced to countries, regions, organisation, ownership, GPS coordinates and the like.

"We want our readers to be sure that the raw materials in publications from Axel Springer are regularly checked and approved by independent bodies. This will be made possible by a system which provides constant information about and traceability of deliveries."

Axel Springer also cooperated in 1998 with 8 900 Norwegian forest owners and Norske Skog on a project to make ecological improvements in the paper chain.

Telling the good stories

The German and international publisher makes its living from news reports and good stories. It believes that Norske Skog should get better at promoting its own good news.

"You've got several large mills around Europe and globally," notes procurement manager Herbert Woodtli. "They've done much good work which benefits the local environment and their employees, but we don't see anything about it in the media. The more visible these advances, the better for those of us who buy your paper.

"You manufacture paper in South America, for instance. These mills have high standards for environmental protection and working conditions. Their raw material is renewable plantation trees – contrary to the popular misconception that paper production consumes virgin forest."

He observes that the environmental image of Axel Springer's suppliers is as important as quality and price.

"We want to be associated with suppliers who can document sustainable operations both environmentally and financially. The ability to deliver and delivery reliability must also be in place."

Renewable resource

Nehm notes that the industry as a whole has a solid position in environmental terms, but that this message is not so well known. Popular perceptions that reading the news on the internet benefits the environment are not accurate.

"Forests are one of our few renewable resources," says Nehm. "The industry has made huge strides with sustainable development over the past two decades. Trees grow with the aid of water, naturally-occurring minerals and solar energy. A modern paper mill has virtually no emissions or discharges. Paper is recycled. The raw material comes from planted and renewable forests. Our magazines and newspapers are read in the knowledge that the environmental isn't suffering."

Emphasis on environment

An assurance that Norske Skog cares for the forest is given by vice president environment Thor H Lobben as his career with the company draws to a close.

n "Forestry has been the biggest environmental issue for us and our customers in recent years," explains the 64-year-old, and emphasises the importance of both taking the environment seriously.

After 25 years of holding senior jobs at Norske Skog, few people know the company better than Lobben. He and his department work with the mills and the procurement organisation to ensure that everything is in order and that developments are heading in the right direction.

Sustainable development

"The forest is also a strategic issue for us and our customers as part of sustainable development," Lobben explains. "With its renewable raw material, it actually provides unique conditions for the future of the paper industry."

Since he himself makes active use of the forest for recreation, he is confident in saying that forests do well by Norske Skog.

Nor is the company taking its environmental responsibility any less seriously when it not owns the forests from which its wood is sourced.

"We set strict standards for the way forestry is conducted and documented," Lobben says. "This means in part that we take forest conservation seriously. Biological diversity isn't just fine words for us. The environment is very much part of the quality of our deliveries."

Forest certification

Norske Skog's suppliers are accordingly required to deliver wood which derives from sustainable forestry. Certification represents a good tool, and the company has developed a traceability system for uncertified wood so that it knows where these supplies originate.

"Almost 60 per cent of the wood delivered to our wholly-owned mills was certified in 2005," reports Lobben. "That's a high proportion – and it was just under 80 per cent for our Norwegian mills."

Reduced emissions

Norske Skog acquired full ownership of PanAsia in late 2005, making it the world's largest newsprint manufacturer. This role carries an obligation.

Annual objectives set for continuous environmental improvement are demanding.

The corporate target for 2005 was to improve environmental performance by five per cent on average, an objective which had been accomplished with a margin in 2004. Technical problems at two Norwegian mills meant that Norske Skog failed to meet this goal in 2005, with an improvement of only one per cent at corporate level. Eight of the 13 mills reached their target, and one was just below. The Asian mills and Norske Skog Steti are not included in figures for 2005.

"Our 2006 objective is to reach the goal we failed to meet last year, and improve further," says Lobben. "That's a realistic goal."

Global climate challenges

Greenhouse gas emissions is the challenge which attracts perhaps the greatest public attention.

Lobben knows that a political breakthrough will be needed before global greenhouse gas emissions can be brought down to an acceptably low level.

"I'd like to see an integrated global approach to greenhouses gases," he says. "Decision-makers can have problems choosing between the options."

Following the integration of PanAsia, Norske Skog has 19 mills in four continents. Emission limits and energy sources vary from place to place. But Lobben rejects claims that the environment is being worsened by moving production to low-cost countries.

"Nobody must even think that we bought out our partner in PanAsia in order to escape stringent environmental standards," he emphasises.

He underlines again that raw materials have to be environment-friendly. That means recovered paper in Asia, plantations and recovered paper in Australasia, plantations in South America, and traditional and sustainable forestry as well as recovered paper in Europe. Recovered paper is an important source of fibre for Norske Skog, and accounted for 28 per cent of the fibre content in 2005.

This proportion will expand sharply when the Asian mills are included in the figures. Recycled paper will then account for more than 45 per cent of the fibre content in the paper produced by Norske Skog.

Seeking improvements

Many of Norske Skog's mills have low emissions. But technology and performance at some of them could be better, Lobben emphasises.

"We're working on plans for big improvements," he reports.

After a long productive career in an industry which derives its raw materials from natural sources, Lobben is not planning drastic changes after he retires during 2006.

"I usually say that I've got a good bike to ride in the forest as well as good skis, and hope to use them. Where the climate is concerned, I expect that those who can make a contribution will do their best to ensure good skiing conditions in the winters to come."

Norske Skog's environmental policy

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

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

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

- Norske Skog shall operate and develop its business units by continuously improving their environmental performance, and with a view to reducing the environmental impact to a minimum.
  The basic requirement is compliance with laws and regulations.
- Efficient production processes with high yield on raw material and energy utilisation shall be key objectives in all production units. Environmental aspects shall be integrated in strategic considerations and operational decisions.
- Environmental responsibilities and tasks shall be clearly defined and adhered to throughout the organisation. The business units shall educate and train their employees to know and understand the policy, its requirements and the work performance expectations.
- Certifiable internationally acknowledged environmental management systems shall be actively applied in the management in all production units.
- Norske Skog's production units shall have environmental programs with clear objectives and annually set targets supporting the company's environmental policy and strategic ambition.
- Norske Skog shall expect the same high environmental performance from suppliers of goods and services in the value chain as maintained in its own activities. Forest certification shall be encouraged and certified wood suppliers will be given priority.
- Norske Skog shall have an environmental performance that supports its customers in reaching their environmental objectives.
- Norske Skog shall operate and develop its business units with respect for, and understanding of, the social and cultural values that exist in the countries in which it operates.
- Norske Skog shall be open to and actively engage in dialogue with stakeholders and will communicate openly on environmental matters.

Headmaster Owen Dunlop and his pupils at Burrumbottock Public School in Australia are cooperating with Norske Skog over an environmental centre.

Enviromental improvements in the value chain

Norske Skog will develop and operate its units by continuously improving their environmental performance. The goal is to reduce the environmental impact to a minimum.

n The environmental challenges facing the paper industry cover the whole business, from procurement and use of raw materials, via transport, production and distribution, to collection and recycling of waste. Norske Skog's environmental report indicates how the company works in these areas.

Certification

Third-party certification has become an important instrument for ensuring and documenting that environmental work is pursued in line with the principles of sustainable development. Norske Skog was an early adopter of certified environmental management systems, and has worked systematically with this since 1996. In June and July 1996, Norske Skog Skogn and Norske Skog Bruck were among the first mills in the world certified to the ISO 14001 environmental management standard. All Norske Skog's mills included in this report have ISO 14001 certificates.

Environmental certification is particularly important for Norske Skog in three areas. In addition to the environmental management systems mentioned above, these are forest certification and traceability (chain of custody) certificates for procurement and mills.

Transport

Norske Skog's goal is to transport raw materials and finished products in a way which minimises the environmental impact. Choosing the most environmentally-appropriate transport solution represents a major challenge. The relative impact of the various options is not always equally clear. And weight must also be given to factors such as local infrastructure, costs and competitive terms. An environmental policy for transport is under preparation and will be implemented during 2006.

Mill performance

The company's mills prepare an annual programme which sets performance targets for the most important environmental parameters. Their results are reported on a monthly basis to the corporate management via an environmental index developed in-house. This incorporates the most important emissions to the air and discharges to water as well as energy consumption and waste handling. A description of this index and the attainment of targets in 2005 is provided on page 35 in this report.

Norske Skog wants all its mills to meet an environmental standard by 2008 which corresponds to the EU reference document on best available technique for the pulp and paper industry.

Raw material and energy use

One of the main targets for Norske Skog's environmental policy is optimum use of all input factors, including energy consumption. An important subsidiary goal is to exploit the company's own organic waste products for bioenergy to help reduce greenhouse gas emissions by replacing fossil fuels. From 2006, Norske Skog has also implemented a dedicated energy policy which describes its approach to energy procurement, use and production. This policy is presented in more detail on page 43 in this report.

Recovered paper quality

Recovered paper is an important input at a number of the company's mills, and Norske Skog ranks as one of the world's largest consumers of this raw material in the production of newsprint and magazine paper. The quality of recovered paper represents an important issue in countries where the level of recycling is high. Increasing the proportion of recovered paper while ensuring that this material contains the fewest possible foreign elements represents a major challenge.

Climate change

The trading system for carbon dioxide allowances introduced by the European Union in 2005 applies to all Norske Skog's mills in continental Europe. During a trial period in 2005-08, these facilities will largely receive the allowances they need. The size of the allowances remains unclear after 2008, when the Kyoto protocol comes into force. The greatest uncertainty about the protocol's impact on the pulp and paper industry relates to electricity costs.

Unfortunately, the Norwegian authorities have opted to exclude the pulp and paper sector from a corresponding trading system introduced to Norway in 2005. As a result, Norske Skog's Norwegian mills have different frame conditions than their European competitors. Norske Skog has expressed its disagreement with this policy to the Norwegian government.

MAIN FIGURES FOR WHOLLY-OWNED MILLS

Consumption of raw materials		Energy		Discharges to water	
Roundwood	4 910 000 m^3	Electricity	10 740 GWh	Water consumption	94 mill. m^3
Sawmill chips	2 181 000 m^3	Heat	7 860 GWh	Organic material (COD)	42 000 tonnes
Recovered paper	1 474 000 tonnes			Suspended Solids (SS)	4 200 tonnes
Purchased pulp	247 000 tonnes			Phosphorous (Tot P)	58 tonnes
Inorganic fillers	493 000 tonnes				
Emissions to air		**Production waste**		**Products**	
CO_2	850 000 tonnes	Sludge (wet)	835 000 tonnes	Newsprint grades	3 418 000 tonnes
SO_2	440 tonnes	Bark	285 000 tonnes	Magazine paper	1 312 000 tonnes
		Other	41 000 tonnes		
		Hazardous waste	850 tonnes		

Continuously improving environmental performance

Norske Skog's mills set annual targets for key environmental parameters, and report their performance monthly to the corporate environmental department for futher reporting to the management.

From the wastewater treatment plant at Norske Skog Saugbrugs.

Environmental performance forms part of the regular reporting by the mills to the corporate management and board.
Norske Skog has developed its own environmental index, which expresses mill performance in this area and covers the following parameters:

- water consumption
- discharges of organic material to water, measured by chemical oxygen demand (COD) and as suspended solids
- emissions of nitrogen oxides
- waste to landfills
- total energy use.

The overall environmental index for the whole company is calculated as an average of each mill's index weighted by production volumes. Goals are also set by each mill for other environmental parameters of particular significance to them, and are subject to special monitoring.

Mill performance is measured in the index against a standard which should be attainable with the use of best available technique (BAT) or best practice. An index of 1.0 or better indicates that the mill in question has an environmental standard which satisfies the ambitious levels which can be attained with BAT or best practice. The European mills are already by and large at this level, but a certain amount of work remains to be done at some of the South American and Australasian facilities.

Performance in 2005

Norske Skog's environmental policy commits it to continuous improvement of its performance in this area. The environmental index has been developed in part as a tool for measuring progress in the company.

The table shows the targets set in 2005 and 2006 for the various parameters included in the index, as well as the results achieved in 2004 and 2005. These figures represent an average for all wholly-owned production units with the exception of Norske Skog Steti. This mill is closely integrated with other industry in the area, which makes it difficult to obtain sufficiently accurate data to calculate the index. Waste water is treated jointly with the other industries in a common plant, for instance. However, the mill sets its own targets for the environmental parameters which can be measured with a reasonable degree of accuracy.

Seven of the 13 mills incorporated in the environmental index achieved a result better than 1.0 in 2005, and nine reached their own targets. Norske Skog as a whole failed to reach its index goals for 2005. This primarily reflected problems at three of the Norwegian mills, with two suffering technical problems relating to the partial breakdown of their treatments plants for long periods during the year.

Mills which currently lack the technology needed to reach the BAT level are working on plans to implement the necessary environmental investment. Norske Skog Bio Bio, Norske Skog Boyer and Norske Skog Follum are planning significant expansion in their waste water treatment plants, for instance.

ENVIRONMENTAL INDEX

	Achieved 2004	Achieved 2005	Target 2005	Target 2006
Water consumption [m³/t]	20.2	19.6	18.9	18.7
COD [kg/t]	8.46	8.81	8.05	8.06
Suspended solids [kg/t]	0.84	0.89	0.74	0.69
Nitrogen oxides [g/GJ]	126	113	114	114
Waste to landfills [kg/t]	21.7	19.6	20.9	20.7
Total energy use [GJ/t]	13.6	12.6	12.7	12.6
Environmental index	**1.27**	**1.26**	**1.22**	**1.18**

Norske Skog gives priority to deliveries from certified forests

Raw material consumption

Norske Skog's mills consume renewable and recycled fibre raw materials. Roundwood, sawmill chips, chemical pulp and recovered paper originate from forests which are managed to ensure that they retain their productivity and biological diversity.

n Norske Skog is not a significant forest owner. Just less than 4 per cent of the wood the company consume comes from its own forests in Australasia. Plantations being developed in Brazil will deliver roundwood to Norske Skog Pisa from 2009.

Strict standards are set by the company for its roundwood suppliers. Priority is given to deliveries from certified forests. Deliveries in Europe are already covered by traceability (chain of custody) certificates, environmental certification and Norske Skog's own checks. To ensure that all wood originates from sustainable forestry, the company applies a control system for uncertified deliveries. This accords with the joint declaration against illegal logging from the WWF and the World Business Council for Sustainable Development (WBCSD) and the related guidelines from the Confederation of European Paper Industries (Cepi).

Collecting and recycling newspapers, directories and magazines have positive environmental effects. Although not all Norske Skog's mills use recovered paper, this accounts for almost a third of the total wood-based raw material.

Chemical pulp is added to the company's magazine paper to provide the necessary strength. Norske Skog does not produce such pulp itself, but buys it from external suppliers. An increasing proportion of the wood fibre in the purchased pulp can be documented as originating from certified forests.

A number of paper grades also contain inorganic fillers and coating materials. These totalled 492 700 tonnes in 2005, corresponding to 10 per cent of production.

Virgin fibre

Roundwood and chips used by the European mills originate from forests which have been in commercial use for centuries, and which comprise local tree species. Spruce is the only virgin wood Norske Skog uses in Europe.

Roundwood and chips used by the mills in Brazil, Chile, Australia and New Zealand derive from forest plantations. Both radiata and loblolly pine are used in South America, while Australasia uses radiata pine.
Norske Skog Boyer consumes 28 per cent eucalyptus as virgin wood. The pine species in the plantations have been introduced from North America.

Cultivation of plant material for the plantations utilises cloning. Genetic modification is not employed.

Environmental criteria

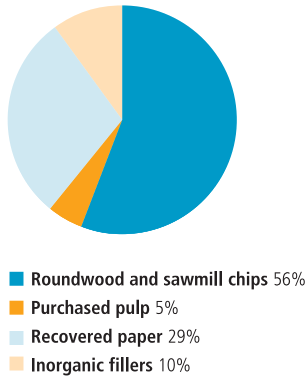
Customers regard the proportions of wood fibre originating from certified forests and from recovered paper as important environmental criteria for the raw materials used in paper products. The introduction of Norway's Living Forest standard in 1998 gave the Norwegian mills a lead for the certified proportion, which they still retain.

The proportion of roundwood and chips derived from certified forests increased from 41 per cent to 59 per cent over the past two years.

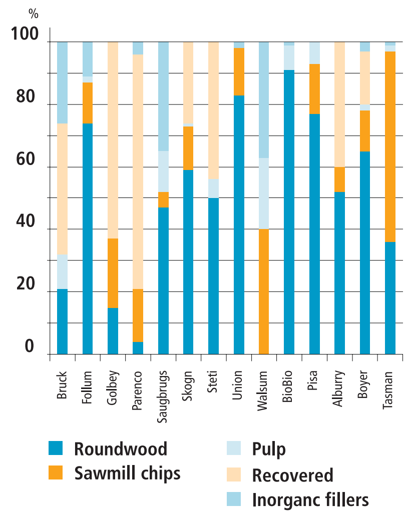
RAW MATERIAL CONSUMPTION

		Europe	South America	Australasia	Total
Inorganic fillers	2005	478 000 tonnes	1 700 tonnes	13 000 tonnes	492 700 tonnes
	2004	504 000 tonnes	1 000 tonnes	13 000 tonnes	518 000 tonnes
Recovered paper	2005	1 310 000 tonnes	0 tonnes	163 000 tonnes	1 473 000 tonnes
	2004	1 307 000 tonnes	0 tonnes	167 000 tonnes	1 474 000 tonnes
Purschased pulp	2005	215 000 tonnes	20 000 tonnes	13 000 tonnes	248 000 tonnes
	2004	210 000 tonnes	19 000 tonnes	14 000 tonnes	243 000 tonnes
Sawmill chip	2005	1 410 000 m^3	63 000 m^3	708 000 m^3	2 181 000 m^3
	2004	1 491 000 m^3	79 000 m^3	729 000 m^3	2 299 000 m^3
Roundwood	2005	3 204 000 m^3	599 000 m^3	1 106 000 m^3	4 909 000 m^3
	2004	3 231 000 m^3	597 000 m^3	1 167 000 m^3	4 995 000 m^3

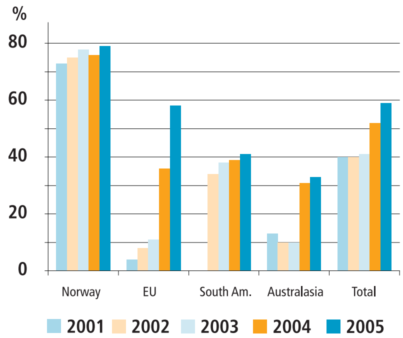
Consumption of raw materials, 2005



Distribution of raw material in paper from Norske Skog's mills, 2005



Percentage certified wood fibre 2001-2005



Responsible wood procurement demands detailed checks

Norske Skog needs to know where its wood originates, it must be assured that forest and environmental legislation is observed, and that the trees are not felled in areas where the rights of the local community have been violated. Nor must the wood come from regions where important environmental assets are threatened or will be covered by conservation orders.

n Many people are worried about the future of the world's woodlands. Many have an emotional attachment to the forest. Even though paper and timber are acknowledged to be renewable natural products which cause little pollution and have a high recovery factor, doubts are widespread about whether forest land is truly managed sustainably. Such concerns are fuelled by overlogging in certain parts of the world and forest clearance to use the land for such purposes as farming. Certain tree species have such a high value that legislation and other people's interests are ignored by unscrupulous players.

The pulp and paper business is taking such worries seriously. It depends on consumers being confident that the whole forest industry contributes to sustainable use of this resource.

Forest certification

Sixty per cent of the wood bought globally by Norske Skog, either directly or in the form of sawmill chips, derives from certified forests. To check where its wood comes from, the company uses certified traceability (chain of custody) systems. Certification means that independent auditors check forest management and traceability, and review internal audits and checks. Suppliers of uncertified wood must provide a declaration that the wood has been legally harvested. Norske Skog has a traceability system for uncertified wood, with the emphasis on document review and visits to felling sites in areas where a risk exists that legislation and environmental considerations are not respected.

Sampling

Inspection of uncertified wood is based on random sampling. All documents relating to roundwood from the selected deliveries are checked, including the waybill, purchase contracts, felling permits and forest management plans. Information in the documents on the forest owner's identity, the quantity involved, the mode of logging and the felling site is cross-checked. A check is also made at the felling site to see that permit terms have been observed. The volume felled must accord with the condition of the forest, environmental considerations must be taken into account, and all statements must be borne out.

Sustainable management

Norske Skog is not a significant forest owner. Its involvement in sustainable nature management accordingly lies in the standards it sets for forest owners. A fundamental requirement for the company is that all wood used in its mills derives from sustainable forestry. Every purchase contract contains an environmental clause which the supplier must accept.

Rules observed

Through this combination of forest and traceability certification, environmental clauses in contracts and site inspections, Norske Skog can ensure that recognised rules for responsible wood procurement are observed. Norske Skog has contributed to the development of the rules on acceptable logging from the Confederation of European Paper Industries (Cepi), and applies these. Similarly, the company supports the joint declaration against illegal logging from the WWF and the World Business Council for Sustainable Development (WBCSD).

« The pulp and paper business is taking people´s concerns about the forests seriously. »

Investing to meet future challenges

NOK 111 million was invested in environmental measures at Norske Skog's mills. Most of this spending went on reducing emissions to the air and discharges to water, and on waste treatment.

Investments to reduce water consumption or discharges to water and investments to reduce emissions to the air each accounted for roughly a third of total spending on environmental measures. Just over 15 per cent went on improving waste treatment. Other spending related to safer handling of chemicals, energy saving and noise reduction. An overview of the most important environmental investments at the mills is provided below.

- A project to build a new steam turbine for generating "green" electricity from biofuel was launched at Norske Skog Golbey. Due to be completed in the fourth quarter of 2006, this cost just under NOK 30 million in 2005.
- Norske Skog Bio Bio invested roughly NOK 14 million in environmental measures during the year, including completion of the work initiated in 2004 to reduce emissions from the boiler. After being rebuilt, this unit was fitted with an electrostatic precipitator in 2005. The project has reduced dust emissions by more than 99 per cent. Work also began at the mill on reducing water consumption, and is expected to yield results during 2006.
- Roughly NOK 14 million was invested by Norske Skog Follum in environmental measures which related primarily to the boiler and to the transport of sludge from treatment plant to incinerator.
- Norske Skog Walsum spent NOK 5 million optimising the treatment plant for waste water.
- NOK 6 million was invested at Norske Skog Albury in measures relating to water treatment and reducing water consumption.
- Just under NOK 7 million was devoted to efficiency improvements in Norske Skog Tasman's biological treatment plant.

Environment-related operating costs

Environment-related operating costs totalled just under NOK 280 million, corresponding to NOK 59 per tonne produced and on a par with the two preceding years. Chemicals for treatment plants and sludge dewatering accounted for just over 30 per cent of these costs, while pay and maintenance were each responsible for just under 20 per cent. Fees and taxes amounted to roughly 10 per cent.

The remaining costs primarily related to energy for treatment plants, waste disposal, inspections and surveys, and analyses.

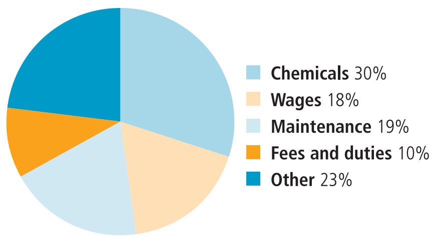
Saving through investments

The presentation of environmental-related investments only reports their cost. However, much of this spending also provides savings. One case in point is investment in new equipment with lower energy consumption. Treating waste water yields organic sludge which can be used as biofuel and thereby reduce the amount of purchased fuel. Other examples include improved sludge dewatering, which boosts calorific value and again cuts the need to buy fuel. Reducing water consumption also lowers energy requirements because smaller volumes have to be heated and pumped around the system.

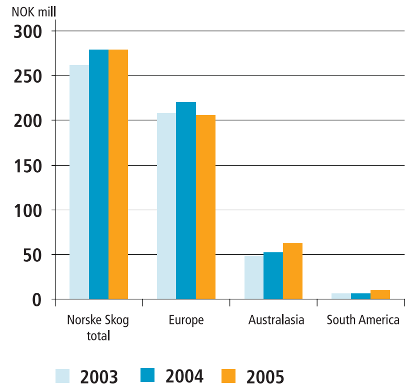
Environment-related costs embrace environmental investments and environment-related operating costs. Costs shown are based on best estimates, and on spending which Norske Skog believes has primarily been made to achieve environmental improvements.

- 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, pay for employees involved in environment-related work and treatment plant operation, environment-related trials, surveys, fees and taxes, and the operation and maintenance of waste disposal facilities.

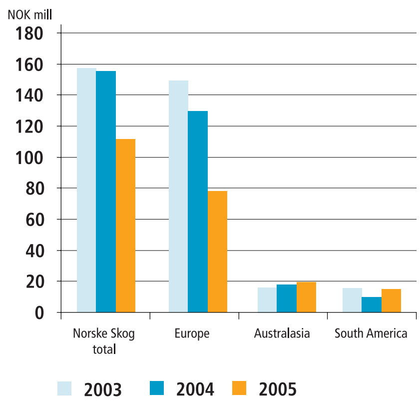
Environment-related operating costs, by type of cost, 2005



Environment-related operating costs



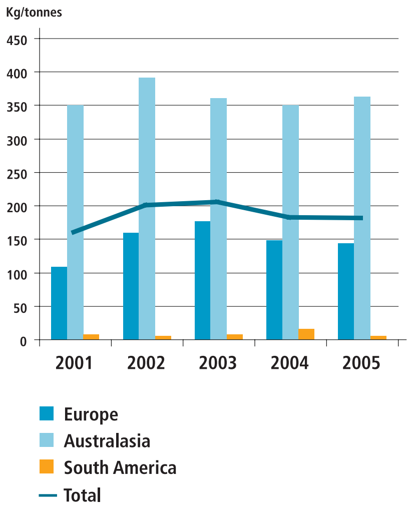
Environment-related investments



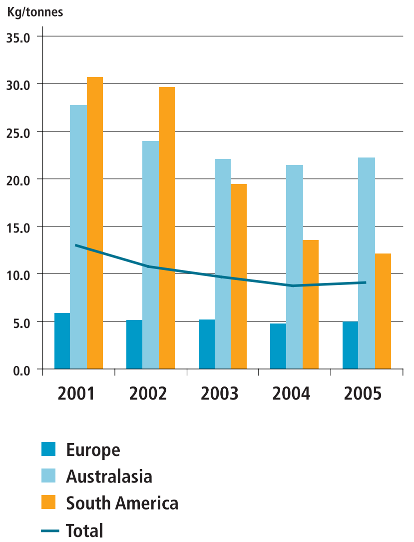
Emissions and discharges

Discharges to water from the production process consist primarily of fibre and dissolved organic material. Roughly 95 per cent of the chips and roundwood used, and about 80 per cent of the recovered paper, are converted to products. The remainder ends up as solid waste or sludge, or escapes with the waste water. The latter is treated in various types of plants before being discharged to the recipient.

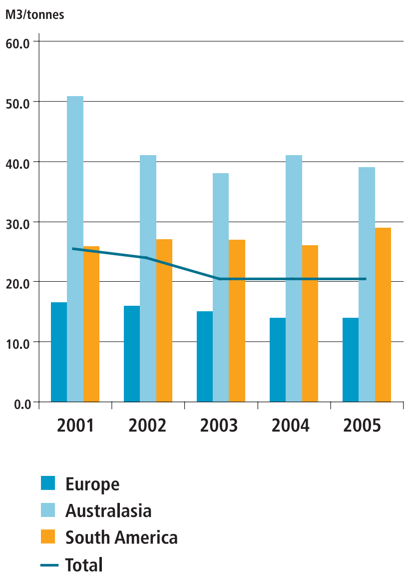
Trends in emissions of CO_2 per tonne, 2001-2005



Trends in discharges of organic substances (COD) per tonne, 2001-2005



Trends in water consumption per tonne, 2001-2005



Emissions to the air derive primarily from energy generation. Most mills have their own incinerators for producing thermal energy. In modern mills, by-products such as sludge from waste water treatment and deinking plants and other organic waste from the production process are utilised as biofuel for thermal energy production. Fossil fuels are also used in the form of gas, oil or coal. Environmental loads primarily relate to emissions of 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 in recent years, but the company failed to meet its overall target for 2005. This largely reflected technical problems in the treatment plants at Norske Skog Skogn and Norske Skog Saugbrugs.

Specific discharges (the amount discharged per quantity of paper produced) of suspended solids and dissolved organic material (chemical oxygen demand - COD) increased slightly overall. Nutrients released were on a par with 2004. Discharges of nutrient sales (nitrogen and phosphorous) and the waste water volumes were virtually unchanged from the year before.

Overall specific emissions of fossil carbon dioxide were on a par with 2004 for the company as a whole. A reduction was achieved in Europe, while Australia increased. South America remained at the 2004 level. Specific emissions of sulphur were significantly reduced compared with 2004, while nitrogen oxide emissions declined slightly.

Emissions and discharges from all the mills are measured regularly, but measuring and reporting routines vary somewhat in line with national requirements and regulations. No major infringements of the emission limits set by the regulatory authorities occurred at Norsk Skog's mills in 2005.

Europe

The European mills must hold emission permits by the end of 2007 which accord with the EU's integrated pollution prevention and control (IPPC) directive. This includes provisions on determining standards for emissions to the air, discharges to water, noise and waste management. It also permits the authorities to set requirements for energy consumption. In Norway, Norske Skog Skogn and Norske Skog Saugbrugs have received new permits under the directive, while Norske Skog Follum expects to receive its permit in the spring of 2006.

With the exception of Norske Skog Follum, all the company's mills in Europe already have emission/discharge levels which accord with the use of best available technique (BAT). Norske Skog Follum is working on plans to get down to this level by 2008.

Reducing water consumption has been a goal for several of Norske Skog's European mills in recent years. After continuous improvements for a number of years, discharges in 2005 were at the same level as the year before. Specific discharges of organic material (COD) also remained at the 2004 level, averaging just below five kilograms per tonne of paper.

Emissions of fossil carbon dioxide fell from 2004. This primarily reflects reduced consumption of fossil fuel at Norske Skog Saugbrugs.

Australasia

Discharges to water have changed little over the past three years. On average, they are significantly higher than at the European mills. This partly reflects special conditions at Norske Skog Boyer, which has no biological treatment plant and also utilises an unusual process to produce part of its pulp. This yields higher discharges than traditional pulp production at newsprint mills. This process is used to exploit eucalyptus as a raw material. Work is under way on plans to meet future standards for water discharge, including the construction of a new biological treatment plant by 2008.

Overall, emissions of fossil carbon dioxide from the three Australasian mills were at the same level as in 2004, after showing a declining trend in 2003 and 2004.

South America

Discharges of organic materials to water at Norske Skog Bio Bio in Chile have declined sharply since its new sedimentation plant for waste water treatment became operational in May 2003. This facility has significantly reduced discharges of dissolved organic substances and suspended solids. The mill achieved its target for discharges of COD and suspended solids in 2005, but is having difficulties meeting the new national discharge standard for easily degradable organic material (biochemical oxygen demand over five days – BOD_5). The mill is working on plans to expand its treatment plant with a biological stage, which will solve these problems.

The volume of waste water at Norske Skog Pisa in Brazil rose by about 30 per cent from 2004, primarily because of changes to the internal water supply system in the mill. Work is under way to bring the volume back down to earlier levels.

Dust emissions from the boiler at Norske Skog Bio Bio were sharply reduced after the mill began using a new electrostatic precipitator for treating flue gases in 2005. This investment also covers rebuilding the boiler. Emissions are now at a level well below that achieved with the best available technique (BAT).

Emissions of fossil carbon dioxide from Norske Skog Bio Bio declined from the year before and returned to the 2003 level. Norske Skog Bio Bio uses some fossil fuel for energy generation in addition to biofuel, while Norske Skog Pisa uses only biofuels.

Noise and waste

Noise and vibration

All but one of the mills accord with the noise standards set by the regulatory authorities. The exception is Norske Skog Tasman, where measurements indicate that this facility may exceed local noise guidelines in an area close to the facility. However, no complaints have been received and no remedial measures have been required by the authorities.

Five of the mills received complaints about noise from neighbours in 2005, primarily as a result of acute incidents where remedial action was taken immediately. Complaints about ground vibration have also been received by Norske Skog Parenco. The position at this mill was improved with the installation of new equipment in 2003, but complaints are still being made. Norske Skog Parenco will continue to focus on finding the causes of the problem and eliminating them.

Waste

Sludge from effluent treatment and deinking plants for recovered paper and bark represent the principal types of organic waste at the mills. They are mostly incinerated to generate thermal energy, which yields substantial quantities of ash – just under 190 000 tonnes in 2005. About 65 per cent of this was used as a raw material in cement production, while the rest largely went to landfills. Hazardous materials account for less than one per cent of the waste produced at Norske Skog's mills.

The volume of waste generated in the mills has risen in line with investment in 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 biofuel. Virtually all organic waste is now used in this way in Europe and South America. The proportion is much smaller in Australasia. Sludge and ash are used there more for soil improvement in agriculture or sent to landfills.

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 2005, with a share of just under 75 per cent. Rail and maritime transport accounted for 13 per cent and 12 per cent respectively, with the latter including a small amount of rafting for Norske Skog Union. The share of road transport in relation to rail declined slightly from 2004, which was entirely down to changes in Europe.

Road transport saw its share decline at the European mills from 70 per cent to 68 per cent, while rail shipments rose correspondingly to 15 per cent. No significant changes occurred in Australasia and South America compared with 2004.

Transport of products

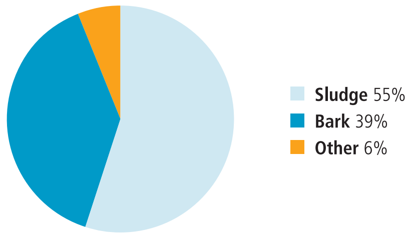
Road transport of finished products from the mills was on a par with 2004, at 44 per cent, while rail shipments increased from 22 per cent to 26 per cent and declined from 34 per cent to 30 per cent for shipping. These changes largely reflect a reorganisation at Norske Skog Follum.

Road transport declined somewhat in South America and vessel shipments rose, while insignificant changes occurred in Australasia's transport pattern.

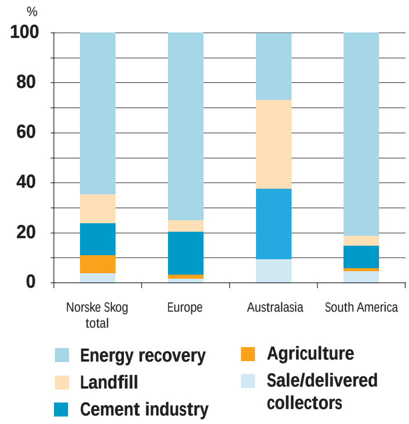
Norske Skog is working on a separate environmental policy for transporting raw materials and products. This will apply to all its operations, and is due to be ready during the first half of 2006.

Total production waste generated by Norske Skog mills 2005

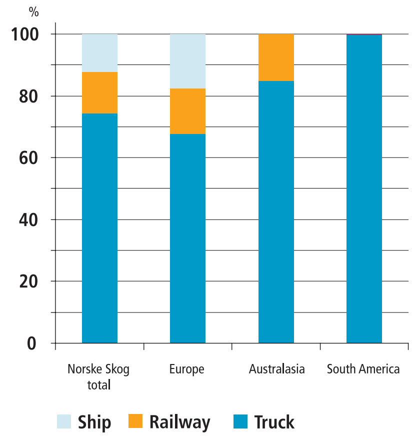
Total waste volume: 740 000 tonnes (dry)



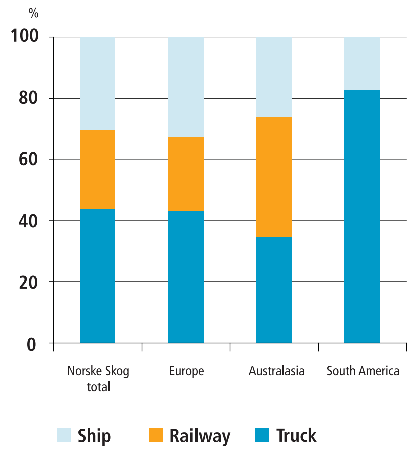
Disposal of mill waste in 2005



Transport of raw materials



Transport of products



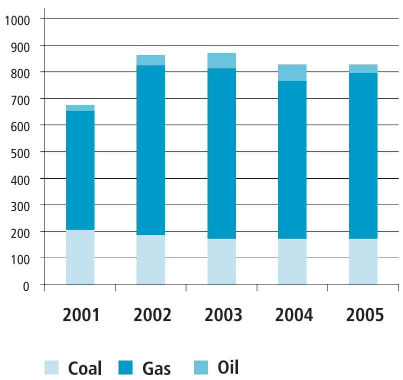
Energy consumption

The manufacture of wood-containing publication paper uses power to drive the production equipment and other electrical devices as well as thermal energy, which is used primarily for drying in the paper machine. Most of the electricity is consumed in producing the mechanical pulp which forms the main raw material for wood-containing publication paper. This product is obtained by separating the wood fibres in a mechanical process. Two main techniques are used. The traditional approach involves pressing logs against a grindstone to produce groundwood pulp. A more modern solution utilises a refiner in which pre-heated chips are ground under pressure and high temperature between rotating discs with a special pattern, and the end product is known as thermo-mechanical pulp (TMP). This TMP process develops a great deal of heat in the form of steam, which can be utilised in the paper machine. In this way, modern mills are able to recover heat energy corresponding to about 60 per cent of the electricity used to power the refiners.

Groundwood pulp production requires less energy than the TMP process, but the end product has less strength. More of the form and structure of the fibres get retained in TMP, which is important for paper quality and economics. TMP is the commonest raw material for publication paper grades such as newsprint. Groundwood pulp has properties which can be favourable for other kinds of paper.

The third pulp production process which is being increasingly used to manufacture wood-containing publication paper is deinking of recovered paper from newspapers and magazines. This has the lowest electricity consumption of the various pulping methods because the fibres have already been liberated. On the other hand, no heat can be recovered and exploited, as in TMP production. Nor is any bark or waste wood available for biofuel to produce heat. It is also important to appreciate that the fibres in recovered paper and virgin fibres from the forest supplement each other, and that the latter must be added to maintain a high degree of recycling.

Use of fossil fuels
(kWh per tonne of paper)



Hofsfossen near Norske Skog Follum.

Energy consumption in Norske Skog

Energy consumption at Norske Skog's wholly-owned mills in 2005 totalled 18 600 gigawatt hours (GWh), which breaks down into 10 740 GWh of electricity and 7 860 GWh of thermal energy (heat).

n Just under 2 400 GWh of this consumption was based on biofuels produced on-site or purchased externally, and 1 800 GWh was heat recovered from the TMP process. Fossil fuels accounted for just over 2 800 GWh or 15 per cent of total energy consumption.

The biggest users of fossil fuel are the cogeneration plants at Norske Skog Bruck in Austria and Norske Skog Parenco in the Netherlands, where natural gas is used to generate both electricity and heat. Fossil fuels are also extensively used by the Australian mills to generate heat. Consumption of fossil fuels at these five facilities accounted for 86 per cent of total usage by the company's mills in 2005.

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 as biofuel to replace fossil fuels. Among the latter, natural gas will be given priority where available.

Electricity

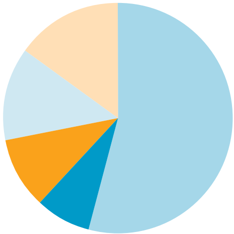
Ninety-two per cent of the electricity consumed in 2005 was purchased from external suppliers, with the remainder generated in-house mainly from the cogeneration plants at Norske Skog Bruck and Norske Skog Parenco. Small quantities were also generated from biofuel at Norske Skog Skogn and Norske Skog Bio Bio, and from geothermal heat at Norske Skog Tasman. Average specific consumption of electricity by all the mills in 2005 was 2 271 kWh per tonne of paper produced.

Thermal energy

Most of the Norske Skog mills based on TMP recover surplus heat for use in other parts of the production process. Twenty-four per cent of all the electricity consumed at these facilities was recovered in the form of heat during 2005.

Heat is primarily used for drying in the paper machine. Fifty-two per cent of the thermal energy used in 2005 was based on biofuel or heat recovered from the TMP process. Twenty-eight per cent was produced in-house using fossil fuels. The remainder primarily took the form of steam purchased from external suppliers as well as geothermal energy used at Norske Skog Tasman in New Zealand.

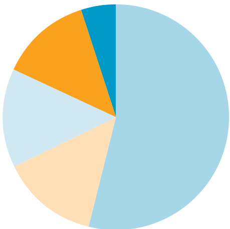
Energy consumption total Norske Skog, by sources



- **Purchased electricity** 54%
- **Fossil** 15%
- **Bio** 13%
- **Recovered from TMP** 10%
- **Other** 8%

Europe

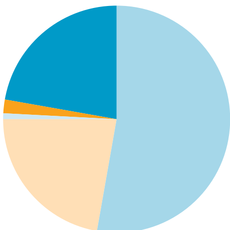
Total: 12 800 GWh
3.60 MWh per tonne



- **Purchased electricity** 54%
- **Fossil** 14%
- **Bio** 14%
- **Recovered from TMP** 13%
- **Other** 5%

Australasia

Total: 4 400 GWh
5.01 MWh per tonne



- **Purchased electricity** 53%
- **Fossil** 22%
- **Bio** 1%
- **Recovered from TMP** 2%
- **Other** 22%

South-America

Total: 1 400 GWh
4.72 MWh per tonne

- **Purchased electricity** 55.7%
- **Fossil** 0.3%
- **Bio** 44%

Norske Skog's energy policy

Norske Skog's energy policy sets high standards for the production, purchase and consumption of energy (electricity and heat) in the company's operations.

High energy efficiency and ambitious environmental standards will reflect the fact that energy is a scarce commodity and that energy production may impose a burden on the environment.

Energy will form an integrated part of the certifiable and internationally-recognised management systems at the mills.

Improvements in the energy area will be continuously assessed and implemented within technically- and financially-acceptable limits.

Energy consumption

- Efficient production processes with a high level of energy utilisation will be a fundamental objective.
- The business will be developed and operated with continuous improvements to reduce specific energy consumption and environmental burdens. The basic requirement is compliance with laws and regulations.
- The mills will draw up clear energy goals with associated action plans on an annual basis.
- Responsibility for efficient energy consumption and associated duties must be clearly defined. Employees will be educated and trained to know and understand the energy policy, and the expectations and requirements which this imposes.

Energy production

- Organic waste from the production processes will be utilised as biofuel, and priority will be given to the use of renewable energy sources.
- The goal will be to generate power by methods which provide high energy efficiency (co-generation).

Energy purchasing

- Energy produced with the lowest possible emission of greenhouse gases will be given priority, subject to commercially acceptable terms.

Handling recovered paper at Norske Skog Hebei.

A global player in paper recovery and recycling

The acquisition of PanAsia has boosted Norske Skog's annual consumption of recovered paper from 1.5 million to 3.5 million tonnes.

n Recovered paper will be increasingly used as a raw material by Norske Skog's mills. That represents a good resource policy and a good environmental policy and it can make good economic sense.

The economic aspect is important because it allows the environmental and resource gains to be secured. Doubling the volume creates new commercial conditions.

Norske Skog has become a substantial global player. The company are not only using a much larger tonnage, but have also become active in this field across large parts of the world, including Asia, Australia, the USA and Europe.

Norske Skog must look closely at the whole supply and demand chain. The company are familiar with the recovered paper market. Other areas, such as logistics, also need to be taken into account. Norske Skog must be able to benefit from its global position.

While PanAsia was a joint venture with Abitibi, the two owners shared responsibility for supplying recovered paper. Norske Skog is now doing the job by itself. Asia is a net importer of this raw material.

Norske Skog are planning to establish a recovered paper office on the US west coast, close to one of the big sources of supply, and thereby achieve a truly global spread, but with a local presence.

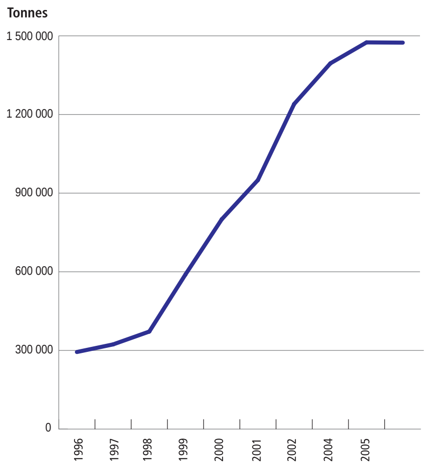
Norske Skog will be able to predict market trends more easily, both in the short and long term. This will give the company better control over sources and the international flow of recycled paper, and thereby allow it to secure the best possible terms for its mills worldwide.

Norske Skog's European recovered paper unit is based in Antwerp, Belgium. The Asian unit is based in Seoul, the capital of Korea. Expertise concentrated in these two departments will be integrated, making the company's global recovered paper team even more knowledgeable.

They will be transferring and combining their expertise, allowing Norske Skog to build something new. That's a big opportunity and a challenge.

Norske Skog regards this as an example of environmental and financial performance contributing to sustainable development together.

Use of recovered paper, Norske Skog, 1996-2005



Recovered paper in newsprint production 2005

Norske Skog Albury	40%
Norske Skog Boyer	23%
Norske Skog Bruck	80%
Norske Skog Golbey	62%
Norske Skog Parenco	75%
Norske Skog Skogn	26%
Norske Skog Steti	46%

Organisation of work on environment in Norske Skog

Global Norske Skog's chief executive has overall responsibility for the company's results, including its environmental performance. A separate corporate environment (CE) department is responsible for developing and maintaining the global environmental policy, and for specifying and following up strategic environmental targets on behalf of the chief executive. Part of Norske Skog's strategy unit, the CE department checks that the mills and other functional units set their own environmental targets and perform in accordance with these. It receives monthly reports from the mills, which are collated and reported to the corporate management. The department cooperates closely with other functions, such as sales and marketing and supply and logistics over factors relating to the natural environment.

Local Naturally enough, most of Norske Skog's environment-related work takes place in the mills. Each mill manager has operational responsibility for meeting environmental targets at their facility. This responsibility is passed down to departmental managers and to each employee. All the mills have a dedicated environmental manager, who reports directly to the mill manager and cooperates closely with the CE department. They are the point of contact for the group at each mill. A meeting is held once a quarter between the CE department and all the mills, primarily as a teleconference, in connection with the quarterly reporting. The mills also draw on the CE staff when they need advice and assistance.

Tomorrow's investors:
Good environmental strategy and social

Do you work for a company which builds on a solid base of values, with a strategy for sustainable development, well-organised corporate governance and a management able to handle future challenges? These are the characteristics that benchmark your employer against other enterprises which major pension funds with big assets want to invest in.

n Norske Skog keeps a close eye on stock market trends, and has asked Jan-Olaf Willums, an internationally-recognised expert on socially-responsible investment (SRI) about his experience in this area. His background includes the World Business Council for Sustainable Development and Norwegian insurer Storebrand's SRI activity. He is now a visiting professor at the Norwegian School of Management.

"I'm convinced that good management, solid corporate governance and social responsibility will mean more and more to tomorrow's investor," says Prof Willums. "Assessment of these intangible assets, which normal financial analysts don't cover in much detail, is becoming an important part of an investor's risk assessment.

"We've recently seen particular attention paid to corporate governance and management ethics in the wake of a number of scandals that also include Scandinavia. Today's information society, particularly the internet and international TV channels, means that both the press and pressure groups are much better informed about company behaviour internationally. Irregularities are thereby spotted much faster. The other big issue is the greenhouse effect, which increasingly concerns investors."

Asked how far environmental and social responsibility affects the value of a company like Norske Skog, Prof Willums notes that the share price is determined by what investors believe about its future development and the management's ability to handle tomorrow's challenges.

JAN-OLAF WILLUMS

Jan-Olaf Willums is associated with the centre for corporate citizenship at the Norwegian School of Management, and also lectures on innovation and ventures. He has a PhD from the Massachusetts Institute of Technology in the USA and has worked in the oil industry, including as chief executive of Volvo Petroleum. He helped to found the World Business Council for Sustainable Development (to which Norske Skog belongs) and was a director there until he became vice president environmental at Storebrand in 1998, including responsibility for the underwriter's SRI fund. He has headed the Inspire venture and investment company since 2000, is a member of the World Bank's corporate governance advisory group and sits on the environmental advisory board of the European Bank for Reconstruction and Development (EBRD).

responsibility will count for more and more

"Environmental issues will continue to present major challenges for the forest industry. Questions relating to corporate social responsibility will be increasingly important in securing a company's 'social licence to operate'. Investors are more aware of that today."

Prof Willums says that the environment is primarily put on the agenda by big institutional investors, particularly pension funds, when assessing companies for investment. Many of the world's biggest funds have begun including these intangible assets in their risk assessments. Their aim is first and foremost to limit the risk they are willing to accept for achieving an acceptable return. They want to assure themselves that their portfolios do not include any potential crisis companies. Poor management of environmental, social and ethical issues is increasingly regarded as a risk factor by investors.

"SRI began to be measured by investment funds which applied special ethical guidelines when investing. The earliest of them excluded investment in South Africa under the apartheid regime, for instance. Others did not want to put money into casino operation or arms manufacturing. The SRI concept has been substantially expanded today, and covers such aspects as the way companies deal with corruption and fraud. At the same time, efforts are made to see the positive sides of the best companies – how good they are at taking advantage of greater environmental efficiency or a social commitment."

The big investors – such as Storebrand – either have their own experts to assess these aspects or purchase SRI analyses from specialist companies, Prof Willums explains. Norway's Inspire company, for instance, assesses all investments managed by France's Credit Agricole in its SRI funds – which exceed NOK 10 billion combined. Norske Skog is also included in this evaluation.

"Innovest in New York is the biggest SRI analyst, with offices worldwide which monitor some 2 000 enterprises on a weekly basis," the professor reports.

Most such analyses seek to answer up to 500 questions about each company, by and large by reviewing publicly-available sources. These materials are compared in turn with what the press and the community at large say about the company. But individual investors will often give different weights to each issue. Some are more concerned with corporate governance, others with environmental strategy.

"Norske Skog is on the MSCI Europe Index, a list of big companies in which pension funds can invest and against which investments can be benchmarked," Prof Willums notes. "A number of these funds want to apply an extra quality check to companies they select from this index. The international analysis companies have accordingly assessed Norske Skog in relation to the SRI criteria. Innovest has given the company a good rating. When you know that eight of the world's 20 largest investment funds use this company's service, a good assessment clearly enhances interest in investing in the Norske Skog share."

Asked how significant it is for a company like Norske Skog to feature in indices such as the Dow Jones Sustainability Index and the FTSE4Good, he says that it is useful to be assessed among the best in its sector on criteria relating to environmental and social issues.

"A number of investors benchmark their investments against companies on these indices, and it enhances their interest. I also think that the indices mean a lot for the company's employees, and boost their pride in working for Norske Skog."

Social responsibility varies from country to country, and changes over time. Many major companies were created on a basis which would be regarded today as socially unacceptable in certain nations. Asked how to deal with this aspect, Prof Willums says that social responsibility is constantly developing.

"Much which was acceptable 20 years ago is no longer so today. It might even be illegal. We see this particularly in the field of ethics and anti-corruption, where views are now very different.

"It's clear that different countries have different standards on environmental and social responsibility, for instance. At the same time, major international companies such as Norske Skog are working in a global market. This creates expectations that they will maintain the same high standards in their activities worldwide."

He agrees that balancing western demands for social responsibility with industrial progress in developing countries is a challenge faced by a number of nations.

"But big countries such as China have now understood that it pays in the long term to look after the environment, and are taking the initiative in this area.

"Where social measures are concerned, such as combating child labour, it's important to be cautious in making judgements or applying prejudices. Views about what's right can differ. The serious analysis companies take this into account in their assessments."

Calls have occasionally been made for official standards to be set on reporting social responsibility, but Prof Willums is doubtful whether these would have any value.

"Guidelines such as those drawn up by the OECD for corporate governance are fine, but standards would be more difficult to implement. It's important to interpret what's happening in a wider context, as Det Norske Veritas does when it assesses environmental and social responsibility. The International Organisation for Standards is working on norms for CSR, and we'll have to see how useful these prove to be."

« I'm convinced that good management, solid corporate governance and social responsibility will mean more and more to tomorrow's investor »

Socially-responsible investment (SRI)

Institutional investors, particularly in the USA and Europe, continue to show growing interest in SRI after the criteria for such investment have become better known. They often start by excluding companies or sectors with a poor social and environmental record.

A clear trend can be seen towards investors devoting more time and money to products and services which aim to identify companies with good results in these areas.

The best performers in terms of sustainable development will benefit from increased expectations by society over a company's social responsibility. An SRI analysis also takes account of how well a company manages to integrate its social responsibility with its strategic business development. Such assessments are becoming an effective tool for identifying financially sound investment objects.

Independent auditor's report

We have reviewed certain aspects of the Norske Skog Environmental Report 2005 presented on pages 30-49, the Global Reporting Inititive (GRI) table and the UN Global Compact table presented on pages 150-155 (in total referred to as the "Report") in the Norske Skog Annual Report 2005. The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters referred to above. We believe that our work provides an appropriate basis for us to conclude with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

Conclusions

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

- The environmental aspects presented in the Report comprise the most significant ones at Group level.
- Norske Skog has applied detailed procedures, summarised on page 48, for the purpose of collecting, compiling and validating environmental data from its reporting units for inclusion in the Report.
- 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.
- The environmental information for 2005 reported from a sample of two reporting units visited (Norske Skog Saugbrugs and Norske Skog Follum) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
- Norske Skog applies a reporting practice for its environmental reporting aligned with the GRI reporting principles. The GRI Index presented on pages 151-155 in the Report appropriately reflects the extent to which the Norske Skog Annual Report 2005 aligns with the indicators listed in the GRI Sustainability Reporting Guidelines. References made in the UN Global Compact table on page 150, appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2005.

Oslo, 2 March, 2006
Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised Public Accountant
Environment & Sustainability Services

About the report

The environmental report contains information which Norske Skog believes to cover the most important environmental aspects of the company's business. The environmental accounts cover the wholly-owned paper mills which formed part of the company at 17 November 2005. Norske Skog became the sole owner of PanAsia Paper Company from 18 November, but these mills are not included in the enviromentalt accounts for 2005.

Data for the environmental accounts have been collected from the mills in accordance with established reporting routines. These consist of monthly standardised reporting of the most relevant environmental data, as well as supplementary information collected annually – again in accordance with standardised routines. The monthly reporting includes production volumes, consumption of raw materials, use of energy, emissions and waste handling. Figures from the reports are compared and compiled by the corporate environment department into standardised monthly reports for the corporate management and quarterly reports to the board.

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. In keeping with Norske Skog's efforts to ensure open communication on environmental issues, the company wants the report to be reliable and quality-assured.

As a result, the environmental report has been reviewed for the past 10 years by Deloitte. Norske Skog takes the view that such a review increases the report's credibility. It also provides greater assurance within the company that the data in the report are based on information which has been collected and collated on a systematic basis, and that the necessary documentation is available.

Mill figures

Production	tonnes	Bruck 378 000	Follum 326 000	Golbey 589 000	Parenco 419 000	Saugbrugs 536 000	Skogn 540 000	Steti 116 000
Use of energy								
Electric power	MWh/tonne	1.18	2.92	1.70	1.49	2.62	2.56	1.49
	GWh	446	951	1 003	626	1 402	1 380	173
Thermal energy	GJ/tonne	4.84	6.30	5.02	5.40	4.96	5.70	4.77
	TJ	1 830	2 053	2 957	2 262	2 659	3 077	555
Discharge to water								
Water consumption	m^3/tonne	11.86	17.25	9.40	11.15	17.37	13.60	27.93
	1000 m^3	4 485	5 621	5 538	4 671	9 311	7 342	3 251
Organic material (COD)	kg/tonne	2.6	13.6	1.8	2.3	7.1	3.7	n.r.
	tonnes	995	4 429	1 060	980	3 800	1 998	n.r.
Suspended solids (SS)	kg/tonne	0.2	1.2	0.1	0.1	0.5	0.7	n.r.
	tonnes	83	381	65	43	241	378	n.r.
Phosphorous (tot-P)	g/tonne	4.2	5.3	10.0	15.6	9.1	15.6	n.r.
	tonnes	1.6	1.7	5.9	6.5	4.9	8.4	n.r.
Air emissions								
Carbon dioxide (fossil)	kg/tonne	598	7	60	475	22	5	0
	tonnes	226 176	2 317	35 287	198 847	11 701	2 764	0
Waste								
Waste to landfill	kg/tonne	0	11	6	2	13	21	4
	tonnes	0	3 627	3 240	842	7 183	11 500	441
Environmental management systems								
Type*		ISO	ISO/EMAS	ISO	ISO/EMAS	ISO	ISO	ISO

Production	tonnes	Union 254 000	Walsum 401 000	Albury 262 000	Boyer 290 000	Tasman 378 000	BioBio 119 000	Pisa 172 000
Use of energy								
Electric power	MWh/tonne	3.00	1.92	2.13	2.20	3.22	2.30	3.16
	GWh	761	770	558	636	1 218	273	543
Thermal energy	GJ/tonne	5.11	5.96	6.55	7.77	8.50	4.40	8.60
	TJ	1 296	2 392	1 715	2 252	3 216	523	1 477
Discharge to water								
Water consumption	m^3/tonne	15.27	13.17	9.37	44.50	58.32	37.40	23.70
	1000 m^3	3 872	5 285	2 453	12 895	22 069	4 448	4 071
Organic material (COD)	kg/tonne	10.3	3.3	3.7	56.2	9.1	23.9	4.0
	tonnes	2 609	1 304	966	16 286	3 436	2 843	687
Suspended solids (SS)	kg/tonne	1.7	0.2	0.1	3.8	2.9	1.3	0.1
	tonnes	421	81	34	1 101	1 108	155	12
Phosphorous (tot-P)	g/tonne	28.4	7.3	5.4	28.0	n.r.	58.0	8.0
	tonnes	7.2	2.9	1.4	8.1	n.r	6.9	1.4
Air emissions								
Carbon dioxide (fossil)	kg/tonne	41	59	313	846	28	110	0
	tonnes	10 270	23 716	81 949	245 158	10 429	13 084	0
Waste								
Waste to landfill	kg/tonne	10	0,0	14	153	32	14	4
	tonnes	2 503	4	3 631	44 250	12 287	1 665	756
Environmental management systems								
Type*		ISO	ISO/EMAS	ISO	ISO	ISO	ISO	ISO

* ISO = ISO 14001, EMAS = EU Eco management and audit scheme

Rock music's A team was on stage worldwide during July 2005 in a bid to pressure political leaders ahead of the G8 meeting at Gleneagles in the UK. This concert was staged in Barrie, Canada, to help raise awareness of African poverty.

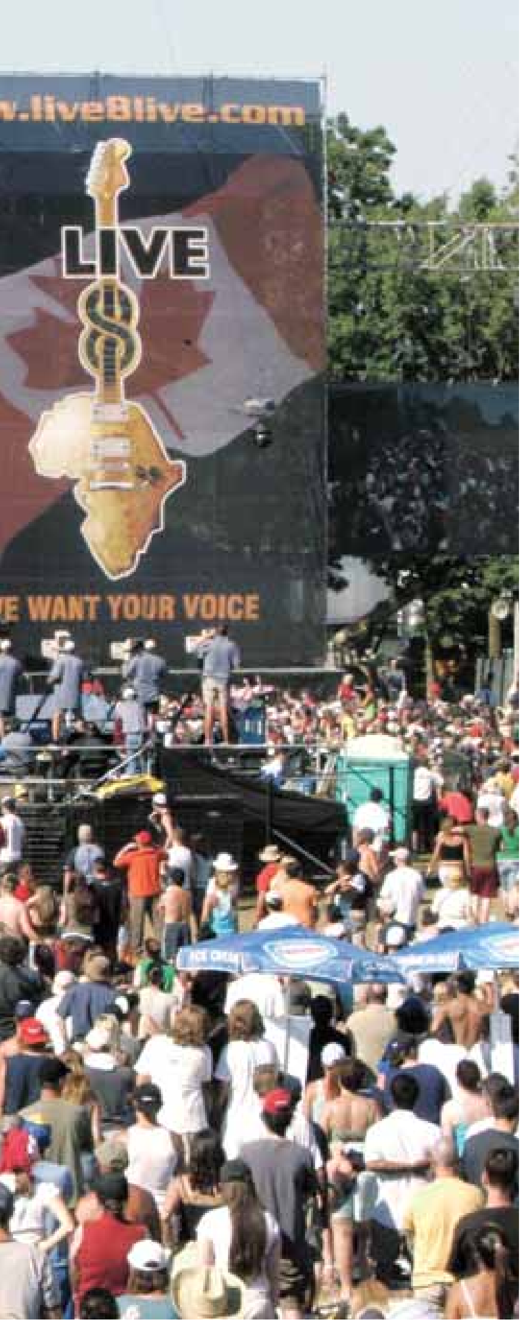
LIVE 8

Two decades after the legendary Live Aid concerts, Bob Geldof organised performances in 10 cities across four continents – starting in Tokyo in the east and ending in North America. The aim was to influence the G8 countries to tackle poverty in Africa.

05 Main stories of 2005
20 years since Live Aid

Bob Geldof is well aware that media attention can help to put pressure on the world's political leaders. He claimed to have chosen the most popular performers in the G8 countries for the Live 8 concerts precisely to attract the biggest coverage and thereby exert the maximum influence on the politicians. After Live Aid in 1985, which aimed to raise money for famine victims in Ethiopia, Geldof was dubbed "St Bob" by the media. His halo was hardly smaller after Live 8.

NEWS IS BEST ON PAPER



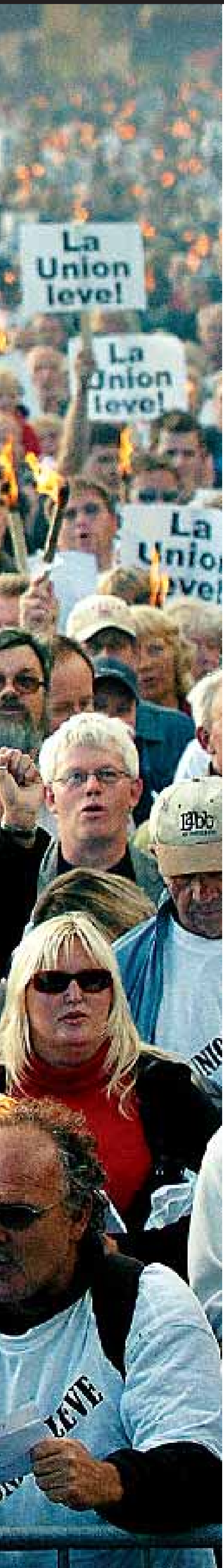
Irish rocker and Live 8 organiser, Bob Geldof (centre) with Kenyan Nobel Peace Prize winner Wangari Maathai and U2 singer Bono, who holds petitions and e-mails from people fighting to make poverty history.

Paul McCartney was one of the attractions at the Live 8 concert in London's Hyde Park on 2 July.

Mariah Carey and an African chorister at the Live 8 concert in London's Hyde Park on 2 July.

Neil Young on stage with a line-up of performers at the Live 8 concert in Barrie, Canada, on 2 July.


La
Union
leve!



Profitability and social responsibility

Norske Skog is not a company which turns off the lights and runs away from our social responsibility if a company must be wound up. Doubts are often expressed over whether such responsibility has been shown when unpopular decisions such as downsizing or closure of a business have to be taken.

Union controversy. **The announcement of plans to close Norske Skog Union sparked reactions on a scale seldom seen in Norway. These peaked on 25 August when an estimated 10 000 people turned up in Skien to demonstrate their support for the 380 mill workers. The rally provided a massive and moving manifestation of the position of this facility in its local community.** (Photo: Inge Fjelddalen/-Telemarksavisa)

n These questions are appropriate. However, social responsibility must be related to the importance of the decision for the company's profitability and sustainable development, and to the way it behaves towards its employees and the local community.

At no time since our creation in 1962 have we sought to evade our social responsibility. We have always given weight to an open and good relationship with workers and communities.

Popularity is no measure of social responsibility. When the final balance is struck, however, it will be important for both the employees and the company that a positive climate of cooperation continues to prevail alongside a good understanding of the measures taken. That is not always so easy to achieve.

If profitability, improved competitiveness and protection of the great majority of jobs demands unpopular action, this represents an important contribution to the community. Sweeping such decisions under the carpet is not socially responsible.

We are a global company. That requires management to view our corporate social responsibility from an international perspective.

Incorporating our social responsibility in all our activities means striking a balance between environmental, social and financial interests. This involves cooperation on improving the quality of life for employees, the local environment and the community, accepting international labour rights and ensuring that workers are not exploited.

Although great progress has been made in this area, we are not complacent. Much work remains to be done on introducing the policies and guidelines which will govern our activities. But we will reach our target.

New opportunities for

A major effort is being made to generate new life and jobs at Klosterøya in Skien south of Oslo, where Norske Skog Union has produced paper since its creation in 1873.

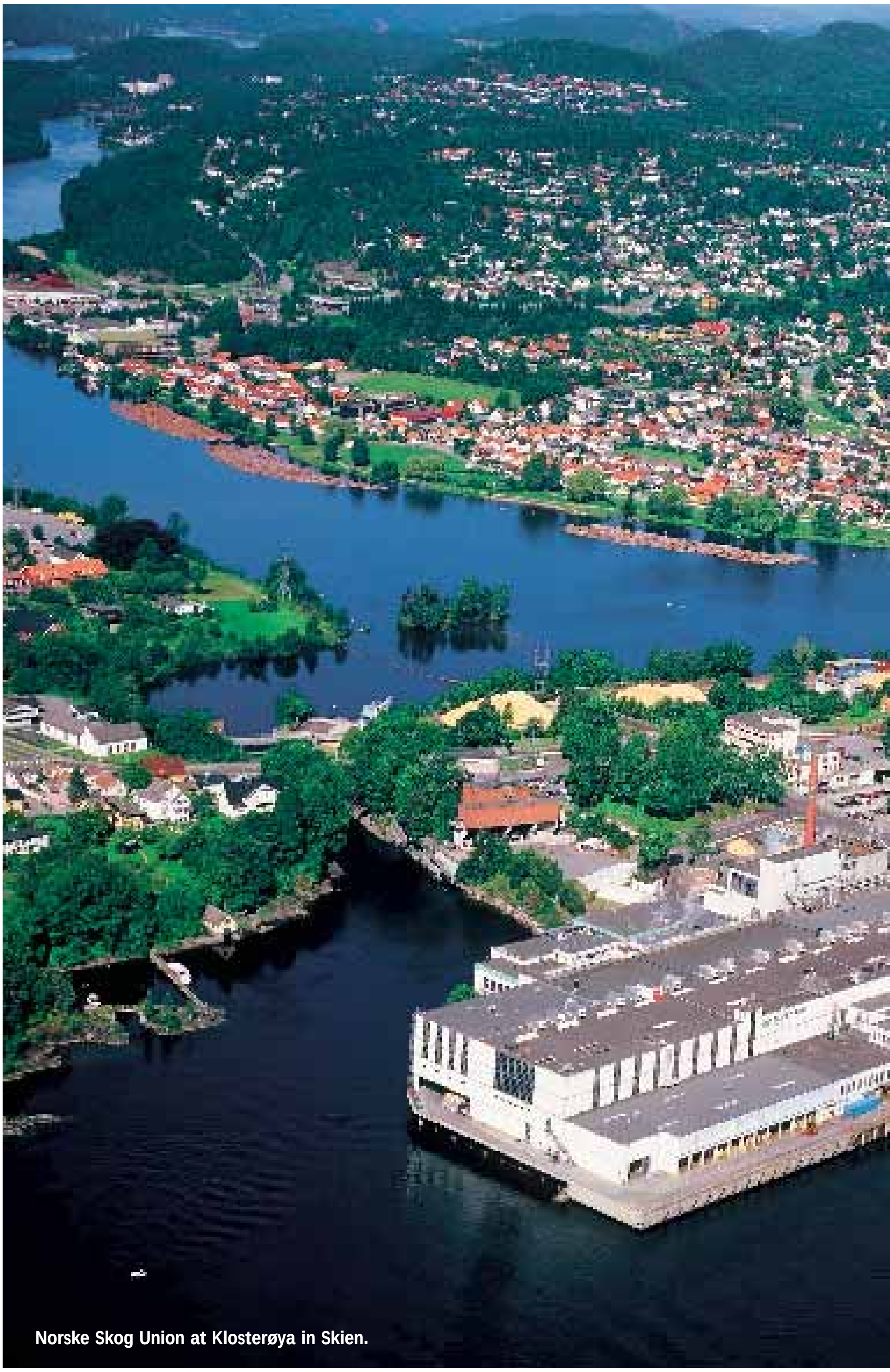
n Norske Skog called for brainstorming on future use of the land, and proposals have poured in from our own ranks and from outsiders.

A management committee was established in October with representatives from the county council, the local authority, our company and union officials at Norske Skog Union. Innovation Norge and the Econ analysis company are also involved in the group, which is chaired by chief financial officer Christian Rynning-Tønnesen.

Norske Skog is cooperating closely with the local authorities in order to ensure that a restructuring will also contribute to positive and forward-looking urban development in Skien.

The management committee's job is to come up with proposals for continued commercial activity at Klosterøya, and thereby create new jobs. Opportunities for opening up the site to the local population will also be studied.

Shutting down Norske Skog Union liberates an area of about 14 hectares, with 80 000 square metres of industrial buildings, offices and a guest villa.



Norske Skog Union at Klosterøya in Skien.

Union mill site

New jobs for Union workers

Some 220 of Norske Skog Union's employees had already found work by the time this report went to press.

In cooperation with the unions, Norske Skog has developed an extensive package of measures to help the workers affected by the closure of this facility.

Costing about NOK 190 million, this programme's main aim has been to protect personnel financially in a transitional period and do as much as possible to help them find other jobs quickly.

Immediately after the final closure decision was taken by the corporate assembly, Norske Skog's management and unions had reached agreement on a prepared and wide-ranging package with the following main elements:

- focus on providing financial security for employees in a transitional period
- providing the maximum assistance with finding new jobs
- facilitating continued employment at other Norske Skog units
- giving every employee aged 55 or above a specific offer of a relevant job at another unit in Norway
- offering continued work on the mill site to employees aged 60 or above
- giving every apprentice the opportunity to complete their training
- severance payment
- special measures for older employees and those with special needs
- a supplementary pension in addition to early retirement.

Securing other jobs for employees is being pursued in close contact with the Norwegian employment service and a highly-experienced private consultancy. Norske Skog has polled other companies in the area on their labour requirements.

All apprentices will be able to complete their training, either at the mill or with other local employers. Norske Skog has paid NOK 100-140 000 per apprentice to companies who have taken them on.

A new beginning for

Employees in Norske Skog Tasman in Kawerau, New Zeland view 31 July 2006 as a significant date. After 50 years of production, the original PM1 on which the mill was founded, will cease operation.

n The closure is part of the Australasian Upgrades Project, which has seen a major upgrade of Tasman's PM3 in 2005, the scheduled upgrade of PM2 in mid 2006, and the forthcoming upgrade of the PM1 at Norske Skog Albury. Productivity from the two Norske Skog Tasman machines will increase by 50 000 tonnes although overall site production will drop from approximately 370 000 to 317 000 tonnes. This will be partially offset by the upgrade at Norske Skog Albury, where annual production will increase by more than 20 per cent.When Norske Skog announced the Australasian Upgrade Project in mid-2004 it seemed a long way off.

However this lead time has proved essential to plan the associated capital upgrades. Equally important though has been the objective of working constructively and openly with the many employees affected by the decision.

An extensive consultation project has been led by the HR team in a constructive relationship with the union and employee representatives. As you might expect when a site is faced with de-manning of this magnitude there were challenges, but these were resolved through a constructive resolution process. Redundancy agreements and processes with protocols covering retraining, and out placement support services have been developed.

What seemed a significant challenge to reduce the workforce by some 130 employees, has almost been achieved through voluntary application. For many who have spent a working career in the industry early retirement was a lifestyle choice; for others a chance to pursue new career paths or business ventures became a possibility.

A Resource centre was set up in June 2005, and qualified professionals brought in to offer advice and information.

Resource centre coordinator Robyn Hahipene said: "The centre has been well utilised and been recognised by the external providers as a best practice process. Services provided to employees include CV-writing, interview techniques, financial planning, business development, job outplacements and appropriate training to help with further job opportunities."

Jim Marjoribanks, an engineering compliance coordinator with 44 years of service, commented: "It has given me an opportunity to retire earlier than planned. The company has been totally supportive in providing information and assistance to make an informed decision and plan for the future."

Senior site delegate for the Pulp and Paper Workers Union, Tane Phillips, said: "The process has worked well because of the level of communication with the company prior to the project starting. The Resource centre was a very useful tool and put a lot of people's minds at rest in making the right decision."

So, when the final jumbo rolls off PM1 and the isolation switchgear is pulled, although there will be a final sense of nostalgia at the site, for many employees it will be the start of a new journey.

Engineering compliance coordinator Jim Marjoribanks is now looking forward to early retirement from Norske Skog Tasman after 44 years of service.

Norske Skog Tasman, New Zealand

Norske Skog Tasman

Louis R Fernandez (left) and Richardo Labrin with the

Sickness absence stays low

Our figures for health and safety are among the best in the industry, and it is particularly gratifying that all the mills are contributing to these results. Absences caused by sickness or injuries hit a record low in 2004. We kept sickness absence to a low level in 2005, and achieved a further reduction in personal injuries with or without lost time. This marks another step in the right direction.

n Our lost-time injury factor was stable at a low level of 1.2 per million working hours, but the goal is to cut such incidents to zero and to achieve a further reduction in injuries without lost time. The main goal for risk management is to carry out good analyses in order to control risk.

"We secured a positive starting point for further improvements in 2005," says Jens Borge, vice president for corporate health and safety (H&S). "Stable good results over time are the basis for our zero vision."

One of the most important measures underpinning the good results is the planning and execution of H&S leadership training. South America and part of Australasia completed this programme in 2004-05.

More use of safe job analyses and a further strengthening of the focus on H&S audits have been and will remain key activities in coming years, after a new standard for these has been adopted.

Norske Skog Albury received the president's H&S award in 2005, with Norske Skog Pisa as a worthy competitor. Norske Skog Boyer maintained its grip by delivering good and stable results after being named as Norske Skog's H&S mill in 2003.

Norske Skog Tasman in New Zealand won the national H&S prize for its work on involving employees in this work. Nor was this an arbitrary choice, since the mill completed 1 057 days without lost-time injuries at 31 December. But our in-house record is held by recycling company Norske Skog Reparco with 1 095 days (three years) injury-free up to 31 December.

At the same time, we have a number of departments with injury-free periods of 10-15 years and will focus just as much in the time to come on experience transfer in-house as from external sources. Our mills are large and technically complex, but nevertheless share many similarities which we could become even better at reaping in-house synergies from.

Most of our mills delivered zero lost-time injuries over the past 12 months, fewer total recordable injuries and lower sickness absence than before. The trend is positive, and we are closer to meeting our targets than before.

At the same time, we know that this is when work on achieving stable good results begins, and will consider a renewal of existing tools to adapt them to current and future challenges. Audits will continue to be part of our everyday activity. Laurels are not the best stuffing for mattresses.

A number of the mills are now H&S-certified, and we support both OSHAS 18001 and NSCA. Norske Skog Walsum is just one of several mills which have worked well over the past year to meet all the requirements for certification. Others are due to follow in 2006.

Our mills are working to reduce the risks of working on and around machines. The machine guarding project is an example of how we can work globally with the same challenges and find good collective solutions. Australasia is already at work on phase 2 of this important project, which gives us the opportunity to control risk in a better way than before.

A number of new measures in the Take Care 24 Hours programme yielded good results in the form of better health, reduced absence and further strengthening of a good working environment.

For the first time, a two-week global meeting for all H&S officers was held in 2005, with network building, experience transfer, training and mill visits on the agenda.

The new web version of our global Synergi H&S management tool was rolled out on schedule, and is now available at all the mills in the local language.

2006:
We will be highlighting in-house improvement areas in 2006 on the basis of local best practice, getting even better at training and continued audits. Other planned activities

firetruck at Norske Skog Bio Bio.

include further development of networking, more work on occupational health challenges such as legionella, and further integration with PanAsia.

We have local departments with no serious incidents or lost-time work injuries for 10-15 years. Looking within our own mills in order to analyse why some sections are so much better than others – in other words, using local best practice – is just as important as looking out over the mill fence.

Our new interactive Mintra H&S induction training programme was ready for global roll-out in January 2006.

This and the H&S leadership training programme are both important solutions for developing improved understanding of our basic principles, and provide a general education within each participant's own area of responsibility.

Norske Skog corporate health and safety policy

Our vision: A safe environment and healthy people. This can only be achieved if the entire organisation is committed to working together in the spirit of our core values and beliefs.

Our beliefs: Everyone has the right to a healthy and safe working environment. We believe health and safety is a 24 hour responsibility. We will encourage the same attitude and behaviour when people are at work, home or leisure.

We will advocate similar health and safety values with our suppliers, in joint ventures and partially owned companies.

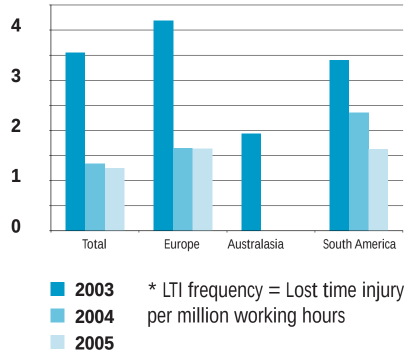
Inclusive workplace

All Norske Skog's mills in Norway and the head office participate in the national collaboration over an inclusive workplace (IA), which aims to reduce sickness absence and the use of disability benefit. This agreement also facilitates better use of the resources represented by older workers. Overall, it seeks to create more inclusion for the individual employee, the workplace and society as a whole.

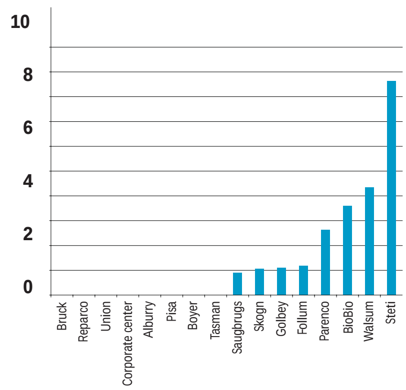
Experience with the scheme is very good. Sickness absence was reduced by more than 20 per cent during the first year. Average sickness absence for the Norwegian mills in 2005 was 5.26 per cent.

LTI frequency by* per continent 2003-2005

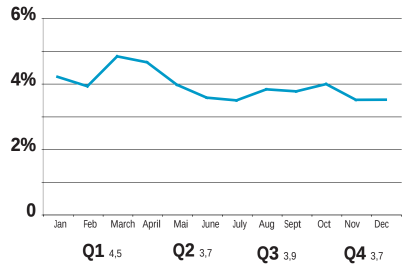
LTI frequency in Australasia in 2004 and 2005 = 0



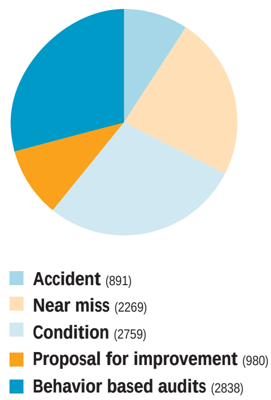
LTI frequency by mill in 2005



Sickness absence 2005



Reported cases in 2005



Continuous development is essential for success

A permanent commitment to training and personal development is needed if Norske Skog is to assume a leading role in the international paper industry. This will ensure that the company always has the most competent employees in the business.

Norske Skog's Spirit programme creates commitment, as

■ The Spirit of Norske Skog was updated in 2004 in connection with the revision of the company's vision, goal and strategies. This development programme defines the very foundation of Norske Skog: its core values, vision, goal, strategies and leadership principles. The message is communicated to and discussed by employees in groups throughout the global organisation. This has two purposes – to build commitment to and appreciation of the company's vision, values, goal and strategies, and to establish a shared understanding of the leadership principles, and how to act according to them. The Spirit programme also serves as an introduction to Norske Skog for new recruits at the various units.

Leadership development programmes

A high priority is given to leadership development by Norske Skog, which has established a global solution in this area. The Lens (Leadership in Norske Skog) programme is tailored for the company's operations and the challenges facing its managers.

Implemented at regional level, this programme makes it possible for participants to build international networks. The target group is middle managers. A total of 174 executives completed the programme in 2002-05, with a further 85 scheduled to participate in 2006.

For younger and/or potential management candidates, Norske Skog has developed a module-based programme on basic leadership which is pursued in each unit. These modules take a practical approach and provide an introduction to leadership in Norske Skog. The focus is on expectations for a manager, topics relating to health and safety, communication, roles and responsibilities of managers, and how to develop subordinates, plan and improve efficiency.

A global development programme primarily designed for top management has been developed in cooperation with the IMD business school in Switzerland. Called Executing Global Strategy, this course is due to have been taken by 130 managers from every region and functional area during 2005-06.

Papermaking

The Papermaking programme has been developed by the PIL School of the Federation of Norwegian Process Industries in cooperation with representatives from Norske Skog's mills. It provides a six-month basic education in mathematics, chemistry and physics plus a main one-year course based on textbooks and interactive exercises. Including both homework and exams, this programme provides further education for experienced paper machine operators and young engineers. It has been approved by the Norwegian educational authorities, and meets the official requirements for students continuing to technical college.

Well established in Norway, the programme is now also established at the Australasian mills. It has also been translated to Dutch, Czech and French, and work is under way on introducing it to the mills in South America.

Norske Skog Academy

The Norske Skog Academy was again conducted as planned during 2005. Its target group is experienced engineers working on process development and investment who need to refresh and update their skills in different aspects of papermaking. Based on teleconferences and net meetings supported by textbooks, the Academy's sessions are led by experienced paper engineers and important international suppliers to the

represented by Marit Trodal from the group's human resources department.

paper industry. Projectwork is done between sessions, and the latter end with a written exam. More than 200 engineers from all the company's mills have so far participated in the programme.

Training at Norske Skog Follum

Weak demand for newsprint prompted a shut down of PM2 at Norske Skog Follum during the second half of 2005. This decision affected almost 100 employees directly or indirectly. The company chose to exploit this position to implement a massive educational programme rather than lay off a large number of workers for several months. Developed in cooperation with union representatives and the PIL School, the training covered a number of skills within the company's core competence and will ensure that Norske Skog Follum is better equipped to meet the future. Some workers at Norske Skog Union were also able to participate in the programme in order to be as well qualified as possible for seeking new jobs after the mill closure in the winter of 2006.

Experience from this scheme has been very good, and employees showed great flexibility and ability to shift from practical work to the classroom.

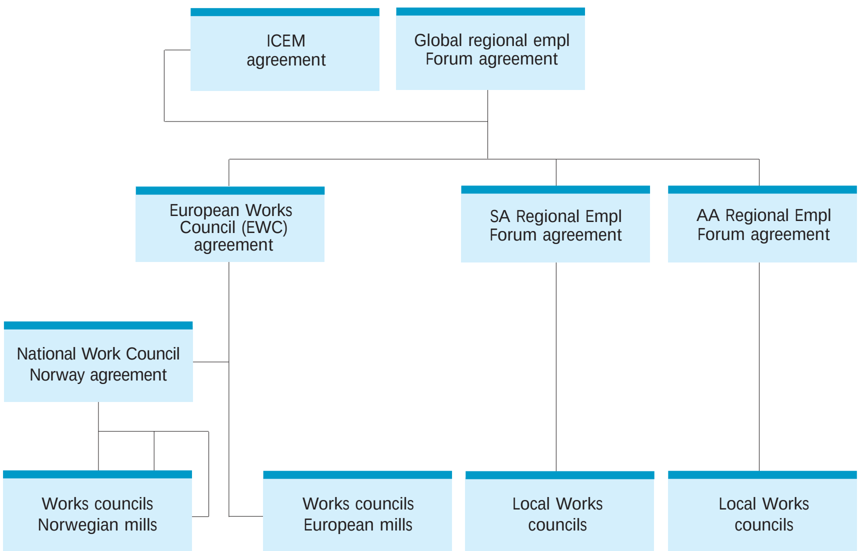
« The Spirit programme defines the very foundation of Norske Skog »

The Global Employee Forum assembled at corporate headquarters for the first time.

Cooperation with employees

Norske Skog has developed a policy for cooperation with union representatives on the basis of its core values of honesty, openness and cooperation.

AGREEMENT STRUCTURE



(This chart is based on the company's agreement structure, and not the ranking of the individual body or agreement.)

- The company concluded an agreement in 2002 with the International Federation of Chemical, Energy, Mine and General Workers (ICEM), which sets minimum global standards for employment, health and safety, and human rights. This was the first deal of its kind in the pulp and paper industry, and has since been extended for another two years. Formal agreements on exchange of information and consultation have also been established with union officials at all levels in the organisation.

- In late 2004, the company reached agreement on a Global Employee Forum (GEF) with union officials from all the mills. The first meeting of this body was held in connection with the Core management conference in August 2005.
- Agreements have been reached on works councils for Australasia, South America and Europe.
- Systems have established at all the mills to provide a structured and open process on cooperation, information and consultation, based on local agreements and legislation.
- Norske Skog has also reached agreement on a national Norwegian works council with all the local unions, covering information and cooperation on issues of common interest relating to the company's activities and businesses in Norway.

Equal opportunities

Active efforts are made by Norske Skog to recruit more women both to the company in general and to senior posts. Several important developments in 2005 provide evidence of this commitment:

- two additional women were elected to the board, and female proportion of shareholder-elected directors is now 50 per cent
- Norske Skog nominated women to Norway's Female Future programme for the third year in a row
- At 31 December, women accounted for 38 per cent of head office personnel (or 93 out of 248 staff). Of these, 30 held senior posts
- Norske Skog Skogn and Norske Skog Saugbrugs recruited a number of women apprentices. This has been made possible by long-term collaboration with the local school authorities to promote the company and the opportunities it offers to female employees.

Global company

Norske Skog is a global company with employees in 25 countries on five continents. All these personnel enjoy the same opportunities and rights, as specified not least in the global agreement between the company and Norway's United Federation of Trade Unions and the International Federation of Chemical, Energy, Mine and General Workers (ICEM).

Different countries and cultures pose varying requirements where equal opportunities are concerned.

Equality of opportunity

Since Norsk Skog has traditionally belonged to a male-dominated industry, its workforce includes far more men than women. The same also holds true of senior management.

Most employees have their pay set and regulated through a combination of centrally-negotiated and local special agreements, which are all gender-neutral. Pay is determined on the basis of a job's responsibility and its holder's actual competence.

Norske Skog wants to be an attractive place to work for both genders, and accordingly offers a broad range of continuing and further education opportunities. When nominating employees for management development courses, the company seeks a good gender balance.

All the mills in Norway and the corporate administration have concluded inclusive workplace (IA) agreements.

Recruitment

Traditionally, few women have applied for jobs in the pulp and paper industry. Norske Skog regards this as a challenge, and works actively to ensure that it is also an attractive place for women to work.

Recruitment efforts embrace a broad range of measures, from mill visits to taking on apprentices and support for completing higher education. The company also works actively with the Norwegian school system to encourage interest in science and to establish chemical technician courses at colleges of further education.

A fine example of collaboration with schools can be reported by Norske Skog Follum, as one of the initiators of the TeknoBuss Ringerike project. Backed by non-traditional modes of teaching and educational experiments, this mobile unit is intended to inspire girls and boys in local primary and secondary schools to study technology and science. During 2005, 600-700 pupils aged 11 and 15 have spent a technology day on the bus.

Norske Skog Saugbrugs is serving as a "demonstration company" in 2004-06. This mill has long been noted for its systematic efforts to improve the quality of training for its apprentices. It has also worked actively to attract young people to and motivate them for skilled trades which have faced recruitment difficulties. Norske Skog Saugbrugs aims to contribute its experience and support to the development of continuing and further education.

Female future

The Confederation of Norwegian Business and Industry (NHO) launched Female Future in 2003 with the aim of helping its members to increase the number of women in senior management and on their boards. Norske Skog was the first company to sign up to this programme. It has fulfilled the intentions of the agreement, not only appointing more women to senior posts but also increasing the number of female directors by two in 2005. Women now account for 50 per cent of shareholder-elected directors. Twenty-five female employees from Norske Skog participated in the programme, which ended in 2005.

Action planned for 2006

Norske Skog will pursue the following measures during the year:

1. Enhance and implement leadership development programmes which qualify men and women for management posts in the company
2. Work consciously to recruit more women
3. Work actively and systematically to strengthen the recruitment base for the pulp and paper industry, covering every level from primary/secondary school to university.

Did you know that:

«Young people who read a daily paper several times a week perform best. That applies not only to reading, but also to mathematics, science and other subjects which require knowledge of problem solving.»

Newspaper Assosiation of America Foundation (NAAF)

Legionella alert

Following the discovery of cases of the deadly Legionnaires' disease in Norway during 2005, new routines were adopted at Norske Skog's mills worldwide.

n Several days passed after the legionella outbreak before the source was located. The authorities eventually determined that it had arisen in a scrubber plant at Borregaard Industries in Sarpsborg, not far from Norske Skog Saugbrugs in Halden. This was the first time the deadly strain of legionella had occurred in a plant of this kind. Ten of the 51 people infected during the outbreak died.

This development has prompted Norske Skog to reassess its attitude to legionella. Although the company has never suffered an outbreak of the disease at any of its mills, it is now aware of the risk.

"Before this happened, we concentrated mainly on the cooling towers," explains Jens Borge, corporate vice president for health and safety. "The authorities did the same. We're now thinking more broadly and preventively. Legionella project teams have been established at each mill to review routines and take samples, which are sent to independent laboratories. Legionella bacteria exist naturally in the environment around us, and so can't be completely eliminated."

These bacteria come in two variants. One is harmless, but the presence of the other in large numbers can cause Legionnaires' disease in smokers or people with deficient immune systems.

Astrid Broch-Due, environmental manager at Norske Skog Follum, with a legionella sample. No bacteria were found in 15 samples.

Good to talk

n Psychotherapist Hemma Bernhauser is a new element in the working day for both employees and managers at Norske Skog Bruck in Austria. She serves as problem solver, pursues preventive measures and acts as an adviser to management.

She describes herself as an adviser in personal development or a communications trainer. It all started with the Improvement 2003 programme, when many employees were worried about redundancy or uncertain of their role in the new company organisation. Although the improvement programme is now history, Berhauser's contract has been extended to 10 hours per week.

Both employees and management can see results from her work. Long-term thinking and the right organisation of people are important when developing a culture. Having an external sparring partner who can help to analyse problems and contribute to solutions is often beneficial.

"Personal problems can reduce concentration, which can in turn affect your own safety and that of others," says Bernhauser, who has shifted her focus from reactive to preventive work. "Some people don't get on with their colleagues or superiors, while others have domestic problems. You can easily end up dealing alone with your personal worries."

Hemma Bernhauser is a qualified psychotherapist, but likes to call herself a problem solver for management and employees at Norske Skog Bruck.

Taking the temperature of Norske Skog

Norske Skog will annually perform comprehensive employee surveys, giving employees the opportunity to bring forward their views on different issues regarding their job situation.

At the end of 2005, a pilot study was implemented at corporate headquarters, Norske Skog Parenco, Norske Skog Follum and at Norske Skog Research & Development.
The best conclusion drawn from the survey so far is this one: ‘People are proud of working at Norske Skog. That’s something we are very pleased with,’ says Svein Halmrast HR manager at corporate headquarters.

Based on the results of the survey the individual managers will work with their staff to set up prioritised action plans to improve conditions indicated in the employees’ responses.

The aim is to record the temperature, so to say, at all our mills and units once every year in order to focus on continuous improvement.

24 questions

By answering 24 questions, our employees may provide ideas and opinions on the following four subject areas regarding their work situation: Job satisfaction, identity and focus, health and safety as well as leadership and competence. The answers are given anonymously, either electronically or on paper. Anonymity is guaranteed through an external consulting company.

Some answers

The reply percentage so far is impressive, with 88 per cent from corporate and 68 per cent at Parenco taking part in the survey. According to HR manager corporate, Svein Halmrast, we can already discern some trends.

‘The replies show that we are working very well in some areas, but that we – as in all companies – have some potential for improvement in some sectors. To cite an example, we have succeeded very well in communicating our vision, values, goals and strategies, which

are central issues in the Identity and focus area. Parenco recorded an excellent score in Health and safety. However, we must work more systematically on employee dialogs and individual development plans. There are also areas within leadership and job satisfaction that need attention.

EMPLOYEE FIGURES

Mill - unit	No employees (incl apprentices)	No employees		No females in executive mgmt	Type of employment			Per cent of employees covered by trade unions and collective bargaining	Average hours training/year/-employee
		Male	Female		Full-time	Part-time	Temps		
Albury	266	245	21	0	231	3	32	71	53
Boyer	401	375	26	0	360	3	38	72	71
Tasman	547	492	55	2	500	0	47	77	
Sydney (regional staffs)	63	42	21	2	64	0	3	0	40
Bio Bio	246	228	18	0	235	11	14	72	76
Pisa incl. regional staffs	347	322	25	2	345	2	0	100	28
Bruck	517	475	42	0	497	20	33	100	39
Follum	540	479	61	3	533	7	32	94	17
Golbey	461	401	60	0	449	8	2	100	42
Parenco	483	465	18	2	469	14	0	100	28
Saugbrugs	682	629	53	0	673	9	33	91	22
Skogn	530	507	23	1	509	12	9	75	60
Steti	218	161	57	1	218	0	0	39	18
Union	415	358	57	3	397	18	50	94	10
Walsum	620	585	35	0	577	10	33	75	8
Sales offices Europe+US	123	65	58	0	112	7	4		10
Forestia	260	228	32	3	249	11	14	80	
Antwerp	40	20	20	2	40				10
Corporate	248	155	93	30	234	3	11	15	10
PanAsia									
Korea - JJ	906	886	20	0	906	0	0	0	50
Korea - CW	205	187	18	0	205	0	0	0	97
Korea - Seoul Office	76	62	14	0	76	0	0	0	90
China - SNP	456	389	67	0	284	172	0	0	35
China Sales - SH	12	8	4	0	12	0	0	0	38
China Sales - BJ	10	7	3	0	7	0	3	0	27
China - HNLC	353	316	37	0	331	0	22	0	11
Thailand - Singburi	274	205	69	0	272	0	2	94	40
Thailand - BK Office	27	8	19	4	26	0	1	0	40
Singapore - NSPA	39	18	21	1	39	0	0	0	15
Korea OSG Group	7	6	1		7				
Totals	**9372**	**8324**	**1048**	**56**	**8857**	**310**	**383**		

Newspapers for 18 million Brazilian pupils

Norske Skog has signed a three-year cooperation agreement with Brazil's National Association of Newspapers (ANJ) to introduce the News and Education project. This collaboration aims to reach 18 million schoolchildren throughout the South American country.

n The goal of the project is to stimulate, support and coordinate Young Reader activities run by the ANJ's member publications. About six million pupils in 17 000 schools with 130 000 teachers took part in such measures during 2005.

This initiative forms part of our collaboration with the World Association of Newspapers (WAN), which has so far seen its international Newspapers in Education (NIE) programme established in more than 60 countries, including Brazil.

We joined forces at the beginning of 2005 with the local newspaper *Gazeta do Povo* to launch the "Ler e Pensar" (Read and Think) project in Jaguariaíva, the home of Norske Skog Pisa. Based on the ANJ model, this venture had reached 21 schools with more than 5 550 pupils and 143 teachers.

Read and think with newspapers

Local newspaper *Gazeta do Povo* in Jaguariaíva, the town in Parana state which hosts Norske Skog Pisa, has been backed by this mill in developing the Read and Think educational project.

More than 5 000 pupils at the town's 21 private and public schools have taken part in this scheme, which utilises news stories in the paper to relate the curriculum to issues affecting Brazilian society. Newspaper reading provides an educational tool and a means of developing social involvement.

The project also provides participating teachers with a chance to update their professional skills free of charge. As a result of our collaboration with *Gazeta do Povo* in Read and Think, the schools have noted a marked improvement in reading skills and comprehension as well as in writing. Truancy has also declined and pupils are showing more interest in reading.

Unesco has expressed its support for the project, and we have extended our involvement by a further two years.

Young readers are hooked for life

Newspapers such as the *Wall Street Journal* and the *Financial Times* have revised their content in order to attract young readers. *The Economist* magazine has expanded its circulation by 75 per cent over a decade and now has a million readers in 102 countries – half of them below the age of 30.

"*The Guardian* in the UK has converted to a tabloid format," notes James Abbott, vice president of the Newspaper Association of America Foundation. "That would have been unthinkable a few years ago, but it's also had to accept that young people don't like big heavy newspapers.

"Research shows that 62 per cent of youngsters who're exposed to newspapers at school continue to read them as adults. The proportion among children who don't have newspapers in the classroom is just 38 per cent. In other words, we can choose whether to have 62 per cent readership or 38 per cent. It's as simple as that."

Abbott believes that newspapers have no choice but to make a commitment to young readers today if they are going to survive tomorrow.

Research also shows that 12- to 14-year-olds who use newspapers in the classroom score significantly (up to 29 per cent) better in standardised tests. In other words, newspapers have every reason to make a commitment to children and young people.

Brazilian schoolchildren will "read and think" with the aid of newspapers.

Did you know that:

«If you don't read a newspaper between the ages of 14 and 19, you will probably never begin to read one.»

Two independent 2005 studies, by News Corporation in the UK.

YOUNG READERS

- We initiated a five-year global collaboration in 2003 with the World Association of Newspapers (WAN), aimed at improving the reading skills of children and young people by using newspapers in education.
- The WAN is a global organisation for the newspaper industry, representing 18 000 publications, 72 national publisher organisations and chief executives in 102 countries.
- The Young Reader project has both social and commercial dimensions. Using newspapers in the classroom not only improves reading skills but also helps to enhance understanding of democracy and important social issues. At the same time, the project contributes to recruiting new generations of readers for newspaper publishers.
- Activities are being pursued in more than 60 countries, with particular emphasis on establishing Young Reader programmes in new democracies where the free press is developing positively.
- Our involvement has been very well received by our customers.
- Apart from supporting the WAN's Young Reader campaign, our role is to serve as a catalyst for the newspaper sector in exchanging experience and ideas about measures which can promote newspaper reading among children and young people.

Customer seminar on Young Readers in Amsterdam

Norske Skog Parenco and our organisation for Belgium and the Netherlands held the second Young Readers seminar for customers in Amsterdam during September.

Four specialists on this subject shared their knowledge and expertise with the audience, which comprised Belgian and Dutch marketing personnel and editors as well as buyers and decision-makers in the printing and publishing sectors.

Held in 2004, the first Young Reader seminar focused on the challenges faced in attracting youngsters to the print news media. During 2004-05, publishers and printers in Belgium and the Netherlands presented a number of examples of measures focused on such readers. These included printing newspapers specifically aimed at the young, creating separate sections or supplements for children in regular newspapers, and launching new products based on the newspaper's brand.

This year's seminar accordingly concentrated on the results of these and other measures. Sanoma Publishers, which specialises in children's magazines, also talked about what newspaper and magazine publishers can learn from each other. And the head of the Ogilvy agency in Belgium spoke on what today's children want and need.

Learning to read with newspapers

NOK 22.5 million is to be committed by Norske Skog together with the World Association of Newspapers (WAN) until 2013 from 2008 to help secure new generations of readers for the print media.

■ The Newspapers in Education (NIE) programme will retain a central place in the project. However, work to encourage young journalists and to stimulate newspapers in developing and marketing their product for a young readership will be intensified.

Today's collaboration agreement with the WAN runs out in 2007, but we have decided to extend our involvement until 2013.

"We've seen that purposeful work with young readers gives results," said former CEO Jan Oksum. "This requires a long-term commitment where you don't see results from day to day but over a period of years. As the world's largest manufacturer of newsprint, it's important for us and for our customers that new generations improve their reading skills and discover how much they get out of reading a newspaper every day. No other channel can beat a newspaper for the breadth and depth of the information it conveys, or for its ability to surprise, please and entertain. You need neither broadband nor electricity to read a newspaper. You can enjoy it wherever you are and whenever you want."

Timothy Balding, CEO of the WAN, says that the collaboration with us has raised work on young readers into a completely new division.

"We're very pleased that Norske Skog is willing to continue this collaboration beyond the agreed period. Winning new generations of readers for the print media is the most important - and simultaneously the most challenging – job facing the industry in coming years. Norske Skog's sponsorship stands out clearly from others. The company has obviously taken the Young Readers programme to its heart. Its approach to sponsoring us shows that this means more than just business."

Work with young readers covers a number of significant areas for the development of the print media, including NIE, editorial strategies, developing young journalists and marketing.

Newspapers make a popular variation in the school day.

Walsum backs school collaboration

■ A collaboration established by Norske Skog Walsum and the local further education college in 1995 allows students to acquire work experience at the paper mill.

The pupils are also offered training in how to write job applications, along with tours of the mill and an information programme.

Other items on the agenda include environmental issues and the art of making paper. In exchange, the mill's own apprentices receive extra help in preparing for the theoretical examinations in mathematics and English.

Dialogue between industry and schools has become increasingly important in Germany to prepare pupils for work and give them the chance to find interesting jobs. Norske Skog Walsum regards collaboration in this field as an important part of its social responsibility.

Young Reader events in 2005

- Antonio Dias, executive vice president for Norske Skog South America, presented the World Young Reader Prize at the world conference for young readers in Buenos Aires. This award is made annually to the newspaper which has taken the most imaginative approach to attracting young readers.

- An international reader's passport for children and young people was developed jointly by Norske Skog and the World Association of Newspapers. This document has been distributed to and used for teaching in a number of countries. Reader's passports have been developed on the same model for the soccer World Cup, fair play and readership registration over 101 days.

- We have joined forces in Norway with Newspapers in Education and Hewlett Packard on a three-year project to establish new printed school magazines. The 2005 target of 10 new publications was reached.

- We took the initiative on staging the first Asian round-table conference on young readers, which attracted participants from 10 countries to Seoul in South Korea. This event marked a successful start to building a young reader network in Asia. The conference will be held in Thailand in 2006, with our support.

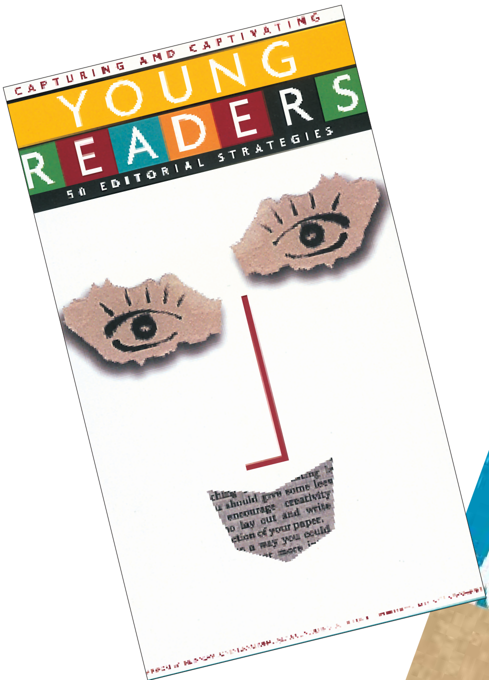
- We contributed to the publication of a book for newspaper publishers with 50 successful strategies for attracting young readers.

- We also contributed to an international survey on interaction and differences between newspapers, the internet and mobile phones as information channels. It has been popularised and is used in classroom teaching.

- Our cooperation with the World Association of Newspapers has allowed a number of projects to be launched during 2005 and 2006 in such countries as Indonesia, Thailand, Morocco, Liberia, Jordan, the UK, the Netherlands, Germany, Belgium, the Czech Republic and Italy.

- Our participation in IfraExpo was a clear mark of our commitment to young readers.

- We also took the initiative on a round-table conference in Serbia on the subject of young readers. Some 60 people attended from newspapers, the authorities and schools in the former areas of conflict in the Balkans. It was agreed to build further on the contacts forged at the meeting. Old enemies will work together in the future to exchange idea on how methods can be developed for using newspapers in education.



Norske Skog has contributed to the publication of a book for newspaper publishers on 50 successful strategies for attracting young readers.

Norske Skog, Newspapers in Education and Hewlett Packard have begun a three-year collaboration in Norway on establishing new printed school newspapers. The goal of 10 newspapers per year was reached in 2005.

The view from sales

MARLEEN OOMS,
sales and marketing manager, Norske Skog Netherlands

"We make active use of the Young Readers programme in our discussions with customers. This has become a subject which concerns publishers worldwide, including the Netherlands. We've got to do things a little differently in a mature market, so we're working on that. We organise Young Reader seminars once a year, when we also invite marketing people and editors. They share their experience and knowledge, while we build a better network. This is our way of helping customers to sell their products."

OLIVIER DERVILLE,
vice president sales, Norske Skog France

"Newspapers are constantly seeking new ways of attracting young readers, so our collaboration with the WAN is becoming simply more and more interesting for us. We're expanding the distribution of newspapers to French schools. The regional *Le Républicain Lorrain* paper is actively pursuing new ideas. It will soon be presenting a project, and is assessing opportunities for a new partnership."

DANNY SPROULL,
sales manager, Scotland and Ireland

"I'd really like to work more with Young Readers. I see many opportunities. It's a question of time and resources. Scotland has a number of projects focused on young readers. One example is the *Sunday Herald*, which prints 60 000 copies of a monthly supplement called Fresh. A further 60 000 copies are printed and distributed free to 300 schools."

Norske Skog – a family company

More than half the pupils raise their hands when asked how many of them have a father, mother or other relative working for Norske Skog. This question has been put to a randomly-selected class at Jaguariaíva in Brazil. Norske Skog's mills are the biggest employer in many local communities, which depend on the company as a professional owner with a fundamental commitment to social responsibility.

A happy Nessegutten team defended itself well on the pitch, and also met its local football heroes and the DDE group.

True sporting enjoyment

Norske Skog Skogn had the pleasure of sponsoring the largest-ever Norwegian soccer and handball tournament for the disabled. It also supports the Nessegutten FFU team.

n The national event was held in Trondheim during August with more than 70 teams in these two sports and over 1 000 players and coaches. While the joy of being able to play was undoubtedly the most important aspect, a banquet and dance also provided a highlight. Meetings with well-known players from the local Rosenborg football club and a concert by rock group DDE was also a highlight.

Games against Tromsø, Molde and Vivil carried the enthusiastic Nessegutten team to the semi-final, and a 1-0 victory over BUL. In the final, however, Snøgg proved just a little too strong. Nessegutten lost 2-1, but received a fine cup.

Non-disabled players have a tendency to mope for a long time after a defeat, but the Nessegutten team were different. They displayed true pleasure in their sport - a big commitment during all the games, enthusiastic cheering even when their opponents scored and the ability to forget a defeat immediately.

Cultural diversity – shared values

Norske Skog PanAsia is being integrated into our group, a process which began as early as November, and we are becoming better known to our new colleagues in China, Korea and Thailand.

n Our two organisations may differ in many respects, but we share a common technology for and knowledge about paper. We will now be learning from each other and continuing to develop the company on the basis of shared values.

Many Europeans think of Asia as one region, with a single "Asian" culture and cuisine. That is quite wrong. This continent covers over 30 per cent of the Earth's surface and is home to more than half the human race.

Asia is the origin of the great religions – Hinduism, Christianity, Islam, Buddhism and Confucianism. Each of these has its distinctive cultural features. So there is no "Asian" way of working, nor any single recipe for doing business with an "Asian".

Shared features

"Jordanians and Koreans have less in common than a Norwegian and a Portuguese, for instance, who at least share a common Christian cultural background," says Alain Croisetiere. "Each country is different, even if some shared features can be found."

Now head of the new HPLC mill in China's Hebei province, he previously held the same job at the Singburi facility in Thailand for many years.

China and Korea, where Confucianism is widespread, also share a number of cultural traits.

"People from the Asia place great emphasis on building up and maintaining good working relations," says Hannes Skisaker, the Singapore-based senior vice president for sales and marketing at Norske Skog PanAsia.

"So they frequently apologise even if the fault lies with the customer. Asians often feel that Europeans are less willing to ask for forgiveness."

Loss of face

Europeans sometimes miss being unable to be as direct as they usually are, and also feel that Asians are reluctant to use the word "no".

"People from the west must take care not to be tactless, and should remember the concept of 'losing face'," warns executive vice president Dag Tørvold. He headed PanAsia Paper in Korea from 2001-05, and became executive vice president for Norske Skog PanAsia in 2005.

"When raising a difficult matter, you should avoid addressing an individual directly or – even worse – accusing somebody of doing something you feel is wrong," says Tørvold. "It's much better to tell them how regrettable you find the situation. If they feel they can help you, they will."

Business relations in the Far East are based on trust.

That said, however, cultural differences are not the biggest hurdle. You can get a long way with ordinary good manners and politeness – in Asia as elsewhere.

Chitra Mosbye is grateful for the active introduction programme

The Mosebye family.

Through its presence in every part of the world, Norske Skog embraces far greater cultural diversity than most other Norwegian companies. This demands an awareness that such differences actually enrich our overall business. Drawing on the strengths in the various cultures makes us collectively stronger.

Achieving that calls for mutual respect and understanding as well as active follow-up of those employees who move to a foreign culture in connection with their work. Collaboration between the community in the Australian town of Albury and our local mill there can serve as a good example in that respect. The two sides are cooperating over a multicultural integration programme which includes practical help in meeting the many challenges, large and small, which foreign arrivals face in their everyday lives. Beneficiaries of this programme include Norwegian John Mosbye, his Indian-born wife Chitra and their two daughters. As a housewife with her husband working at the mill, Chitra initially felt very lonely. Now she cannot praise the integration programme enough.

Did you know that:

«More than 220 million newspapers are distributed to schools every year through the Newspapers in Education programme.»

World Assosiation of Newspapers (WAN)

Employees at Norske Skog Korea are devoting their free time to helping North Korean defectors adapt to life in a modern economy.

From Kim Jung Il to diversity of views

Young North Koreans who have fled to South Korea are getting help from employees at Norske Skog Korea to understand the role of newspapers in a modern free society. They meet the defectors on a voluntary basis and read the papers with these youngsters, helping them to understand how a free society functions.

n "When I first came to South Korea, I was overwhelmed by all the newspapers I saw," says 18-year-old Kim Hae Sung. "Reading them was such fun. In North Korea, 'newspaper' was the sheet of paper you bought in the market to roll cigarettes with."

South Korean newspapers, with their diversity and variety, are a great help to defectors in understanding their new homeland. Since they are not used to a free press and have been separated for 60 years, the youngsters feel that they almost speak a different language. They do not fully understand terms such as business person or sale, and South Korean also contains loan words from English as well as vocabulary not used in the north. The defectors also see that papers can criticise the head of state and may adopt completely different positions on the same issue.

Good neighbourliness a priority

Norske Skog Saugbrugs in Norway distributed its first Neighbour Report during 2005 in its home town of Halden and the immediate vicinity.

n This document supplements standard environmental reporting with a set of articles about what goes on behind the mill fence and how the company benefits the local community.

"After all, we're running a paper mill practically in the centre of town," explains mill manager Oddvar Sandvei when asked why he gives such weight to being a good neighbour.

"We've invested NOK 4.5 billion in this facility over the past 15 years. So it's in the interests both of our mill and of our neighbours to maintain good relations."

Activities at Norske Skog Saugbrugs undoubtedly attract great interest locally. It is still the town's biggest private employer. The company has to deal with no less than five resident's associations as well as many local council departments, the conservation society, the diving club, landowner societies and the hunting and angling society.

"We have a common interest in the best possible local environment, and Norske Skog Saugbrugs is a good neighbour," says Kari Strand. She chairs Damhaugen Resident's Association, which has agreed to tend the land around the mill for a fee.

The good relationship is confirmed by Halden mayor Per-Kristian Dahl: "Environmentally, Norske Skog Saugbrugs undoubtedly takes its responsibility seriously, even though we might have wished an even greater commitment to the town's development."

Erik Sandersen, communications manager at the mill, notes that the good relations result from a long and conscious process. Few neighbours had much positive to say about the mill 15 years ago. Emissions to the air and discharges to water, in particular, had caused great damage to the local environment before the mill and the authorities decided jointly to tackle the problems.

"Cleaning up the Idde Fjord has changed the whole local attitude to the mill," says Sandersen. "Today, I think most people would agree that we're an environmental company."

Damhaugen Resident's Association has undertaken to tend the land around Norske Skog Saugbrugs.

BEING A GOOD NEIGHBOUR

- Cooperation with a resident's association on tending the mill's outdoor areas
- Participation in education (Norske Skog Saugbrugs currently has 46 apprentices)
- Open days, when the mill has something new to present
- Visitor scheme, with retired employees as guides
- Own web pages with information open to locals
- Reporting service for special events, such as major shipments
- Emergency response/firefighting team supports the town's own fire brigade when required
- Sponsorship of the Comet ice hockey team (in the Premier League) and activities for children and young people through the Halden Sports Council

Joining forces to benefit Renkum

n A desire to help each other and to encourage greater involvement in the local community underlies the Marktplaats-Renkum project in the Netherlands.

Norske Skog Parenco is one of the most important participants in this scheme. Also involving the De Bries charity and local builders, it has created a perfect blend of community forces and industry. This is not primarily about financial support, but practical help and sharing available knowledge. The project wants to create a strong social network in the local community.

After just under a year, the project is already a huge success – and much of the credit belongs to Norske Skog Parenco. The introduction of a new PC platform left it with 260 outdated computers. Instead of scrapping these machines, the mill decided to donate them to MarktplaatsRenkum. After being updated and emblazoned with a Norske Skog logo, the first PCs were distributed in the summer of 2005 to a number of different institutions. These included old people's homes, leisure clubs and schools. One machine even went to the local paper museum, which is run by retired Norske Skog Parenco staff.

Open day at Golbey

n An open day was last staged at Norske Skog Golbey in France during 1993 – in other words, long before the second paper machine at the mill became operational in 1999.

So it was hardly surprising that the local community had great expectations of this event, which was held in late September.

With the focus on the environment, and water quality in particular, the open day gave the many visitors of all ages a chance to follow the whole process from raw material to paper pulp, and on through the paper machine to the storeroom and dispatch section. They could also take a stroll around the various tanks in the waste-water treatment plant.

"Our message with these open days is that we have nothing to hide," explains mill manager Eric d'Olce. "To our great pleasure, many employees volunteered to help the preparations for and execution of the event. It lasted for two days, and attracted 8000 people."

Pope John Paul II's body is borne across St Peter's Square in the Vatican for public display in St Peter's.

Two weeping women during the burial service for Pope John Paul II.

DEATH OF THE POPE

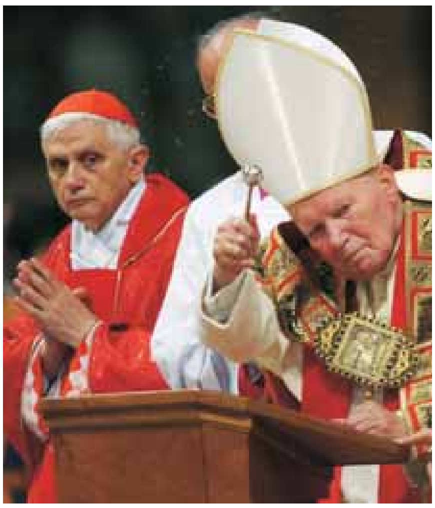
Church bells tolled in Rome on 2 April to announce the death of Pope John Paul II after 26 years as the spiritual leader of roughly 1.1 billion Catholics worldwide.

05 Main stories of 2005

Catholics mourn

The news of Pope John Paul It's death was announced to a huge crowd which had gathered in St Peter's Square to pray for him. Global attention was thereafter focused on Rome by TV broadcasts and countless newspaper stories. Interest in life's spiritual aspects rose sharply with the media's effective dissemination of the events in the Italian capital. Both the Pope's death and the enthronement of his successor were given much coverage in virtually all the world's newspapers.

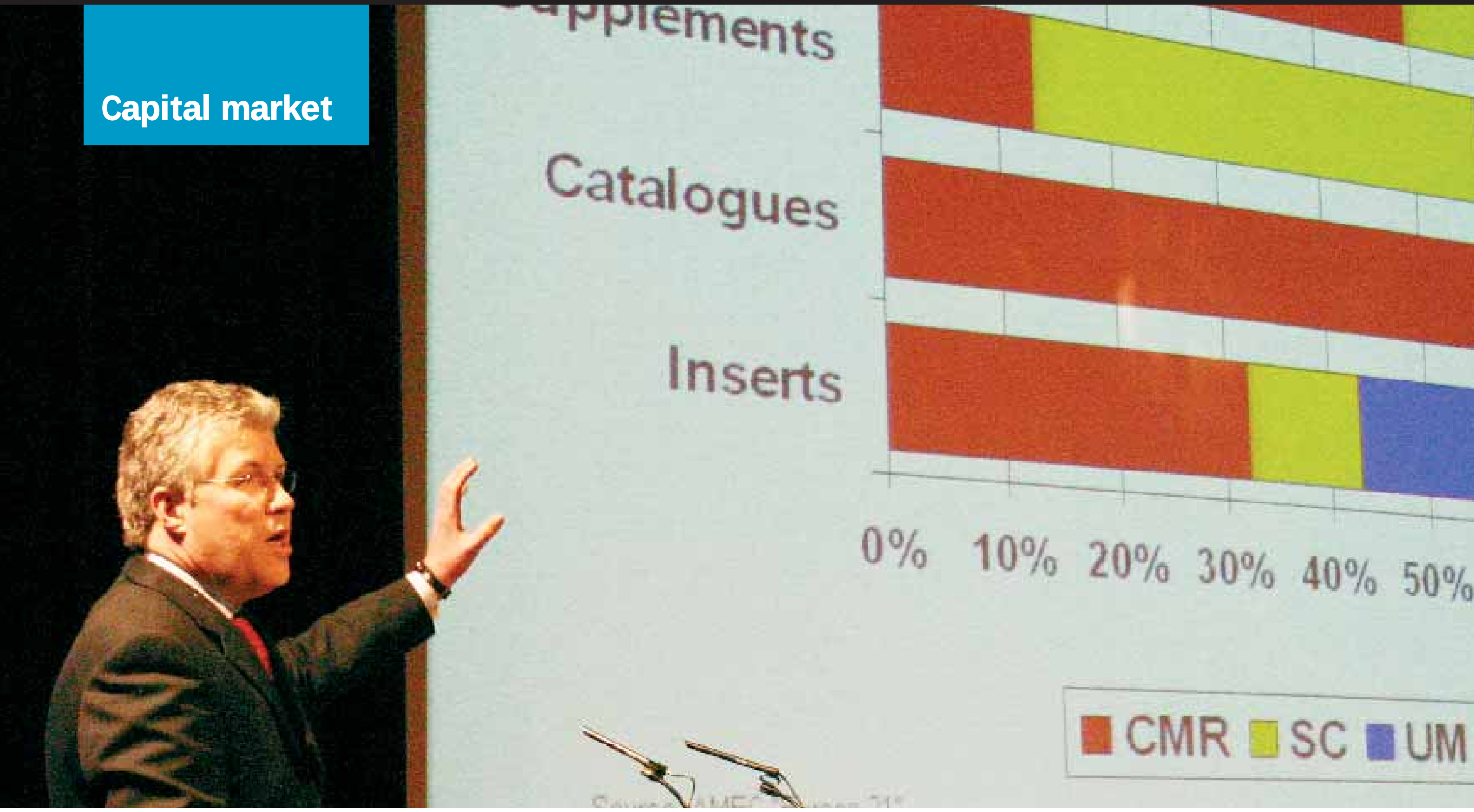
NEWS IS BEST ON PAPER



Joseph Ratzinger of German (left) was elected to succeed John Paul II.

John Paul II was one of the most popes ever, and thousands of people gathered in St Peter's Square to mourn his death.

Pope John Paul II watches a white dove being released on St Peter's Square in 2003 to honour his commitment to peace. Once an athlete, he contended for a number of years with Parkinson's Disease and arthritis. His health steadily worsened in the spring of 2005, and he was hospitalised several times before his death.



Senior vice president sales and marketing, Jan Clasen at capital markets day in Oslo 2005.

Delivering the best shareholder value in the paper industry

Norske Skog's vision is to be recognised as a world leader in the paper industry.

FINANCIAL TARGETS

Total shareholder return (TSR)	Best return in the paper industry
Dividend	Stable, and corresponding over time to 15-25% of cash flow from operations.
Return on capital employed (Roce)	11% over an economic cycle
Gross operating margin (EBITDA)	26% over an economic cycle
Rating levels	BBB from Standard & Poor's, Baa2 from Moody's
Net debt/equity (gearing)	< 0.9
Liquidity reserves (% of turnover)	20%
Average term to maturity for debt	> 5%

The capital markets play an important role in making this vision a reality. Access to risk capital has been important for Norske Skog's growth and development throughout its history, and could also be a crucial factor in the future. The ability to attract capital from investors relates closely to the company's ability to create value. Norske Skog's ambition is to deliver the best shareholder value in the paper industry. This will help to ensure that investors continue to choose the company, and that its vision will be fulfilled.

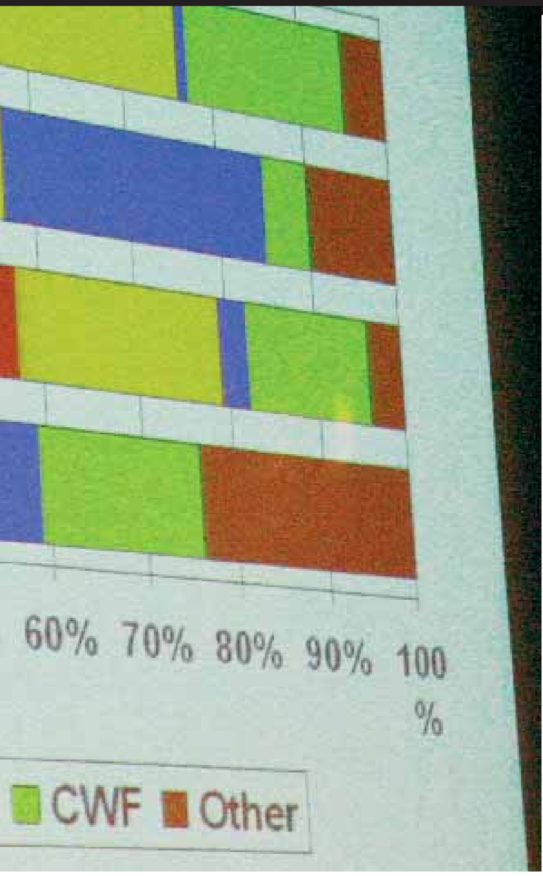
Three main strategic choices have been defined by Norske Skog for its business. It will:

- **be a low-cost producer**
- **pursue profitable growth**
- **focus on its core business**

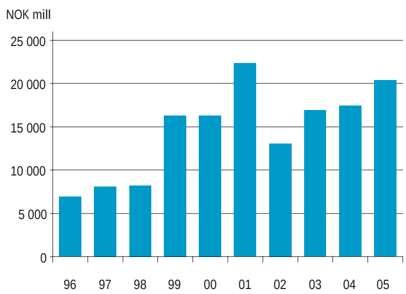
Several factors explain why the company wishes to concentrate on these strategic choices. Its products are meeting strong competition on price in the market. To be both competitive and profitable, it is essential to deliver quality products at low cost. This will be ensured by continued development of mills with good competitiveness in relation to the customers being served. Norske Skog occupies strong positions in regions which enjoy high market growth. These provide a good basis for continued profitable growth. At the same time, the company will continue to focus on its core business and to concentrate management capacity and capital in areas where the group can reap economies of scale.

Norske Skog has developed strategies for its key operating functions. In the financial area, the company's strategy is to work to ensure that its results are fully reflected by the share price and to secure efficient use of capital and financial freedom of action. This strategy is reflected in the group's financial targets.

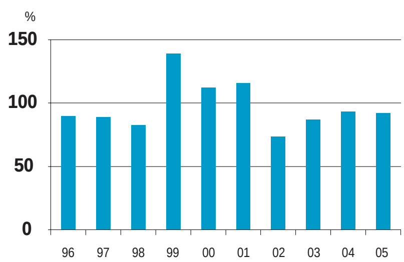
Profitable operation and a good return on capital employed are important for creating shareholder value. The target for return on



Market value Norske Skog at 31 Dec.



Market cap as % of book value



capital employed is 11 per cent over a business cycle.

Financial freedom of action means that Norske Skog will secure good access to loan financing, and that its capital structure will be tailored to cash flow.

Investor relations

Investor relations, embracing information provided to the Norwegian and international financial market, remains a high priority in Norske Skog. The aim is to increase knowledge of the company and understanding of the industry. This creates the trust needed for investors to take an interest in Norske Skog, and should contribute over time to a correct pricing of the company in the stock market.

Norske Skog's IR activities build on the company's core values of openness, honesty and cooperation. They are pursued in accordance with the following principles:

- Equal treatment
- Accessibility – quick response to enquiries
- Consistency – a periodic and planned IR programme
- Openness – honest communication and a high level of detail
- Reliability – standardised data
- Efficiency – coordinated distribution of information at the right time
- Proactive – foresee which enquiries that can come
- Caution – when commenting on prospects.

Relevance and appropriate timing are an important part of information work directed at the stock market. Norske Skog's financial calendar for the next 12 months is:

Financial calendar

- Annual general meeting and decision on dividend – 20 April
- 1st quarter 2006 – 5 May
- 2nd quarter 2006 – 4 August
- 3rd quarter 2006 – 3 November
- 4th quarter 2006 and preliminary figures for full year - 7 February, 2007

Electronic information via the internet is becoming increasingly important. The web site at www.norskeskog.com includes Norske Skog's annual and interim reports, press releases, stock exchange announcements, presentations, share-related information, general company details, contact addresses and information on corporate governance. The web site was extensively upgraded during 2005.

In addition to printed and electronic information, Norske Skog holds quarterly web-cast conferences and presentations for the Norwegian and international financial market. During 2005, it became one of the first companies in Norway to broadcast presentations both over the internet and by phone, with the opportunity to submit questions by phone and via e-mail. Norske Skog also contributed speakers to seven international conferences and seminars for investors. Roughly 200 presentations and investor meetings were held in Norway and many other countries during 2005. As before, the main emphasis was been on the UK and the USA. But there was also activity in six other European countries as well as Canada and Brazil. A well-attended Capital Market Day was staged in Oslo during February with the whole corporate management present, and an investor visit was organised in September to the newsprint mills in Hebei, China, and Jeonju in Korea. This programme, which also included a visit to a plant for sorting recovered paper in Beijing, attracted a high level of participation.

About 20 Norwegian and foreign stockbrokers follow Norske Skog and publish analyses of the company. An overview of these companies can be found on the Norske Skog web site.

Its shares have been qualified for a number of unit trusts which invest in companies with high standards for environmental protection and sustainable development.

Shareholder policy

- Norske Skog's goal is to deliver the best shareholder value among companies in the paper industry.
- Norske Skog's shares shall be liquid and based on the principle of one share – one vote.
- Dividend policy shall be competitive and responsible.
- Norske Skog's capital structure shall be tailored to its strategy and the commercial risk it faces.
- The work of the board and management will be based on the principle of equal treatment of all the company's shareholders.

Measuring relative return

A new method was introduced in 2005, with the return from Norske Skog measured in relation to nine other companies in the industry. The average share price for the quarter plus accumulated dividend since 1 January 2004 is compared with a base defined as the average share price for 2003. Measured in this way, Norske Skog had a 5.9 per cent return in Q4 2005 compared with the base, which was the fourth best return of the companies included in the comparison.

Norske Skog's relative return has been and will remain an important criterion for determining management bonuses.

Rights issue for NOK 4 billion

n Norske Skog raised some NOK 4 billion through a rights issue in the autumn of 2005 in order to finance the acquisition of the remaining 50 per cent of PanAsia Paper.

All shareholders registered at 22 September received one subscription right per existing share. Seven subscription rights conferred the right to subscribe to three new shares at a price of NOK 70 per share.

Concern for existing shareholders was crucial for Norske Skog's decision to implement the capital increase as a rights issue. This ensured that existing shareholders had a pre-emption right to participate in the issue and thereby maintain their percentage holding in the company. At the same time, shareholders who did not use all or any of their subscription rights were secured compensation against dilution either through the sale of their rights or through a payment for shares sold by the coordinators in respect of subscription rights left unused at the end of the subscription period.

In a rights issue, the underlying share value is split by separating out the subscription rights. To achieve comparability with historical share-related key figures, the latter must accordingly be corrected by an adjustment factor. This has been calculated by Oslo Stock Exchange to be 0.9048. That means, for instance, that the historical nominal share price and dividend per share prior to the issue must be multiplied by 0.9048 in order to be comparable with the post-issue share price and dividend per share.

The issue was coordinated by Deutsche Bank and Nordea.

A total of 56 808 538 new shares were issued, bringing the overall number of shares to 189 945 626.

Dividend policy

Norske Skog wishes to pay a competitive and stable dividend to its shareholders. As an average over a business cycle, the dividend should correspond to 15-25 per cent of cash flow from operations, after financial expenses and tax.

Proposed dividend for 2005

Norske Skog paid a dividend of NOK 6 per share in 2000-04. After adjusting for the rights issue in 2005, the mathematically exact figure is NOK 5.43. On the basis of the company's dividend policy, the board has proposed a dividend of NOK 5.50 per share for 2005. That corresponds to 25.7per cent of cash flow per share in 2005, and gives a return of 4.6 per cent in relation to the share price at 31 December 2005. Total dividend over the past five years corresponds to 21.4per cent of cash flow. The dividend will be paid on 3 May to those shareholders listed in the register of shares when the annual general meeting is held on 20 April 2006.

Financing and liquidity

Norske Skog operates in a cyclical and capital-intensive industry. Great weight is accordingly given to maintaining 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 spreads its financing between different banks, investor groups and markets. Such diversification is intended to reduce the group's financing risk.

Norske Skog has not guaranteed the debt of the partly-owned company Malaysian Newsprint Industries.

The diagram below shows the composition of the group's funding sources at 31 December 2005.

Amortisation profile and maturity schedule

A smooth and long-term amortisation profile is sought for the debt portfolio. This is intended to secure financial freedom of action and 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 2005, the average term to maturity was 5.8 years.

The average term was reduced slightly with the consolidation of the whole of PanAsia Paper from 18 November 2005. This is because PanAsia's debt had a relatively short-term maturity structure. Refinancing part of this loan portfolio at longer terms will be a target.

The bar chart below shows the repayment schedule for the group's debt at 31 December 2005.

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 rating-sensitive covenants.

The loans taken over with the acquisition of PanAsia Paper could contain other requirements for key financial covenants than those specified above. These requirements are then linked to the respective subsidiaries which have taken up the loan in question. When the loans are refinanced, efforts will be made to standardise their terms.

All financial conditions were satisfied at 31 December 2005, by a good margin.

Liquidity

The liquidity reserve 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 placements, the liquidity reserve consists of committed, undrawn credit facilities with a remaining tenor of more than one year.

At 31 December 2005, Norske Skog's liquidity reserve totalled NOK 6.9 billion. This consisted primarily of syndicated bank facilities totalling NOK 500 million and EUR 400 million.
Both facilities mature in 2009.

Credit rating

Norske Skog is credit-rated by Moody's and Standard and Poor's, two of the world's leading rating agencies. Their credit rating is based on an overall assessment of in-house and external factors, including management, strategy, financial position, and competitive and market conditions.

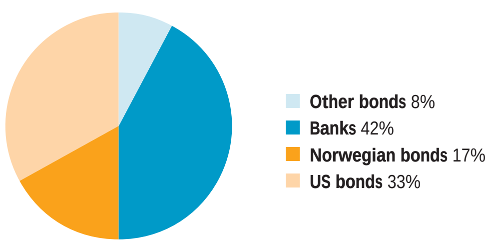
At 31 December, the long-term rating was BBB- Stable Outlook from Standard & Poor's and Baa3 Negative Outlook from Moody's. Both ratings are "investment grade". The target is to achieve Baa2 from Moody's and BBB from Standard & Poor's, which is one level higher than today's rating.

Moody's changed its rating outlook from Stable to Negative on 17 October. Moody's has stated that it will keep a close eye on Norske Skog's development with regard to bringing the company's key financial figures back to the level required for the rating category.

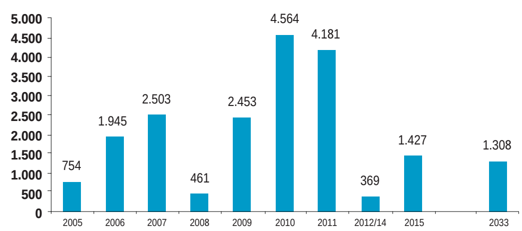
In February, 2006, they announced that they placed Norske Skog on review for a possible downgrading.

A possible downgrading by one or both of the rating agencies would not affect Norske Skog's price or other conditions for existing loans, but would have an effect on future borrowing.

Funding instruments



Repayment schedule long-term debt



Shares and share capital

The company's share capital at 31 December 2005 totalled NOK 1 899 456 260, divided between 189 945 626 shares with a nominal value of NOK 10. All the shares have equal rights in the company. The share capital was increased by NOK 568 085 380 through the rights issue in 2005.

The proportion of shares held by foreign owners totalled 56.9per cent at 31 December, compared with 38.2per cent a year earlier. This increase reflects both net purchases by foreign investors in large parts of the year and a preponderance of international investors subscribing to shares in the rights issue. Apart from employees at Norske Skog's mills outside Norway, most foreign investors are registered through custodial banks. The Capital International investment fund (including Capital Guardian) owned around 10per cent of the shares in Norske Skog at 31 December.

Norske Skog had 23 645 shareholders at that date, including 1 435 resident outside Norway.

The company owned 846 531 of its own shares at 31 December 2005 as against 819 976 at 1 January. A total of 262 700 shares were purchased in the market during the year, while 236 145 were sold to the company's own employees in connection with the annual share sale or transferred in partial settlement of bonus agreements.

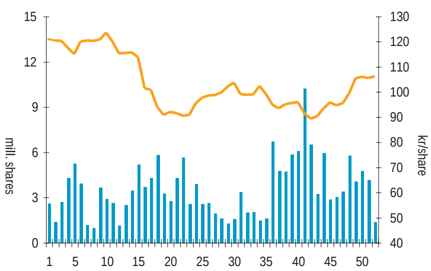
The board is authorised to buy back up to 10 per cent of the outstanding shares. This authority runs until 20 Aoril 2006, and the board will seek to have it extended further.

Share turnover

The company's shares are listed on the Oslo Stock Exchange. A total of 191.4 million Norske Skog shares were traded in 2005. Given the average number of outstanding shares (excluding those owned by the company itself), this trading volume represents a turnover ratio of 134per cent as against 119per cent in 2004. 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 heavily-traded shares on the Oslo Stock Exchange. Its liquidity was further increased by the rights issue in the autumn of 2005.

Norske Skog was listed on the Oslo Stock Exchange at 9 January 1976. In this 30-year perspective, the average annual return has been around 10 per cent when dividend is included.

Weekly volume and share price 2005

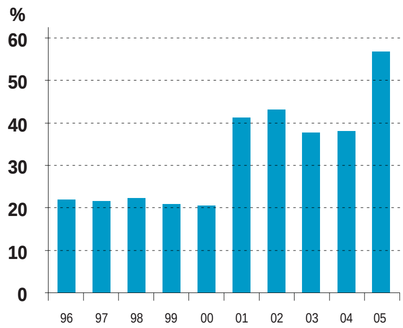


Stock market in 2005

The Oslo Stock Exchange made strong progress for the second year in a row during 2005, with its benchmark index improving by just under 40per cent. This increase again reflected high oil prices.

The Norske Skog share yielded a negative return of 7per cent during the 2005 calendar year when the value of subscription rights and dividend are included. This return was a little weaker than for most other Nordic companies in the paper industry, but much better than for the North American companies.

Ownership by non-Norwegians



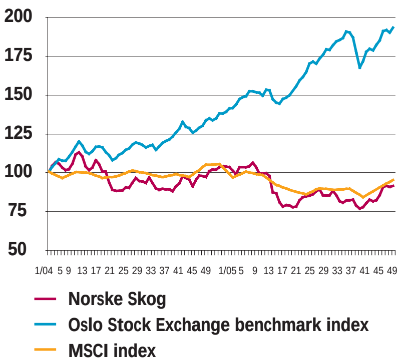
SHARE PRICES

Share price information*

	NOK/share
Price 30 Dec 05	107.25
Price 30 Dec 04	118.53
Average price 2005	102.95
Average price 2004	113.10
Highest price 2005 (3 Mar)	124.86
Lowest price 2005 (19 Oct)	86.50
Highest price last 5 years (11 Mar 02)	158.79
Lowest price last 5 years (2 Oct 02)	74.69

* Historical prices are adjusted for the value of subscription rights in connection with the rights issue in 2005. The adjustment factor is 0.9048.

Norske Skog share price, Oslo Stock Exchange benchmark index and MSCI World F&P index 2004-2005



Share saving and incentive schemes

Norske Skog ranks as one of Norway's most international companies. This is significant for the way it rewards its management, and performance-related remuneration schemes have accordingly been adopted on a large scale with the use of shares as part of the compensation package. In addition, the company has a good share saving scheme.

SPECIFICATION OF OUTSTANDING OPTIONS

Exercise period	Number of options	Original strike price (NOK)	Adjusted strike price(NOK)*
1 Jul-31 Dec 06	300 000	134.50	121.50
1 Jul-31 Dec 07	330 000	117.00	106.00
	30 000	134.50	121.50
1 Jul-31 Dec 08	330 000		95.00

* In connection with the rights issue in 2005, the strike price for options awarded earlier was adjusted by a factor of 0.9048 to maintain the financial potential of the scheme.

Share saving

Through the annual share sales, the whole organisation gets its attention focused on the owners' role in Norske Skog and also acquires an understanding of the stock market.

Shares are sold at a discount on the market price. This arrangement was introduced for group employees in Norway during 1996. Norske Skog was a pioneer in offering an international share saving programme, which now embraces personnel at all units world-wide owned more than 80per cent by the company. The mills in Asia are not included in the scheme at present. The ceiling for share purchases by any individual is three-fifths of the Norwegian national insurance base amount (G). Shareholder-elected directors and members of the corporate assembly are also included in the programme. The shares sold are taken from Norske Skog's own holding.

A total of 1 172 employees bought 219 085 shares in the sale which took place in the winter of 2005, at a price of NOK 102 per share after the discount. Given that the workforce had been reduced since the previous sale, the proportion taking part was almost unchanged.

Performance-related remuneration

A performance-related remuneration 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 which must be met 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.

Long-term incentive programme

The board resolved in December 2002 to introduce an incentive programme in the form of synthetic options for the corporate management team. This programme ran for three years from 2003 to 2005. The final allocation of options took place in October 2005, when the chief executive received 60 000 options and each member of the corporate management team was allocated 30 000. A total of 990 000 synthetic options had been awarded under the programme at 31 December 2005. The chief executive had received 180 000 options, while nine other members of the corporate management had been awarded 90 000 each.

As mentioned above, the options are synthetic. 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 about six years from the date of an award before a possible 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.

Risk management

Strategic and operational risk

A good approach to understanding and controlling risk is important for the ability to create shareholder value in markets characterised by competition and uncertainty. Systematic efforts have been made in Norske Skog over a number of years to define its overall risk tolerance. Risk management is a continuous process which affects most operational functions and represents an important consideration when taking strategic decisions. The ability and willingness to accept risk can be a strong driver in creating new business opportunities. But the risk must be budgeted, quantified and managed efficiently.

Risk management in Norske Skog will focus on strategic and operational risks as well as the opportunities and results these create. Particular attention will be focused on the following three areas:

- **internal organisational conditions such as resources, assets, people, culture and systems**
- **the market, which embraces customers, products, technology, logistics and alternative competitors**
- **the operational setting, involving factors such as economic growth, political conditions, social and demographic changes and financial frame conditions.**

Financial risk

By virtue of its global operations, Norske Skog faces a complex picture for financial risk. This includes country/regional, currency and interest rate risks. Increased exposure to emerging markets makes managing financial risk all the more important. As a rule, financial markets and banking systems are less well developed in these countries, and the previous economic cycles they have suffered have had major effects – not least on interest rates and foreign exchange.

After further acquisitions in Asia, Norske Skog's exposure to this part of the world will expand. Exports not only provide the most important basis for the high level of economic growth in the region, but also represent a risk factor in relation to future development. The region is also heavily exposed to the US dollar.

Currency risk
A substantial proportion of Norske Skog's earnings and assets are in currencies other than the Norwegian krone. Its relative exposure to the krone has been reduced over time, with just over 20per cent per cent of today's production capacity located in Norway compared with more than 50per cent five years ago. However, exposure to the krone remains a risk factor for the company.

Assets and liabilities in foreign currencies provide translation differences which can affect the group's equity and key financial figures such as gearing (net interest-bearing debt divided by equity). To reduce this risk, the currency composition of Norske Skog's liabilities largely reflects that of its assets.

Norske Skog is exposed to currency fluctuations when cash flow in foreign currencies is translated to Norwegian kroner. The company currently hedges 50-100per cent of expected net cash flow in other currencies for the next 12 months.

Interest rate risk
Norske Skog is exposed to developments in the international interest rate market. Its liabilities are largely held in currencies in which it has net investment and a positive cash flow. Combined with the fact that a large proportion of the group's loan portfolio has floating interest rates, this approach has been successful from a risk management perspective and also yields lower financial expenses than one based on fixed interest rates. The strategy rests on recognised economic principles. Interest rates will normally be lower during a recession and higher in a boom. Operating as it does in a cyclical industry, Norske Skog has historically had an earnings picture which shows a corresponding development – in other words, low interest rates obtain during a recession when earnings are also smaller. Looking ahead, however, it is by no means certain that this pattern will be repeated. Industry-specific problems or circumstances in which interest rates are high because of rapid inflation rather than strong economic growth could mean that an approach based on floating interest rates will be less effective as a hedging strategy. Norske Skog will monitor these conditions and take them into account in its approach to hedging.

Energy
The strategy for global price hedging of energy is determined at group level. Hedging is greater in those regions where prices fluctuate the most. That applies to countries with a hydropower-based energy system, such as Norway and New Zealand. Norske Skog has established a rolling hedging strategy with an associated hedging mandate for power purchases three years into the future. However, the unhedged part of energy consumption must not exceed the limits set by the board.

Existing long-term contracts cover most of Norske Skog's total electricity consumption by its Norwegian mills up to 2020. The price level is relatively stable, and favourable from an international perspective. Norske Skog has covered 70per cent of energy requirements for 2006 at its European mills, and 30per cent of 2007 needs. Electricity requirements for the next few years in South America and Australasia are covered by short-term (two-three years) and long-term contracts.

The risk mandate is monitored through detailed routines for internal control and reporting relating to the limits for contract hedging and position-taking in the energy market, and the use of hedging instruments.

Substantial accounting effects could follow in the short term from the introduction of IFRS owing to the increase or decrease in the value of long-term contracts in Norway and New Zealand. Over time, these contracts will nevertheless help to even out results.

Insurance
Norske Skog currently has a sound system for operating and maintaining its insurance policies and associated activities. Insurance surveys are carried out annually at all the wholly-owned mills. The conclusion is that all these facilities currently maintain high operational and maintenance standards. At the same time, active use is being made of survey findings to achieve a further strengthening of loss prevention efforts. Improvements achieved during 2005 are documented in the Green Light Evaluation Matrix, a tool which ensures a systematic assessment and follow-up of the risk picture at the mills. This work has also resulted in a very satisfactory picture for insurance claims, without losses of any significance.

Following the acquisition of the whole of PanAsia, this business will be integrated in the group's central insurance programme. Insurance surveys are to be conducted at all the Asian facilities, and the results presented through the use of the green light evaluation matrix.

Norske Skog continued to develop its centrally-managed insurance programmes during 2005. The group has opted to insure a significant part of its exposure in NSI Insurance A/S, its wholly-owned insurance captive. Established in 2001, this company is making very satisfactory progress. The long-term strategy for Norske Skog is to strike an optimum balance between in-house and external risk financing.

Principal shareholders at 31 December 2006

(>0.2% ownership)	Number of shares	%
Viken Skog BA, Hønefoss	15 597 825	8,21
Folketrygdfondet, Oslo	5 986 855	3,15
AT Skog BA, Skien	5 729 024	3,02
Allskog BA, Trondheim	5 261 414	2,77
Odin-fondene, Oslo	4 263 170	2,24
Mjøsen Skog BA, Lillehammer	4 087 332	2,15
Vital Forsikring, Bergen	2 837 440	1,49
Skagen-fondene, Stavanger	2 809 200	1,48
Rederiaktieselskapet Henneseid, Skien	2 134 203	1,12
Glommen Skog BA, Elverum	2 034 215	1,07
A/S Havlide, Skien	1 879 248	0,99
DnB Investor, Oslo	1 313 451	0,69
A/S Herdebred, Skien	1 144 885	0,60
Nordea-fondene, Oslo	1 141 059	0,60
Avanse-fondene, Oslo	955 631	0,50
Skiens Aktiemølle AS, Skien	992 575	0,52
Norske Skogindustrier ASA	846 531	0,45
Havass Skog BA, Ørje	837 653	0,44
Vifor AS	800 379	0,42
Norges Skogeierforbund	768 541	0,40
Storebrand livsforsikring, Oslo	544 071	0,29
Aure Holding	489 999	0,26
Norsk Hydros Pensjonsfond	437 159	0,23
Skogtiltaksfondet	383 406	0,20
Other Norwegians, with <0.2% holding	81 837 353	43,08
Foreign holding [1]	108 108 273	56,92
Total no of shares	189 945 626	100,00

[1] The majority of these shareholders are registered under custodial banks (nominees).

Key figures related to shares

		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Nominal value (NOK/share)		10	10	10	10	10	20	20	20	20	20
Average number of shares ex. shares held in treasury (1000)		142 878	132 430	132 415	132 194	120 604	102 159	92 829	89 773	84 991	77 537
Average number of shares after full conversion excluding shares held in treasury (1000)		142 878	132 430	132 415	132 194	120 604	102 159	92 829	89 773	84 991	91 986
Net earnings per share after tax (NOK)	1	-5,98	4,95	3,04	8,79	20,68	19,17	14,01	11,36	6,94	16,99
Net earnings per share after full conversion (NOK)	1	-5,98	4,95	3,04	8,79	20,68	19,17	14,01	11,36	6,94	15,10
Cash flow per share after tax (NOK)	2	21,42	22,04	22,45	27,89	11,00	48,18	23,29	31,85	19,00	33,74
Cash-flow per skare after full conversion (NOK)	2	21,42	22,04	22,45	27,89	11,00	48,18	23,29	31,85	19,00	29,22
Dividend per share (NOK)		5,50	6,00	6,00	6,00	6,00	6,00	5,50	4,25	3,50	3,50
Price/earnings ratio	3	-17,93	26,5	41,8	11,1	8,2	7,9	12,1	7,9	12,5	5,1
Price/cash flow ratio	4	5,01	5,9	5,7	3,5	15,3	3,1	7,3	2,8	4,6	3,0
Payout ratio (%)		-92,0	121,2	197,4	68,3	29,0	26,9	33,6	31,9	42,7	19,5
Number of shares 31.12. (1,000)	A share	189 946	133 137	133 137	133 137	133 137	67 972	57 592	57 592	57 592	53 114
	B share	-	-	-	-	-	25 172	25 172	18 832	18 832	12 168
	Total	189 946	133 137	133 137	133 137	133 137	93 144	82 764	76 424	76 424	65 282
Share prices high (A)		124,86	146,50	139,00	175,50	168,50	172,10	172,51	110,81	120,15	86,86
Share prices low (A)		86,50	110,00	86,50	82,50	115,00	90,11	82,80	66,97	77,12	70,83
Share prices 31.12.	A share	107,25	131,00	127,00	98,00	168,00	150,59	169,67	90,11	86,86	86,46
	B share	-	-	-	-	-	146,00	168,50	95,50	100,00	97,25
Trading volume (Oslo Stock Exchange)	1000 shares	186 297	157 839	119 400	107 649	116 458	54 118	46 424	47 650	61 000	51 200
Number of shareholders 31.12.	A share	23 646	23 851	23 212	21 083	22 587	19 431	17 900	18 002	17 466	17 456
	B share					-	14 915	14 693	13 746	13 796	14 271
	Total	23 646	23 851	23 212	21 083	22 587	21 779	19 884	18753	18 075	18 070
Number of foreign shareholders 31.12.	A share	1 355	1 271	1 222	1 210	1 092	546	483	203	186	154
	B share		-	-	-	-	133	110	88	97	92
	Total	1 355	1 271	1 222	1 210	1 092	589	518	222	208	177
Foreign shareholding 31.12.	A share	56,9 %	38,2 %	37,6 %	43,1 %	41,3 %	25,1 %	27,6 %	27,6 %	26,0 %	23,6 %
	B share		-	-	-	-	8,3 %	5,6 %	6,0 %	8,3 %	15,2 %
	Total	56,9 %	38,2 %	37,6 %	43,1 %	41,3 %	20,5 %	20,9 %	22,3 %	21,6 %	22,0 %
Market value (NOK mill.)		20 372	17 441	16 908	13 047	22 367	16 284	16 278	8 191	8 100	6 900

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

ja) 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 turn of the year 1994/95. The A and B share classes were merged in May, 2001.

Iraqis protests over the election result in Baghdad on 27 December. At least 5 000 demonstrators gathered to express their dissatisfaction with alleged election fraud. They demanded a re-run of the ballot as top politicians negotiated over government posts.

Sunni Muslims celebrate the election in the northern town of Mosul on 17 December.

ELECTION IN IRAQ

The first democratic election for a regular parliament in Iraq for several decades was held on 15 December. The country could celebrate the outcome of the poll a few days later.

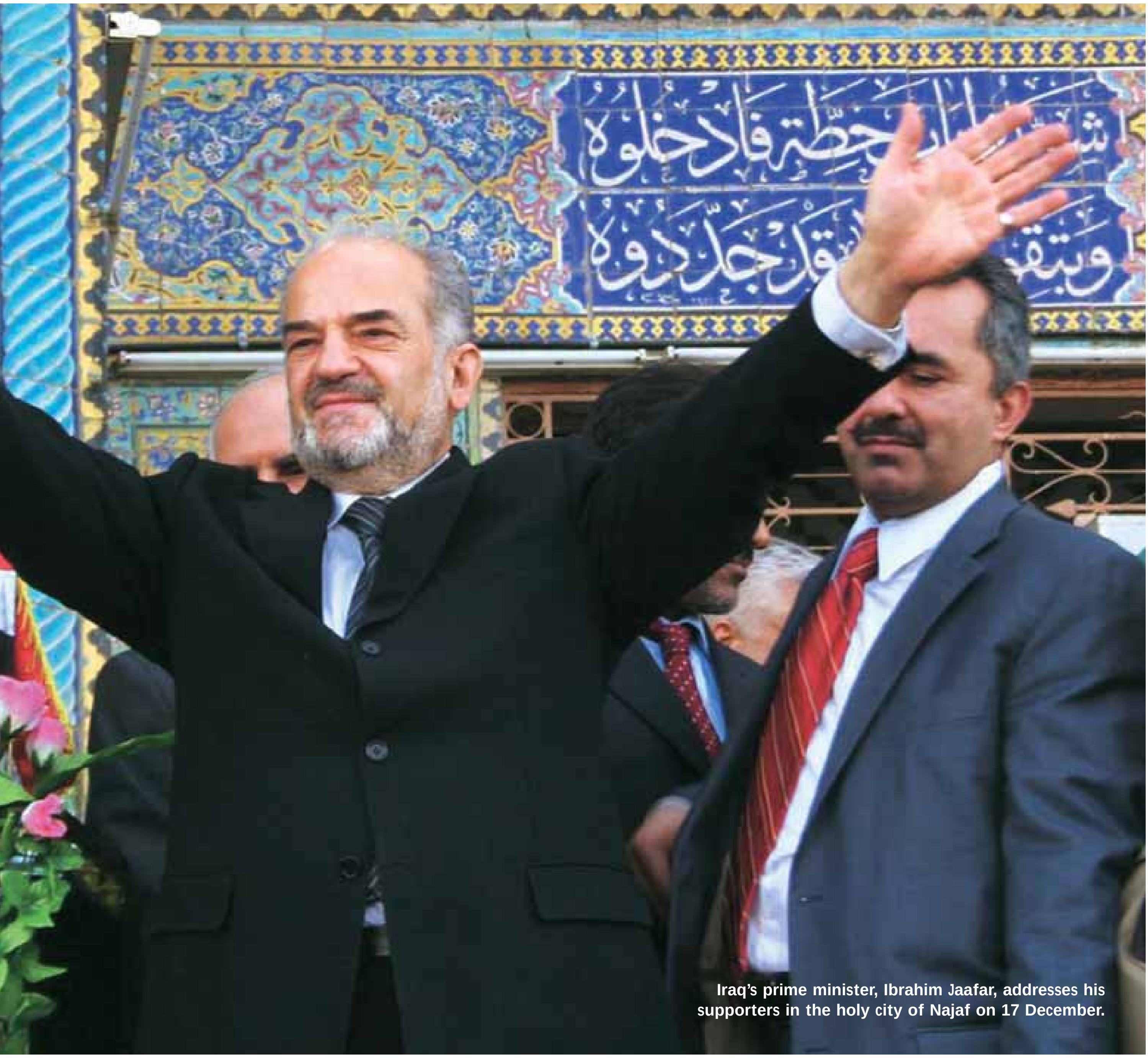
05 Main stories of 2005
Democratic elections

The international press has followed developments in Iraq with eagle eye. Newspapers unquestionable contribute to increased participation in society. The right to say and write whatever you want and to transmit news is crucial for all democracies. Elected representatives, free elections, the right to run for office, freedom of speech, access to alternative sources of information and the right to organise are fundamental. The new government is the first to be elected democratically for more than 50 years.
NEWS IS BEST ON PAPER

Iraqi soldiers guarding ballot boxes on the way to the main count the day after polling in Baghdad.

An Iraqi women votes at a polling station in Beirut, capital of Lebanon, on 15 December.

Iraqi election workers get ready to count ballot papers in Iraq on 15 December. Many people took advantage of their right to vote.



Iraq's prime minister, Ibrahim Jaafar, addresses his supporters in the holy city of Najaf on 17 December.

Norske Skog's AGM in 2005.

How Norske Skog is organised

Ethical commercial behaviour, stakeholder confidence in the company and long-term value creation depend on good corporate governance and a clear division of roles and responsibilities between the general meeting, the corporate assembly, the board of directors and the chief executive.

Close to 60 per cent of the share capital was present at the 2005 AGM.

Corporate governance

Corporate governance is regulated by:
- Norske Skog's articles of association (see page 96)
- the Norwegian Act on Public Limited Liability Companies of 13 June 1997 no 45
- the rules of procedure for the board of directors of Norske Skog
- instructions and authorities given to the chief executive
- the mandate for the audit committee
- the mandate for the compensation committee
- the Norwegian code of practice for corporate governance (see http://www.oslobors.no/ob/cg)
- Norske Skog's guidelines for ethical business behaviour (www.norskeskog.com)
- Norske Skog's core values: openness, honesty and cooperation

The company's business

Norske Skog is a supplier of newsprint and magazine paper, with mills and sales offices in five continents. Its object is to pursue pulp and paper operations and any activities connected with these. The company can also participate in other commercial activity by subscribing to shares or in other ways.

The board of directors has an overarching responsibility for determining the company's goals and strategy, and accordingly assesses its overall vision, values, goals and strategies at regular intervals - normally every 3-5 years. In the interim, the focus is on updating strategic plans, implementation and meeting goals.

A revised strategy document was adopted by the board in 2004. See pages 16-17.

Share capital, shares, transferability

Norske Skog's equity capital is tailored to its goals, strategies and risk profile. The board revised the company's dividend policy in 2004. See page 80.

The annual general meeting (AGM) in 2005 authorised the purchase of the company's own shares up to a value of NOK 133 137 000, subject to a maximum of 10 per cent of the outstanding shares. The company holds its own shares in order to sell them to emplyees or for partial settlement of bonus schemes. This authority was given for the period until the next AGM.

Norske Skog has only one share class, and each share carries one vote. This promotes equal treatment of all shareholders. (The company's articles of association previously specified that any transfer of shares had to be reported to and approved by the board of directors, but this article was deleted by the general meeting on 14 April 2005.)

General meeting

The company's supreme body is the general meeting, which is chaired by the chair of the corporate assembly. Its responsibilities include choosing the shareholder-elected members of the corporate assembly and their alternates, adopting the annual accounts and directors' report, allocating the net result for the year and declaring the dividend on the basis of the proposal from the board and the recommendation of the corporate assembly. The general meeting also chooses three members of the company's election committee.

The annual general meeting (AGM) must be held no more than six months from the end of each fiscal year (31 December). Notice of the meeting must be issued at least two weeks before it is due to take place.

An extraordinary general meeting can be called by the board, the corporate assembly or the chair of the assembly. The board is duty bound to call an extraordinary meeting if this is requested in writing by shareholders repre-

Election committee 2005:

- **Ivar Korsbakken**
(chair, corporate assembly)
CEO, Norwegian Forest Owners' Association
- **Idar Kreutzer**
CEO, Storebrand ASA
- **Helge Evju**
chair, Viken Skog
- **Gunn Wærsted**
CEO, SpareBank 1 group

Evju and Wærsted are not members of the company's corporate assembly or board. Neither the chief executive nor other members of the corporate management are members of the committee. The election committee provides satisfactory representation of the various shareholder interests.

senting at least one-twentieth of the share capital.

Efforts are made to facilitate the largest possible attendance at the general meeting, and 55.95 per cent of the share capital was represented at the 2005 AGM in person or by proxy – a slight increase from 2004.

Proxies which specify how they should be exercised are permitted at the general meeting. The directors, the election committee and the company's external auditor will attend the AGM.

All shareholders are entitled to put motions to the general meeting, providing these are submitted in writing to the board no later than one month before the general meeting is held. Matters not specified in the notice for the meeting can only be introduced with the consent of all the shareholders represented at the general meeting.

Contact with shareholders between general meetings is delegated to the company's management, and is based on the principle of equal treatment. The management seeks to have an active dialogue with the investor market.

Election committee

Norske Skog's articles of association provide for an election committee which is intended to promote recruitment to the company's governing bodies. It will also make recommendations on the remuneration of posts on these bodies. In addition to the chair of the corporate assembly, the committee comprises three members chosen by the general meeting for one year at a time. When matters pertaining to remuneration are under discussion, one of the employee-elected members of the corporate assembly also joins the committee.

Recommendation with reasons by the committee are given after a detailed analysis of the company's requirements and with a view to securing the broadest possible expertise, capacity and diversity.

New legal rules concerning female representation on the boards of Norwegian public limited companies were introduced in 2004. These require that both genders must have at least 40 per cent representation on governing bodies. Norske Skog satisfies the new gender quota provisions in the Public Limited Companies Act. Shareholder-elected directors are currently divided 50-50 between the genders. The election committee has borne the anticipated new rules in mind when conducting its work during recent years.

The election of employee elected directors falls outside the committee's mandate. (The gender quota regulations apply only to companies where both genders are represented with at least 20 per cent of the workforce. Norske Skog currently has fewer than 20 per cent women employees.)

Corporate assembly

The corporate assembly has 12 members elected by the shareholders and six elected by and among the employees. In addition, the employees have three observers. The assembly constitutes itself through the election of a chair and deputy chair, both for one year at a time.

Shareholder-elected directors of the company are chosen by the assembly members who are elected by the shareholders. The assembly is also responsible for monitoring the management of the company by the directors and the chief executive. It also takes the final decision on proposals from the board concerning substantial investments as well as rationalisations or restructurings of the business which have significant consequences for the workforce.

In addition, the corporate assembly recommends to the general meeting whether it should approve the annual accounts presented by the board and the board's proposal for the application of a profit or coverage of a loss. It can also make recommendations to the board on any issue.

Norwegian legislation on the corporate assembly system rests on considerations of industrial democracy and the right of workers to exercise influence and be consulted. Elections for worker members of the assembly by and among the workforce are held every other year. The next election is in 2007.

Board of directors

The company's board of directors currently has nine members. See page 94.

In addition to overall responsibility for determining the company's goals, strategy and walues the board is required to keep itself informed about the group's financial position, determine the financal targets for the business and supervise that these targets are met. Weight is given to ensuring that the company has satisfactory internal controls and a sound organisation of its business. The board also monitors that the information provided at any given time is relevant, correct and timely.

The board is continuously briefed and updated on all important aspects of Norske Skog's operations, including environment-related challenges and the social responsibility of the company. The company has adopted guidelines for ethical business conduct. The board will conduct a broad review and evaluation of these guidelines during 2006. The Board of Directors visited the company's mills, important customers and other business interests in Australia and New Zealand during 2005. The directors visited the European and South American mills in 2003 and 2004 respectively. A similar visit to Asia is planned for 2006.

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

The board carries out annual assessments of its own competence, mode of working and activity. The election committee is briefed on the conclusions of this assessment. An introductory programme has been established for new directors, covering all aspects of the company's business.

Directors must act independently and in such a way that nobody obtains an unreasonable advantage. Each director is duty bound to inform the board about possible personal and significant commercial relations with the company which might call the director's independence and objectivity into question. Specific authorisations given by the board to the chief executive mean that the directors deal only occasionally with contractual issues relating to the company.

One director, Øivind Lund, is employed as national head of ABB in Turkey. The ABB group delivers technical equipment to Norske Skog's paper mills from time to time. Directors Lars Wilhelm Grøholt and Halvor Bjørken are forest owners who supply wood to the company on normal standardised terms. No director is remunerated for their work for the company from any source other than the company itself.

Audit committee

In 2005 and before, the board has performed the functions which in some cases are assigned to a special audit committee. The board resolved in 2005 to establish a separate audit committee existing of three directors to monitor and make detailed assessments of selected areas, such as:

- monitoring the work of the company's internal audit
- quality assurance of the group's financial reporting
- the quality and validity of the company's internal control and risk assessment systems in the accounting and finance area

- monitoring the independence and work of the external auditor, particularly with respect to the group accounts.

The committee will report regularly to the board on its work, and thereby help to ensure greater focus on and quality in the board's work in this field. It will also provide support in general for the board in exercising its responsibility for administration and supervision of the management.

Compensation committe

The board appoints the company's president and CEO, and determines this person's conditions of employment, including incentive schemes, on the basis of proposals from a specially-appointed compensation committee. The Comittee comprises the chair and deputy chair of the board and one other director and its mandate is resolved by the board. This committee also discusses the principles for determining the remuneration of other senior employees, including bonus, option schemes and other incentive arrangements. Pursuant to its mandate, the committee will ensure that the size and scope of remuneration and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to long-term value creation for all the shareholders.

CEO and corporate management

The chief executive is responsible for 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 or she is also responsible for ensuring that the group accounts conform with statutes and regulations, and that assets are managed in a sound manner.

In 2005 the corporate management team comprised chief executive Jan A Oksum and nine other members. See page 95.

Operational governance model

Norske Skog's organisation is structured on the basis of the value chain. This ensures a strong operational grip on value creation while maintaining efficiency and short decision-making lines.

The corporate management is also organised with regional managements for South America, Asia and Australasia respectively. This ensures geographic closeness to customers, suppliers and relevant government agencies.

Auditing

Norske Skog's internal audit function is responsible for operational auditing and for evaluating in-house management and control systems. The annual audit plan, control report and status report from the company's internal auditors are submitted to the board. In addition, the internal audit department is responsible for coordinating auditing activities between internal and external auditors.

The company's external auditor is responsible for financial auditing of the parent company and the consolidated accounts.

PricewaterhouseCoopers is currently the company's elected external auditor.

All board meetings which consider the annual and interim reports are attended by the external auditor. The board also regularly conducts separate discussions with the auditor without the administration being present.

Remuneration relating to employment and elected office in Norske Skog

Corporate assembly:

Remuneration is fixed annually by the general meeting. The assembly chair receives a fee of NOK 135 000 per year. The other members receive NOK 5 200 for each meeting. Committee meetings are remunerated at a rate of NOK 5 200 per meeting. These amounts are fixed. A total of NOK 1 143 000 was paid to members of the assembly in 2005.

Board of directors:

Remuneration is fixed annually by the corporate assembly. The chair receives NOK 470 000, the deputy chair NOK 340 000 and the other directors NOK 260 000 each. Committee meetings are remunerated at a rate of NOK 5 200 per meeting. These amounts are fixed. A total of NOK 2 441 762 was paid to directors in 2005, including NOK 5 200 per meeting for alternates who attended.

President and CEO:

The chief executive's salary and other terms are negotiated by the compensation committee and determined by the board. Salary and other remuneration paid to the chief executive and additional information on pension plans and the pay guarantee scheme can be found in Note 3 to the consolidated accounts.

Corporate management:

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

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.

Other:

Information on option schemes, bonus schemes and loans to senior personnel is provided in Note 3 to the consolidated accounts.

Employee share saving scheme:

All employees of Norske Skog ASA and subsidiaries owned more than 90 per cent are offered the opportunity every year to buy shares at a discount. The cost is deducted from their pay over 12 months. In 2005, this offer embraced all employees in Europe, Australasia and South America as well as shareholder-elected members of the corporate assembly and board of directors.

Shares in Norske Skog owned by elected officials and the corporate management:

Members of the corporate assembly owned 106 376 shares in Norske Skog at 31 December 2005. Similarly, directors owned 12 163 shares. Members of the corporate management held 58 142 shares and 990 000 options. For further details, see pages 94, 115 and 116.

Board of directors of Norske Skog

Lars Wilhelm Grøholt (58)

Chair of the board, 2002-, director since 2001. Forest owner, mechanical engineer and forestry technician. Chair, Norwegian Forestry Research Institute (Nisk). Manager, Guardianship Board, Søndre Land local authority. Chair, Norwegian Forest Owners' Association, 1998-02, and Viken Skog, 1999-02. Board member, Pan European Forest Certification (PEFC), 1999-03.

Øivind Lund (60)

Deputy chair, 2005-, 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, 2003-.

Halvor Bjørken (51)

Director since 2000. Forest owner. Chair, Forest Owners' Association North. Deputy chair, Norwegian Forest Owners' Association, Industriflis and Din Tur AS. Director, Midt-Norsk Tømmerimport, and member of the corporate assembly, Skogbrand insurance company. Chair, SN Holding A/S and the Forest Action Fund.

Gisèle Marchand (47)

Director since 2002. MSc in business economics. Managing director, Norwegian Public Service Pension Fund. Director, EDB Businesspartner ASA, Innovation Norway, Guarantee Institute for Export Credit (Giek) and GK Kredittforsikring AS.

Annette Brodin Rampe (44)

Director since 2005. MSc in: Industrial chemistry. Senior vice president, Eon Sverige AB, Stockholm. Director, Peab AB and Ruter Dam AB.

Ingrid Wiik (61)

Director since 2005. Chief executive of Alpharma Inc, 2000-, and deputy chair, 2004-. Director of Statoil, 2005-, and Coloplast, 2003-.

Kåre Leira (58)

Worker director since 1999, elected by the employees. Chief shop steward and chair of the company's European Works Council (EWC) since 1997. Member of the executive committee, Norwegian United Federation of Trade Unions, and general council, Norwegian Confederation of Trade Unions (LO) Member, Nord-Trøndelag county council, and Global Employee Forum.

Stein-Roar Eriksen (51)

Worker director since 2005, elected by the employees. Councillor, Ringerike manicipality. Member, executive committee, Norwegian United Federation of Trade Unions, Norske Skog's European and Global Works Councils. Deputy chair, Norske Skog's Norwegian Works Council. Chair, Follum Works Council.

Jarle Halvorsen (42)

Worker director since 2005, elected by the employees. Chair, branch 33, the Norwegian Engineers and Managers Association (FLT), Skien.

Members of corporate bodies

(number of shares held in brackets)

Corporate assembly

Elected by shareholders:

Ivar B Korsbakken, Oslo, chair (578)
Idar Kreutzer, Oslo, deputy chair (0)
Emil Aubert, Porsgrunn (74 925)
Ole H Bakke, Trondheim (53)
Bjørn Kristoffersen, Oslo (0)
Halvard Sæther, Lillehammer (4 495)
Svein Aaser, Drøbak (1 283)
Kirsten C Idebøen, Høvik (100)
Åse Marie Bue, Marnardal (0)
Ann Kristin Brautaset, Oslo (0)
Christian Ramberg, Bø i Telemark (20 471)
Turid Fluge Svenneby, Spydeberg (142)

Alternates:

Svein Haare, Hønefoss (775)
Hege Huse, Oslo (0)
Torstein A Opdahl, Namnå (613)
Siv Fagerland Christensen, Sola (0)

Elected by employees:

Randi Nessemo, Norske Skog Skogn (0)
Harald Bjerge, Norske Skog Saugbrugs (3 471)
Magnus Straume, Norske Skog Union (38)
Eigil Fredriksen, Norske Skog Union (510)
Roy Helgerud, Norske Skog Follum (0)
Ove Magne Anseth, Forestia (310)

Alternates:

Bjørn Olav Hanssen, Norske Skog Skogn (0)
Paul Kristiansen, Norske Skog Saugbrugs (0)
Bent Sevaldsen, Norske Skog Union (0)
Tor Killie, Norske Skog Union (0)
Jørn Steen, Norske Skog Follum (0)
Jan-Tore Kamp, Forestia (0)

Observers elected by the employees:

Stig A Steene, Norske Skog Skogn (0)
Terje Andre Bråten, Norske Skog Follum (25)
Tor Kr Larsen, Forestia (1000)

Alternate observers:

Jan O Johnsen, Norske Skog Skogn (571)
Eigil Søndergaard, Norske Skog Follum (0)
Stig Johansen, Forestia (485)

Board of directors

Lars Wilhelm Grøholt, Hov, chair (4 442)
Øivind Lund, Drammen, deputy chair (1 995)
Halvor Bjørken, Verdal (3 591)
Gisèle Marchand, Oslo (428)
Ingrid Wiik, Lysaker (250)
Annette Brodin Rampe, Stockholm (0)
Kåre Leira, Norske Skog Skogn (1 457)
Stein-Roar Eriksen, Norske Skog Follum (0)
Jarle Halvorsen, Norske Skog Union (0)

Alternates for worker directors:

Kjetil Bakkan, Norske Skog Skogn (158)
Jørn Standal, Norske Skog Union (400)
Freddy Sollibråten, Norske Skog Follum (0)

Corporate management

at 31 December 2005

Jan A Oksum, president and CEO (22 404)
Vidar Lerstad, senior vice president (6 676)
Rolf Negård, senior vice president (2 884)
Hanne K. Aaberg, senior vice president (3 215)
Jarle Dragvik, senior vice president (4 711)
Jan H Clasen, senior vice president (2 054)
Ketil Lyng, senior vice president (4 970)
Rob Lord, executive vice president (3 223)
Antonio Dias, executive vice president (2 627)
Dag Tørvold, executive vice president (3 336)
Christian Rynning-Tønnesen, senior vice president and CFO (2 042)

Auditor

PricewaterhouseCoopers (0)

Corporate management of Norske Skog

Jan A Oksum (55) *
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, 1997-99. Senior vice president, business development, 1999-00. Senior vice president, strategy, 2000 and deputy CEO, 2001. Chief executive since 1 January 2004.

Rolf Negård (48)
Senior vice president, human resources and organisation

With Norske Skog since 1994. Law degree, Oslo University. Executive officer, 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 (46)
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. Information officer and chief information officer, Norwegian Shipowners' Association, 1988-97. Chief information officer, Norske Skog, 1997-00. Vice president, corporate communication, Norske Skog 2000-02.

Jarle Dragvik (45)

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, Austria, 1999-02. Senior vice president, sales and marketing, 2002-04.

Jan-Hinrich Clasen (48)
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 paper, Norske Skog, 1992-96. Managing director, Ahrensburg magazine printer, Axel Springer Verlag AG, Germany, 1997-99. Senior vice president sales and marketing, PanAsia Paper Company Ltd, Singapore, 1999-03. Vice president, newsprint sales, Norske Skog, 2003-04.

Ketil Lyng (50)
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, 1996-00. Vice president, strategy and business development, 2000-02.

Rob Lord (47)
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, 1998-00. Vice president sales and marketing, Norske Skog Australasia 2000-03.

Antonio Dias (42)
Executive vice president, Norske Skog South America

With Norske Skog since 2000. Engineering

degree from Escola de Engenharia Maua in Brazil, 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, 1995-00. Senior vice president marketing and sales, Norske Skog South America, 2000-04.

Vidar Lerstad (61)
Senior vice president, Business development

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, 1999-00. Senior vice president, Asia region, 2000-02. Executive vice president, Norske Skog South America, 2002-04.

Christian Rynning-Tønnesen (46) **
Senior vice president finance, and CFO

With Norske Skog from 1. April 2005. MSc engineering, Norwegian Institute of Technology (NTF). Researcher, Sintef, 1984-85. Refinery analyst and product coordinator, Esso Norge, 1985-89. Consultant and energy specialist, McKinsey, 1989-92. Manager, strategy, Statkraft, 1992-93. executive vice president, Statkraft, responsible for north European supply, 1993-94, market, 1995-98, strategy, 1998-01, and finance/deputy CEO 1992-05.

Dag Tørvold (53)
Executive vice president, Norske Skog PanAsia

With Norske Skog since 1997. Legal officer and secretary to the board, AS Union, 1980-87, and president, 1987-97. Senior vice president, newsprint, Norske Skog, 1997-99. Senior vice president, corporate services and human resources, 1999-02. Senior vice president, PanAsia Korea 2002-05.

** Jan Oksum resigned as chief executive 20 March 2006.*

*** Christian Rynning-Tønnesen has accepted the post of president and CEO of Agder Energi and will leave Norske Skog in the second quarter of 2006.*

Articles of association for Norske Skogindustrier ASA

(Last amended by the extraordinary general meeting 22 September 2005)

Article 1 The company's form and name

The company is a public limited company.
The company's name is Norske Skogindustrier ASA.

Article2 Objects

The object of the company is to pursue pulp and paper operations and activities connected with these. The company can also participate in other commercial activity by subscribing to shares or in other ways.

Article 3 Registered office

The company is registered in Norway, and has its management and registered office in Bærum local authority.

Article 4 Share capital and shares

The company's share capital amounts to NOK 1.899.456.260, divided into 189.945.626 shares each with a nominal value of NOK 10. The company's shares will be registered with the Norwegian Central Securities Depository (VPS).

Article 5 Board of directors

The company's board of directors will consist of a minimum of seven and a maximum of 10 directors. Directors are elected by the corporate assembly for terms of two years. No person can be elected to the board after reaching the age of 70.

The corporate assembly will elect the chair and deputy chair of the board for terms of one year. The corporate assembly will determine the remuneration payable to directors. The board of directors is responsible for appointing a chief executive, to be known as the president and chief executive officer, and for determining his/her remuneration. The board of directors can authorise its members, the chief executive or certain other designated employees to sign for the company.

Article 6 Corporate assembly

The company will have a corporate assembly consisting of 18 members, including 12 members and four alternate members elected by the annual general meeting. Members elected by the annual general meeting serve for terms of two years. Alternate members are elected for terms of one year.

The corporate assembly itself elects two of its members to act as chair and deputy chair for terms of one year.

Article 7 Election committee

The company will have an election committee consisting of the chair of the corporate assembly and three members elected by the general meeting for terms of one year. The election committee will be chaired by the chair of the corporate assembly.

Article 8 General meeting

Notice of a general meeting must be given within the time limit stipulated in the Norwegian Act on Public Limited Companies through the publication of notices in the Aftenposten and Dagens Næringsliv newspapers. This notice can specify that any shareholder wishing to attend the general meeting must notify the company within a certain time limit, which must not expire earlier than five days before the general meeting. Shareholders failing to notify the company within the specified time limit may be denied entrance to the general meeting. The general meeting will be held in the local authority in which the company has its registered office or in Oslo.

The annual general meeting will:

1. Adopt the annual accounts, including the directors' report, and the consolidated accounts, and approve the profit and loss account and balance sheet.
2. Determine the application of the profit or coverage of the loss for the year in accordance with the approved balance sheet, including the declaration of any dividend.
3. Determine possible remuneration to be paid to members and alternate members of the corporate assembly.
4. Elect the shareholders' representatives and alternate representatives in the corporate assembly.
5. Elect three members of the election 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 at least one month prior to the general meeting. Notice of the general meeting will be given, and the general meeting will be chaired, by the chair or deputy chair of the corporate assembly or, in their absence, by the chair of the board of directors.

Article 9 Amendments

Any amendments to the articles of association will be made by the general meeting. A valid resolution requires a three-fourths (3/4) majority of the votes cast, and these votes must represent three-fourths (3/4) of the share capital represented at the general meeting.

From Norske Skog´s headquarters at Oksenøya outside Oslo.

From Norske Skog´s headquarters at Oksenøya outside Oslo.

Directors' report for 2005

Meeting weak results with structural measures

Demand was good for Norske Skog's products in most countries and regions during 2005, although the growth rate confirmed expectations by being lower than the year before. Norske Skog's overall sales and production volumes were roughly on a par with 2004, and average capacity utilisation was 93 per cent.

With the exception of Australia and Korea, sales prices measured in local currencies rose from 2004 to 2005. The comparable result was nevertheless weaker in 2005 because of a sharp rise in energy prices and the negative effect of a stronger Norwegian krone. Taken together, these two factors weakened the result by about NOK 660 million. Norske Skog took several far-reaching decisions in 2005 which will have a substantial positive impact on results over time.

Norske Skog adopted International Financial Reporting Standards (IFRS) from 1 January 2005. The official accounts for 2004 were presented in accordance with Norwegian accounting principles, but have been restated to IFRS in all comparisons.

When comparing 2005 and 2004, account must be taken of the fact that Norske Skog acquired the remaining 50 per cent of PanAsia Paper Company. This business was consolidated as a wholly-owned subsidiary for one and half months from mid-November 2005.

A total of NOK 1 247 million has been expensed in the form of provisions and write-downs in connection with the closure of Norske Skog Union, the sale of the shares in Catalyst Paper and Forestia, and the disposal of forest properties in Australia. The corresponding figure in 2004 was NOK 173 million, which related to provisions and write-downs at Norske Skog Tasman.

Earnings and cash flow

Gross operating revenue was NOK 25.7 billion (2004: NOK 25.3 billion), and comparable gross operating earnings came to NOK 4 056 million (2004: NOK 4 303 million). These figures do not include value changes in power contracts and other special items relating to energy. Comparable net operating earnings, excluding provisions and write-downs, were NOK 984 million (2004: NOK 1 210 million). The Australasia region recorded the biggest decline in operating earnings, which partly reflects reduced prices, a sharp increase in energy costs and production shut-downs in connection the regional restructuring project.

The official profit and loss account based on IFRS shows gross operating earnings of NOK 3 950 million (2004: NOK 4 240 million) and net operating earnings of NOK 630 million (2004: NOK 1 037 million).

A total of NOK 751 million has been expensed under affiliated companies, with the write-down of the shares in Catalyst Paper accounting for NOK 729 million. This sale was agreed on 30 January 2006. The remaining amount comprises NOK 43 million as Norske Skog's share of the net loss in Catalyst Paper and NOK 21 million as the share of net earnings in Malaysian Newsprint Industries and other affiliated companies.

Net financial expenses for 2005 amounted to NOK 883 million (2004: NOK 783 million). Net interest expenses were NOK 733 million (2004: NOK 829 million), and the overall increase in financial expenses derives from currency items which yielded a loss of NOK 76 million compared with a gain of NOK 128 million in 2004.

The tax gain for 2005 was NOK 156 million (2004: NOK 419 million).

The net loss after tax and the provisions/write-downs mentioned above was NOK 854 million as against a net profit of NOK 621 million in 2004, and earnings per share were negative at NOK 5.98 (positive in 2004 at NOK 4.69).

Cash flow from operations, excluding financial items and tax paid, was just over NOK 3.1 billion, roughly the same as in 2004. Cash flow per share amounted to NOK 21.42 (2004: NOK 22.04).

The board confirms that the directors' report and annual accounts provide a fair picture of the company's position and that the going concern assumption is realistic. The annual accounts have been prepared on that basis.

Proposal for dividend

The board proposes a dividend of NOK 5.50 per share for fiscal 2005, corresponding to 25.7 per cent of cash flow per share. Dividend for fiscal 2004 was NOK 6 per share. After adjusting for the rights issue in the autumn of 2004, that corresponded to NOK 5.43. The 2005 dividend will be paid on 3 May to shareholders registered at the date of the annual general meeting, which is 20 April.

Balance sheet

The book value of Norske Skog's assets at 31 December 2005 was NOK 52 billion, an increase of NOK 7.7 billion from the year before. This rise primarily reflects the consolidation of the remaining 50 per cent of PanAsia. In accordance with IFRS rules, fixed assets in PanAsia which were previously owned by Norske Skog have been written up to the same valuation as the final 50per cent share. This write-up amounts to NOK 474 million.

The acquisition of PanAsia Paper was financed by a rights issue which raised NOK 3 840 million net. Total equity, excluding minority interests, was NOK 22.1 billion at 31 December (2004: NOK 19 billion). Equity per share amounted to NOK 116.30 at 31 December (2004: NOK 129.80).

Net interest-bearing debt was NOK 19.1 billion at 31 December (2004: NOK 16.9 billion). Gearing (the ratio of net interest-bearing debt to equity) was 0.86 at 31 December (2004: 0.89).

No major loan transactions took place in 2005. The increase in net interest-bearing debt over the year primarily reflects the consolidation of the remaining 50 per cent of PanAsia's debt, which totalled USD 285 million at the consolidation date. The average term to maturity for the loan portfolio at 31 December was 5.8 years. This was a reduction from the end of 2004, which reflects the fact that PanAsia's debt had a shorter term to maturity on average. Disposable liquidity at 31 December was NOK 6.9 billion.

Norske Skog's goal is to have an investment grade rating from the Standard and Poor's and Moody's rating agencies. The Standard and

Poor’s rating was BBB- Stable Outlook throughout the year. In October 2005, Moody's kept its rating unchanged at Baa3 but altered the outlook from Stable to Negative. These changes have no effect on borrowing costs for Norske Skog’s existing debt.

Moody’s issued a warning in February 2006 that it might reduce Norske Skog’s rating.

Investment

Capitalised investment came to NOK 2.2 billion (2004: NOK 2 billion). The biggest single investment was Norske Skog's 50per cent share of PanAsia's new newsprint mill in China.

Other major investments included the expansion of the thermo-mechanical pulp mill at Norske Skog Walsum and the restructuring project in Australia and New Zealand.

The board of Norske Skog resolved in December 2005 to invest NOK 700 million in Norske Skog Saugbrugs. This two-year project comprises an upgrading of the raw material facility and PM6 to meet stricter quality standards as well as conversion work to permit the production of larger paper reels.

Restructuring

Global restructuring

Norske Skog has delivered unsatisfactory financial results since 2002. Excess capacity has meant a low utilisation factor at the company’s mills, and the high production capacity in relation to demand has led to reduced prices for Norske Skog’s products.

The company has implemented a number of measures in recent years to restructure the business so that the portfolio of mills and investments strengthens Norske Skog’s position as a world leader in the paper industry.

This involves replacing unprofitable production capacity with profitable and competitive capacity. The company must constantly ensure that priorities are set and investment made to meet market developments and support the objective of securing a better balance between supply and demand.

PanAsia

Norske Skog became the sole owner of the business previously known as PanAsia Paper Company on 17 November, when it bought Abitibi Consolidated’s 50 per cent holding in the company. Norske Skog paid USD 600 million for the shares plus a possible supplementary payment of USD 30 million related to earnings in 2006.

Work on integrating PanAsia in Norske Skog began as soon as the purchase agreement had been published in August 2005. A substantial part of the rebranding has been completed, and employees in the region will take Norske Skog’s own training programme – the Spirit of Norske Skog – during 2006. Norske Skog PanAsia is now a separate region on a par with the rest of the company’s global business.

Asia is the part of the world with the fast growth in demand for newsprint. In China alone, consumption of this product is expected to grow by about 6 per cent annually up to 2014. Norske Skog’s position as the largest manufacturer in this region is therefore fully in accordance with its strategy of seeking profitable growth and focusing on the core business.

PanAsia began production at the new paper mill in China’s Hebei province during June 2005. This facility has an annual newsprint capacity of 330 000 tonnes, based entirely on recovered paper. The mill cost about NOK 2 billion to build over a two-year period. This project was implemented on schedule and within budget, and the running-in phase has been very successful.

Norske Skog Union

The board of Norske Skog resolved on 2 August 2005, against the votes of the three worker directors, to support the management’s proposal to initiate a process leading to a final decision on ceasing production at Norske Skog Union in Skien. After a process which lasted about two months, the board decided on 3 October to approve the management’s recommendation to halt operations at Norske Skog Union during the first quarter of 2006. The board’s recommendation was considered by the company’s corporate assembly on 4 October. The corporate assembly voted to accept the board’s recommendation by nine votes to nine, with the chair exercising his casting vote to decide the issue.

The proposal to close down Norske Skog Union was prompted by the excess production capacity for newsprint in Europe. This has resulted in unsatisfactory financial results for the Norske Skog group over a long period. Closing Norske Skog Union reduced production capacity by 260 000 tonnes per year, or just over 10 per cent of the group’s European newsprint capacity.

The recommendation to close Norske Skog Union was taken after an assessment of the various options for restructuring Norske Skog’s European business and reducing overall production capacity. Norske Skog Union was chosen because this mill had had the weakest margins in the company over time, while no opportunities were available for expanding this facility to a size which would make it competitive in future.

PM7 at the mill ceased operation on 1 February 2006, while PM6 was halted on 1 March. When production at Norske Skog Union stopped, other Norske Skog mills took over the orders which it had previously filled. In this way, the Norske Skog group will achieve better resource utilisation and annual cost savings estimated at NOK 200 million.

An agreement between Norske Skog and union representatives at the mill forms the basis for a NOK 190 million package of measures which aim primarily to help the workforce find new jobs and to safeguard them financially during a transitional period.

In its decision, the Norske Skog corporate assembly requested that Norske Skog’s management took responsibility for new activity in Skien. Norske Skog has established a special project called Klosterøya – New Opportunities, which is working to create new business at the site previously occupied by Norske Skog Union. This drive is now in full swing. The work is being pursued in close cooperation with local politicians to ensure that the restructuring and efforts to attract new activity also benefit the town of Skien.

In addition, a project has been launched which aims primarily to ensure the preservation of records, artworks and industrial history from Union for the future. This work is being pursued in cooperation with local and national government agencies.

Provisions totalling NOK 270 million have been made in the 2005 accounts to cover measures for the employees, restructuring and clearing up after the business. The mill has also been written down by NOK 155 million, so that its residual value at 31 December was NOK 28 million. This corresponds to the expected cash flow for the two months of 2006 when production continued at Norske Skog Union.

Although the closure was necessary and right, the board takes the view that the related process has had a negative effect on the company’s reputation in Norway. The board regards this position with concern, and will monitor the management’s work on the company’s reputation during 2006.

Norske Skog Pisa

Norske Skog completed a main study in 2005 for the possible construction of a new paper machine at Norske Skog Pisa in Brazil. The board resolved in August to postpone a final decision on this project, primarily because of local Brazilian tax rules which make domestic newsprint production less profitable than imports. Norske Skog is in dialogue with the national authorities, who are in the process of amending these rules.

Australasia

A restructuring project is under way in Australia and New Zealand. Launched in 2004, this work will be completed in the summer of 2006. Norske Skog is making production more efficient by upgrading two paper machines at Norske Skog Tasman and one at Norske Skog Albury. At the same time, the least competitive machine at Norske Skog Tasman is being decommissioned and the workforce downsized by about 130 people.

Total manufacturing capacity in the region will be maintained, while production is concentrated in areas closer to the market. The restructuring helps to reduce payroll and distribution costs, and will thereby improve profitability by around NOK 150 million per year.

Regional operations

Europe: demand increased again in 2005

Norske Skog's operations in Europe embraced a total of nine mills in 2005, accounting for about 60 per cent of its production capacity. Paper production ceased at Norske Skog Union in March 2006. European operations had operating revenues of NOK 15.5 billion (2004: NOK 15.6 billion) and gross operating earnings of NOK 2 410 million (2004: NOK 2 460 million). Net operating earnings were 720 million (2004: NOK 647 million).

Deliveries and production from Norske Skog's European mills were marginally lower than the year before. When comparing 2005 and 2004, account must be taken of the fact that magazine paper (SC-B) production at Norske Skog Parenco was converted to newsprint in January 2005, and that PM2 at Norske Skog Follum was shut down in response to market conditions from July 2005 until the beginning of 2006.

European demand for publication paper rose by 0.5 per cent after growing strongly in 2004. The biggest expansion was again in the former members of the East European bloc.

Europe – newsprint

Operating revenues for the newsprint business were NOK 8.6 billion (2004: NOK 8.3 billion) and gross operating earnings came to NOK 1 321 million (2004: NOK 1 239 million). Volumes produced and sold were on a par with 2004. The 2005 result was weak, but a little better than the year before.

The price increase implemented at 1 January 2005 was offset to a large extent by higher energy costs and a stronger Norwegian krone.

After several years of declining prices, increases of 6-8per cent measured in local currencies were implemented in most European markets. The new price level was stable through the year. Demand rose by about 1 per cent for both standard and upgraded newsprint in 2005.

Europe - magazine paper

Operating revenues for the magazine paper business were NOK 6.9 billion (2004: NOK 7.3 billion) and gross operating earnings amounted to NOK 1 089 million (2004: NOK 1 221 million). Volumes produced and sold were roughly 5 per cent lower than in 2004, primarily because production of magazine paper was phased out at Norske Skog Parenco. As for the European newsprint business, the weak 2005 result primarily reflects higher energy costs and a stronger Norwegian krone.

Prices for magazine paper in Europe were a little higher in 2005 than the year before.

Demand was unchanged from 2004, which is thought to reflect the six-week labour dispute in the Finnish paper industry during May-June 2005. The USA is an important export market for European magazine paper. North America also experienced labour disputes which reduced the supply of locally-manufactured paper, and price increases were implemented.

Australasia

Norske Skog has three mills in Australasia, and is the only newsprint manufacturer in this part of the world. The region had operating revenues of NOK 4 billion (2004: NOK 4.2 billion) and gross operating earnings of NOK 804 million (2004: NOK 1 143 million). The weaker result reflects a reduction in Australian prices during 2004, a sharp rise in energy prices and lower output as a result of production shutdowns. The price cut in Australia from 1 July 2004 was a consequence of the price formula incorporated in Norske Skog's 10-year contracts with its biggest customers. The price level has remained virtually unchanged since then.

Demand for standard newsprint flattened out in 2005 after several years of good growth. When upgraded newsprint is included, however, there was a marginal increase. Demand for magazine paper increased by more than 5 per cent, and the overall rise for publication paper was just under 2 per cent.

South America

Norske Skog has one newsprint mill in Brazil and another in Chile, which makes it the largest manufacturer in South America. This region had operating revenues of NOK 1 230 million (2004: NOK 1 146 million) and gross operating earnings of NOK 269 million (2004: NOK 346 million).

Operating earnings for 2005 include a provision of NOK 50 million for an outstanding dispute over grid hire. Excluding this provision, the gross operating margin was about 26 per cent – the highest for any Norske Skog region.

The decline in earnings from 2004 primarily reflects stronger local currencies. That applies particularly to the Brazilian real, which strengthened over the year by 11 per cent against the USD and almost 30 per cent against the NOK.

Production and sales from Norske Skog's mills in the region were a little lower than in 2004. About 100 000 tonnes were also exported to South American by Norske Skog in Europe.

Based on preliminary statistics, demand for newsprint rose by 1 per cent in 2005. This relatively low increase is thought to reflect a very strong growth of no less than 9 per cent the year before. Price trends in the region largely follow developments in the USA, and several price increases occurred during 2005.

Norske Skog PanAsia

Norske Skog PanAsia (formerly PanAsia Paper) is the largest newsprint manufacturer in Asia, with mills in Korea, China and Thailand. Overall production capacity is 1.8 million tonnes, which means that this continent accounts for almost 35 per cent of Norske Skog's newsprint capacity. The company was previously owned 50-50 with Abitibi Consolidated of Canada, and became a wholly-owned subsidiary in mid-November 2005. Until then, Norske Skog used proportional consolidation to record its share of PanAsia's profit and loss account and balance sheet. This means that 50 per cent of PanAsia's profit and loss account, balance sheet and cash flow was recorded line by line in Norske Skog's group accounts.

On a wholly-owned basis, Norske Skog PanAsia had operating revenues from its own production of just over USD 800 million, an increase of 6 per cent from the year before. The figures in Norske Skog's group accounts are not comparable with 2004 because of the consolidation as a subsidiary for one and a half months of 2005.

Consolidated operating revenues were NOK 2 962 million and gross operating earnings came to NOK 522 million. Earnings were unsatisfactory in 2005, which reflects the continuing weakness of the Korean market, higher energy costs and anticipated start-up costs relating to the new newsprint mill in China's Hebei province.

PanAsia produced and sold just under 1.4 million tonnes of paper, on a par with 2004.

With the exception of Korea and Taiwan, markets developed well in most Asian countries during 2005. The estimated increase in demand was roughly 5 per cent for China and Thailand, while demand in India rose by more than 10per cent.

Acquiring PanAsia has given Norske Skog a leading position in the region expected to witness the biggest growth in demand for newsprint and magazine paper in the future. The company is planning some restructuring of the business in Korea in order to optimise operations and improve profitability in the region.

Other activities

Forestia

Norske Skog became sole owner of Forestia in March 2005. This company has three plants in Norway manufacturing chipboard and I-beams. The company had gross revenues of NOK 571 million and pre-tax earnings of NOK 20 million.

An agreement was concluded by Norske Skog in January 2006 to sell its shares in Forestia to listed company Byggma ASA. A NOK 24 million write-down has been made in the 2005 accounts for this sale.

Partly-owned companies

Malaysian Newsprint Industries (MNI)

Norske Skog owns 34 per cent of MNI, which comprises Malaysia's only newsprint mill, and uses the equity method to consolidate its results. This means that Norske Skog's share of MNI's net earnings after tax is recorded in the profit and loss account under affiliated companies. The 2005 share amounted to NOK 20 million (2004: NOK 5 million) This improvement primarily reflects higher prices.

Catalyst Paper

Norske Skog owned 29.4 per cent of Catalyst Paper (formerly Norske-Canada) throughout 2005. This company ranks as North America's fourth largest manufacturer of newsprint and magazine paper. It has four mills in British Columbia with a total capacity of 1.85 million tonnes of publication paper as well as 115 000 tonnes of packaging grades and 400 000 tonnes of market pulp.

On 30 January 2006, Norske Skog concluded an agreement to sell all its shares in Catalyst Paper. A write-down of NOK 729 million on the sale of the shares has been recorded in the group accounts for 2005.

Catalyst Paper had net operating revenues of CAD 1 824 million (2004: CAD 1 878 million) and gross operating earnings of CAD 155 million (2004: CAD 153 million). The net loss was CAD 26 million (2004: CAD 29 million). Norske Skog has used the equity method to consolidate Catalyst Paper, and its share of the 2005 loss was NOK 43 million (2004: NOK 48 million).

An improvement programme implemented by Catalyst Paper in 2005 yielded CAD 84 million in realised benefit, but the result was nevertheless weak. The principal reason was the strengthening of the Canadian dollar against the US dollar.

Demand for standard newsprint in North America declined by 5.5 per cent in 2005, while other publication paper grades showed rather better trends. To a large extent, Catalyst Paper has shifted its production away from standard newsprint to catalogue, magazine and other publication paper grades.

Nordic Paper

Norske Skog owned 45 per cent of Nordic Paper throughout 2005, with M Peterson & Son AS holding the remaining shares. Nordic Paper ranks as the world's largest manufacturer of greaseproof paper, with three mills in Norway and Sweden. Operating revenues came to NOK 827 million (2004: NOK 814 million). Norske Skog's share of net earnings came to NOK 2 million (2004: NOK 3 million).

An agreement has been concluded by Norske Skog on the sale of its holding in Nordic Paper. Due to be completed during the first quarter of 2006, this disposal yields a minor gain in the company's accounts.

Risk management

Norske Skog has worked systematically on managing risk for a number of years. This partly involves identifying the main risks facing the company and defining its tolerance to risk - in other words, its capacity to deal with unexpected negative incidents. Gross risk is assessed against net risk on the basis of correlations between various risks and hedging opportunities. In many cases, these correlations can significantly reduce the risk picture. Such assessments form an important part of the decision-making basis for the company's investment projects, for instance.

Risk management in Norske Skog primarily covers exchange rates, interest rates and energy, as well as credit risk and the group's non-life insurances.

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 80per 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.

Existing long-term contracts cover more than 85 per cent of Norske Skog's total electricity consumption at the Norwegian mills until 2020, at a relatively stable and favourable price level. A substantial proportion of consumption in continental Europe is met in the short-term market because the hedging premium there has been high. Electricity requirements in South America and Australasia are covered for the next few years by short-term and long-term contracts.

Management of this risk is monitored through routines for internal control and reporting. In all, about 80 per cent of energy consumption is hedged on a rolling 12-month basis.

Having floating interest rates on as much as possible of its debt is regarded by Norske Skog as a way of reducing risk. This reflects the correlation between the company's earnings and the economic cycle, with interest rates normally high in growth periods and lower during recessions.

Norske Skog is exposed to liquidity risk to the extent that payments for financial liabilities fail to correspond with its cash flow from operations. To counter such effects, the group seeks to spread payments related to financial liabilities throughout the year. In addition, the group has a specified liquidity reserve available at all times.

Credit evaluations are made by Norske Skog for all counterparties to financial transactions. At a minimum, they must be A-rated. Calculations are made for non-rated companies, based on the same requirements for key figures applied to A-rated firms. On the basis of a given rating and other calculations, each counterparty is allocated a limit for permitted credit exposure.

For further details, see the section on the group's risk exposures in note 23 to the group accounts.

Shares and share capital

Rights issue autumn 2005

Norske Skog implemented a rights issue in the autumn of 2005 in order to finance its acquisition of 50 per cent of the shares in PanAsia Paper Company. This issue raised NOK 3 840 million net.

Consideration for the existing shareholders was crucial in Norske Skog's choice of a rights issue. Existing shareholders were thereby assured of a pre-emptive right to participate in the issue and maintain their percentage holding in the company. At the same time, shareholders who did not take advantage of all or some of their subscription rights obtained compensation for the dilution either through sale or through a settlement for the sale of shares by the coordinators for the subscription rights which were unused at the end of the subscription period.

The issue, which was registered with the Norwegian Central Securities Depository on 25 October 2005, totalled 56 808 538 new shares. Norske Skog's share capital after the issue amounts to NOK 1 899 456 260, divided between 189 945 626 shares with a nominal value of NOK 10. All the shares carry the same rights.

Development of the share in 2005

The Oslo Stock Exchange made strong progress for the second year in a row, with the benchmark index rising by just under 40 per cent. This improvement again reflected high oil prices.

Norske Skog's share, including the value of subscription rights and dividend, yielded a negative return of 7 per cent for the 2005 calendar year. This was rather weaker than most other Nordic companies in the sector, but significantly better than the North American companies.

Adjusted for the rights issue, the highest and lowest prices in 2005 were NOK 124.86 and NOK 86.50 respectively, while the average price for the year was NOK 102.95 - 9 per cent lower than in 2004. Norske Skog's stock market valuation at 31 December 2005 was NOK 20.4 billion, which corresponded to 92per cent of book equity.

The Norske Skog share was listed on the Oslo Stock Exchange in January 1976. Its liquidity has been good in recent years. During 2005, 191.4 million Norske Skog shares were traded. Viewed in relation to the average number of shares (excluding those owned by the company), that represented a turnover rate of 134 per cent compared with 119 per cent the year before.

Relative return

A method was adopted in 2005 which measures the return on the Norske Skog share with reference to nine other companies in the sector. Average share prices for the fourth quarter plus accumulated dividends from 1 January 2004 are compared, with average share prices for 2003 as the base. Measured in this way, the Norske Skog share yielded a return in the fourth quarter of 5.9 per cent in relation to the base year. This is the fourth best return of the companies included in the reference group.

Owner structure

The foreign shareholding was 56.9 per cent at 31 December, compared with 38.2 per cent a year earlier. This increase reflects both net purchases by foreign investors for much of the year, and a preponderance of foreign institutions among the purchasers of new shares in the rights issue. With the exception of employees at Norske Skog companies outside Norway, the majority of the foreign shareholders are registered through custodian banks. The international Capital International investment fund (including Capital Guardian) owned 10per cent of the shares in Norske Skog at 31 December.

Norske Skog had a total of 23 645 shareholders at 31 December 2005.

Own shares

Norske Skog held 846 531 of its own shares at 31 December 2005, compared with 819 976 at 1 January.

The company purchased 262 700 of its own shares in the market during 2005, and disposed of 236 145 through the annual share sale to its own employees and as partial settlement of bonus agreements. A total of 1 172 employees purchased 219 085 shares in the sale held in the winter of 2005 at a price, less discount, of NOK 102 per share. Given that the workforce has been reduced since the previous sale, participation was virtually unchanged.

The board is authorised to buy back up to 10 per cent of the outstanding shares. This authorisation runs until the next general meeting on 20 April 2006, and the board will propose that it be extended.

Markets for the company’s products

Demand for wood-containing publication paper grew only slightly in 2005 after expanding strongly the year before. Total consumption increased by 4.9 million tonnes over the past three years, or roughly 2.5 per cent on an annual basis.

Norske Skog’s total deliveries of newsprint and magazine paper were marginally lower compared with the year before, primarily because of reduced deliveries of magazine paper in late 2005.

Price trends

Price developments showed considerable variation between world markets. North America experienced a substantial increase, and prices in export markets for newsprint denominated in US dollars have followed this trend. European prices rose somewhat in 2005 after declining for three years.

Newsprint prices in Australasia were negatively affected by the strong Australian dollar, since the formula-based pricing in this region is partly a function of the exchange rate.

Norske Skog’s strategy focuses on creating lasting profitability through efficient low-cost production. A global approach also allows the company to optimise trade flows between markets and secure efficient deliveries to its customers.

Even with the construction of several new machines close to large markets, Norske Skog’s estimates that 18 per cent of all newsprint is transported between continents.

Cost developments for important input factors

A storm in early January 2005 damaged large forest areas in southern Sweden, and more than 70 million cubic metres of trees which had been blown down had to be removed. The wood market in Scandinavia and the Baltic states was strongly affected by this harvest.

Availability of wood was good in 2005, with declining prices. The harvest caused by the storm will also have a positive effect on wood availability in the first half of 2006. Supplies of wood and sawmill chips in continental Europe were satisfactory and at stable prices.

The closure of Norske Skog Union in March 2006 will reduce Norwegian wood imports.

Demand for wood is rising in South America, primarily because of substantial investment in the chemical pulp industry. Felt particularly by the mill in Chile, this trend has boosted market prices. The mill in Brazil is better protected against the effect of rising demand for wood, thanks to long-term delivery agreements with the plantations.

In Australasia, long-term contracts for wood have protected the region’s costs to some extent from volatile raw material prices.

Recovered paper

Despite a steady tightening in the global market for recovered paper and a general rise in prices, Norske Skog succeeded in reducing the purchase price for this raw material through improved cooperation with suppliers and more efficient operation.

Energy

Norske Skog’s energy costs rose by about NOK 500 million from 2004 to 2005. This big increase reflects high prices for oil, gas and carbon dioxide allowances.

Hedge contracts for power established by Norske Skog in Norway, Australia and South America mean that it will not be exposed to unexpectedly high prices in these markets during 2006. In the European Union, the company has price guarantees for 70 per cent of its consumption in 2006 and 30 per cent in 2007. Electricity prices paid by Norske Skog in Asia are set by the authorities, while it purchases oil in the spot market.

Corporate governance

Audits

The board is in regular contact with the company’s internal and external auditors. PricewaterhouseCoopers is the company’s external auditor. A special audit committee of the board of the directors was created at 1 January 2006 to follow up the board’s supervisory responsibility more effectively.

Monitoring the global business

The board gives weight to ensuring that the directors are as familiar as possible with the company's global business. A special introductory programme has been established for new directors. In addition, the board wishes to improve its knowledge of the company’s mills, important clients and local government agencies. It visited operations in Australasia and Norway during 2005.

Amendment to the articles
The annual general meeting in 2005 resolved to delete the former article 5 in the company's articles of association, which had required board approval for the transfer of shares. The AGM also approved certain minor amendments to the articles so that gender-neutral designations are used for positions.

Gender balance on the board
Norske Skog meets the legal requirement concerning a gender balance on the boards of directors for companies in Norway. The shareholder-elected directors of Norske Skog currently number three women and three men.

All three of the worker directors elected by and from among the employees are male. Worker directors in companies where less than 20 per cent of the workforce are female have been exempted from the legal requirement for gender balance. Women account for about 11 per cent of Norske Skog's employees..

The company's social responsibility

The environment
Norske Skog's strategy emphasises that the company will work for sustainable development through high environmental standards and socially-responsible business practices. The company's objective is to reduce the environmental burden of its own operations to a minimum. It works to ensure that the same environmental standards are also applied by its partly-owned companies and suppliers.

All Norske Skog's mills operate in accordance with national legislation and statutory regulations. No incidents involving serious breaches of these requirements occurred in 2005. In many cases, Norske Skog sets stricter environmental standards for its own activities than national or local governments.

Recovered paper
Norske Skog's wholly-owned mills, excluding PanAsia, consumed about 1.5 millions tonnes of recovered paper in 2005.

The integration of PanAsia will more than double the company's consumption of recovered paper, making it one of the world's two largest consumers of this commodity for newsprint production.

Sustainable forestry
Norske Skog is a prime mover for sustainable forestry in international fora. The company's policy gives priority to purchasing timber and chips derived from certified forests.

Seven of Norske Skog's mills in Europe and the procurement companies it uses have traceability (chain of custody) certificates. This means that they can document how much of their wood derives from certified forests and where it comes from. Work on such certification began in 2004, and the goal is that all Norske Skog's mills will have traceability certificates during 2006.

Energy, waste and emissions/discharges
Norske Skog works actively to save energy and reduce waste in its own business. A large proportion of waste from the Australasian mills goes to agriculture or disposal facilities, while the European and South American mills exploit waste as bioenergy.

Just over 700 000 tonnes of dry waste were generated from operations in 2005. More than 80per cent of this material was exploited for bioenergy, generating over 2 400 GWh. This energy is primarily used as heat in the production process. A small proportion is converted to electricity.

The energy generated from waste by Norske Skog corresponds to more than 200 000 tonnes of oil.

Discharges to water from the mills were roughly on a par with the 2004 level after Norske Skog had achieved a substantial reduction in the two preceding years. To reduce such discharges even further, the company is working on plans to expand treatment facilities at three mills.

The level of carbon dioxide released to the air was unchanged from 2004 to 2005. Emissions of nitrogen oxides declined slightly compared with the year before, while emissions of sulphur dioxide were halved.

With effect from 1 January 2005, a system of carbon emission allowances has been adopted on a trial basis by the EU. Allowances allocated to Norske Skog's mills in this region correspond roughly with the company's requirements for the period up to 2008. The Norwegian mills are not included in the allowance trading regime. Emissions from the mills in Norway are very low because of the high proportion of biofuel and the use of clean hydropower. The trial period for emission trading will be replaced in 2008 by the international obligations accepted under the Kyoto protocol.

Environmental investment and measures in 2005
Norske Skog invested a total of NOK 111 million in environmental measures during 2005. Eighty per cent of these investments related to measures for reducing emissions to the air and discharges to water, and for waste handling.

Environmental certification
All Norske Skog's mills outside PanAsia are certified to the ISO 14001 environmental management standard. Three of the five PanAsian mills are also certified, and work has been initiated to secure similar certification for the two final mills.

Reporting
Norske Skog's 2004 environmental report was awarded the prize for the best reporting of environmental and social responsibility in Norway during 2005. This is the third occasion that the company has won the award since it was instituted 10 years ago.

Social responsibility
ICEM
Norske Skog signed an agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) in 2002. This aims to ensure acceptable rights for all the company's workers.

Global Employee Forum
Norske Skog created a forum in December 2004 for union officials from all its mills - the Global Employee Forum (GEF). One meeting of the forum was held in 2005. Regional works councils have also been established in Europe, Australasia and South America.

Young readers
Norske Skog initiated a collaboration in 2003 with the World Association of Newspapers (WAN) on developing the Young Readers programme worldwide. This allows the company to contribute to the teaching of reading and writing to children throughout the world.

The present partnership with the WAN expires in 2007, but the two sides reached agreement as early as October 2005 on extending it by a further five years from 2007. This extended period commits Norske Skog to providing NOK 22.5 million in support over five years.

Global Compact
Norske Skog signed the Global Compact in 2003. Initiated by UN secretary-general Kofi Annan in 1999, this compact commits the company's operations worldwide and focuses on principles for human and employee rights, environmental protection and combating corruption.

Health and safety

Norske Skog achieved record low figures for absences caused by either sickness or personal injury in 2004. The trend in 2005 was for sickness absence to remain stable at a low level, while a further reduction was achieved in personal injuries. Sickness absence came to 2.7 per cent, while the lost-time injury frequency per million working hours was 1.3 for the 12 months from 1 January to 31 December. Six of the mills recorded no injuries during this period.

Norske Skog’s figures for health and safety are among the very best in the industry, and all the mills contribute to the good results.

Personnel

Corporate management

The corporate management team was expanded from 10 to 11 members in 2005 with the incorporation of PanAsia as a separate region under the name Norske Skog PanAsia. Dag Tørvold, previously head of PanAsia in Korea, was appointed executive vice president for this region.

Christian Rynning-Tønnesen resigned as chief financial officer in February 2006 in order to become president and CEO of Agder Energi.

Jan Oksum resigned as chief executive 20 March 2006.

Employees

Norske Skog had 9 372 employees at 31 December 2005, including Norske Skog PanAsia. Excluding PanAsia, the workforce was down-sized from 7 050 to 7 007 people over the year to 31 December.

The company gives great weight to developing its employees, and has several programmes for managers and other personnel.

Gender balance and recruitment of women

Women account for 11.2 per cent of Norske Skog's employees. The female proportion of the total mill workforce is about 10 per cent, while 43 per cent of the company's sales and administrative staff are women.

Norske Skog is working actively to recruit more women. Special attention is paid to increasing the recruitment of female apprentices and the proportion of women in senior posts.

Diversity

As a global company, Norske Skog consciously seeks an international composition for its management and administration. Eighteen nationalities are represented at its headquarters outside Oslo, for instance

Good contribution in 2005

Norske Skog found 2005 to be a very difficult and demanding year. The board wishes to express its thanks to all employees for a very good contribution. It would particularly emphasise the continued progress being made with health and safety.

Norske Skogindustrier ASA (parent company)

Almost all the group’s operations in Norway are organised in the parent company of the group, Norske Skogindustrier ASA. At 31 December, it had 2 415 employees. These included 2 128 were men and 287 women.

Outlook for 2006

The board would emphasise that its assessment of the outlook is affected by considerable uncertainty.

Consumption is expected to increase in most countries and regions outside North America during 2006. The balance between supply and demand for newsprint in Europe is good at present, and substantial price increases were implemented in most markets from the New Year.

Where magazine paper is concerned, new production capacity has been added in Europe and the scope for price increases is accordingly more uncertain for this segment.

Based on present price and currency conditions, price increases are also expected in Australia from 1 July 2006.

In Asia, the Korean market is stable while pressure on prices will persist in China because of new capacity which has been brought on line. Price increases are likely to be introduced in other Asian countries and in South America in line with rising North American prices.

The cost of energy is expected to remain high, and the first half of 2006 will accordingly be demanding. Production in the Australasian region will be reduced in connection with the rebuilding of two paper machines. Norske Skog expects to see improved results during the second half of the year, primarily because of the closure of Norske Skog Union in Norway and PM1 at Norske Skog Tasman in New Zealand as well as efficiency improvement measures and certain price increases.

Other matters

Investigation by the competition authorities

The European Commission initiated an investigation of Norske Skog and others in May 2004 for alleged breaches of EU competition rules. This inquiry relates to alleged anti-competitive collaboration over the sale of newsprint and magazine paper.

In connection with the investigation, Norske Skog was asked in the first quarter of 2006 to provide the Commission with further information and documentation. There have otherwise been no developments in this matter.

Class actions were initiated in the USA during 2004 against a number of companies in the North American and European paper industry, including Norske Skog. These actions have been brought on behalf of various paper buyers, and build primarily on the current investigations in Europe. There were no significant developments in this case during 2005.

Tax issues at Canadian subsidiary

The Canadian tax authorities have notified Norske Skog of a possible review of tax-related issues at an inactive subsidiary in Canada. These issues date from the period before Norske Skog acquired the company (in connection with the Fletcher Challenge acquisition in 2000).

No claims or notifications of changes to tax assessments have so far been received from the Canadian tax authorities.

Allocation of net loss

The net loss for Norske Skogindustrier ASA in 2005 was NOK 505 million, which has been charged in its entirety against other equity.

After this, distributable equity in Norske Skogindustrier ASA totals NOK 5 174 million.

Ingrid Wiik

Lars Wilhelm Grøholt
Chair

Gisèle Marchand

Halvor Bjørken

Stein Roar Eriksen

Annette Brodin Rampe

Kåre Leira

Jan Oksum
CEO

Øivind Lund

Profit and loss account

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Operating revenue	2	**25 726**	**25 302**	**25 302**	**24 068**
Changes in inventory		(239)	6	6	(26)
Cost of materials		13 524	12 638	12 638	11 424
Payroll costs	3,4	3 691	3 548	3 548	3 509
Other operating costs	5	4 255	4 807	4 807	4 475
Other gains and losses	32	275	-	-	-
Depreciation and amortisation	11	3 072	3 093	3 373	3 285
Restructuring costs	7	270	63	63	(135)
Impairments	11	248	110	110	-
Operating expenses		**25 096**	**24 265**	**24 545**	**22 532**
Operating earnings		**630**	**1 037**	**757**	**1 536**
Earnings from affiliated companies	14	(751)	(44)	(41)	(239)
Financial items	6	(883)	(783)	(718)	(1 341)
Other items	7	-	-	142	814
Earnings/(loss) before tax		**(1 004)**	**210**	**140**	**770**
Tax	8	156	419	523	(364)
Earnings/(loss)		**(848)**	**629**	**663**	**406**
Minority's share of earnings/(loss)	19	6	8	8	4
Majority's share of earnings/(loss)		**(854)**	**621**	**655**	**402**
Earnings in NOK per share/earnings per share fully diluted	9	(5.98)	4.69	4.95	3.04

Balance sheet at 31 December

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Assets					
Intangible fixed assets	11	**4 837**	**4 745**	**4 382**	**4 727**
Biological assets	11,31	**191**	**252**	**215**	**221**
Operational fixed assets	11	**35 799**	**29 753**	**29 779**	**31 775**
Other long-term receivables	12	648	367	367	353
Deferred tax asset	8	324	58	-	-
Shares in other companies and partnerships	13	22	24	24	41
Shares in affiliated companies	14	1 415	1 858	2 094	2 228
Derivatives	23	504	-	-	-
Securities and long-term financial assets		**2 913**	**2 307**	**2 485**	**2 622**
Fixed assets		**43 740**	**37 057**	**36 861**	**39 345**
Inventory	15	2 860	2 299	2 299	2 321
Receivables	12	4 253	4 050	4 050	3 868
Financial assets at fair value through profit or loss	17	450	470	470	596
Cash and cash equivalents	16	452	419	419	334
Derivatives	23	278	-	-	-
Current assets		**8 293**	**7 238**	**7 238**	**7 119**
Total assets		**52 033**	**44 295**	**44 099**	**46 464**
Shareholders' equity and liabilities					
Share capital		1 899	1 331	1 331	1 331
Own shareholding		(9)	(8)	(8)	(7)
Share premium reserve		10 419	7 137	7 137	7 121
Paid-in equity		**12 309**	**8 460**	**8 460**	**8 445**
Retained earnings		8 833	10 799	10 248	10 680
Other reserves		824	(250)	-	-
Minority interests	19	713	186	186	197
Shareholders' equity		**22 679**	**19 195**	**18 894**	**19 322**
Deferred tax	8	2 776	2 419	1 865	2 460
Pension obligations	4	444	365	458	443
Provisions		**3 220**	**2 784**	**2 323**	**2 903**
Interest-free long-term liabilities	25	803	667	438	429
Interest-bearing long-term liabilities	20	17 525	17 042	17 291	18 290
Derivatives	23	152	-	-	-
Long-term liabilities		**18 480**	**17 709**	**17 729**	**18 719**
Interest-bearing current liabilities	21	2 587	718	469	656
Tax liabilities	8	140	31	31	216
Interest-free current liabilities	22	4 668	3 858	4 653	4 648
Derivatives	23	259	-	-	-
Current liabilities		**7 654**	**4 607**	**5 153**	**5 520**
Total shareholders' equity and liabilities		**52 033**	**44 295**	**44 099**	**46 464**

Lysaker, 2 March 2006

Ingrid Wiik

Stein Roar Eriksen

Kåre Leira

Halvor Bjørken

Gisèle Marchand

Øivind Lund
Deputy chair

Lars Wilhelm Grøholt
Chair

Annette Brodin Rampe

Jan Oksum
President and CEO

Cash flow statement

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Cash flow from operating activities					
Cash generated from operations		25 877	25 312	25 312	23 948
Cash used in operations		(21 906)	(21 044)	(21 044)	(19 731)
Cash from net financial items		(845)	(1 067)	(1 067)	(1 059)
Taxes paid		(65)	(69)	(253)	(185)
Net cash flow from operating activities	10	**3 061**	**3 132**	**2 948**	**2 973**
Cash flow from investment activities					
Investments in tangible fixed assets	11	(2 230)	(1 981)	(1 981)	(1 200)
Sales of operational fixed assets	11	21	49	49	15
Other investments		-	-	-	(179)
Net cash from sold shares and activities [1]	11	100	153	153	1 294
Net cash used for acquisition of companies [2]		(3 905)	-	-	-
Taxes paid		-	(184)	-	-
Net cash flow from investment activities		**(6 014)**	**(1 963)**	**(1 779)**	**(70)**
Cash flow from financial activities					
Net change in long-term liabilities		(348)	(323)	(323)	(1 665)
Net change in current liabilities		257	(33)	(33)	(454)
Dividend paid [3]		(807)	(817)	(817)	(795)
New equity [4]		3 840	10	10	59
Net cash flow from financial activities		**2 942**	**(1 163)**	**(1 163)**	**(2 855)**
Translation difference		24	(47)	(47)	14
Total change in liquid assets		**13**	**(41)**	**(41)**	**62**
Cash and cash equivalents at 1 January		**889**	**930**	**930**	**868**
Cash and cash equivalents at 31 December	16,17	**902**	**889**	**889**	**930**

[1] The amount consisted in 2005 mainly of the sale of forests in Australia, in 2004 mainly of the sale of forest in mid-Norway, and in 2003 mainly of the sale of power stations in Norway.
[2] The amount relates to the acquisition of the remaining 50% of Pan Asia Paper Company.
[3] The amounts include dividend paid to minority interests in PanAsia.
[4] The amount in 2005 relates to the share issue carried out to fund the acquisition of the remaining 50% of Pan Asia Paper Company.

Changes in group equity

NOK million	Share capital and other paid-in equity	Other reserves	Retained earnings	Minority interests	Total equity
Balance at 1 January 2004	**8 445**	**-**	**11 015**	**197**	**19 657**
Fair value gains land and buildings	-	-	-	-	-
Fair value gains financial assets	-	-	-	-	-
Net investment hedge	-	642	-	-	642
Currency translation differences	-	(892)	-	-	(892)
Dividend related to 2003	-	-	(795)	-	(795)
Proceeds from shares issued	-	-	-	-	-
Change in holding of own shares	15	-	(22)	-	(7)
Other items booked directly to equity	-	-	(20)	-	(20)
Net earnings	-	-	621	(11)	610
Balance at 31 December 2004	**8 460**	**(250)**	**10 799**	**186**	**19 195**
Balance at 1 January 2005	**8 460**	**(250)**	**10 799**	**186**	**19 195**
Fair value gains land and buildings	-	-	-	-	-
Fair value gains financial assets	-	-	158	-	158
Net investment hedge	-	(408)	-	-	(408)
Currency translation differences	-	1 117	-	-	1 117
Dividend related to 2004	-	-	(795)	-	(795)
Proceeds from shares issued	3 834	-	-	-	3 834
Change in holding of own shares	15	-	(9)	-	6
Write-up of excess value related to acquisitions	-	365	-	333	698
Increased minority interests related to acquisitions	-	-	-	188	188
Other items booked directly to equity [1]	-	-	(466)	-	(466)
Net earnings	-	-	(854)	6	(848)
Balance at 31 December 2005	**12 309**	**824**	**8 833**	**713**	**22 679**

[1] Mainly related to tax items booked directly to equity.

1. Accounting policies

General information
Norske Skogindustrier ASA and its subsidiaries (the group) produce, distribute and sell publication paper. This includes newspaper and magazine paper. The group owns 24 mills wholly or partly in 15 countries on five continents. The group's principal markets for newsprint products are Europe, Australasia, Asia and South America. It is also present in North America as the largest shareholder in Catalyst Paper (formerly NorskeCanada) with a 29.4% stake. The group's principal markets for magazine paper are Europe and North America.

Norske Skogindustrier ASA is registered in Norway, and has its headquarters at Lysaker outside Oslo. The company is listed on the Oslo Stock Exchange. The group accounts were approved by the board and corporate assembly on 2 March 2006.

Summary of the main accounting principles
Below is a description of the most important accounting principles applied in preparing of the group accounts for Norske Skogindustrier ASA. These principles are applied in a uniform way in all the periods presented, unless otherwise stated in the presentation.

The consolidated accounts are presented in accordance with International Financial Reporting Standards (IFRS) as approved by the EU. The consolidated accounts for 2004 have been restated from Norwegian generally accepted accounting principles (NGAAP) to IFRS. Information required by IFRS 1 and recommended by the Oslo Stock Exchange is presented in a separate note.

The group has taken advantage of the opportunity provided under IFRS 1 to apply IAS 32 and IAS 39 only from 1 January 2005.

Consolidation principles
(a) Subsidiaries
Subsidiaries are entities in which the group has a controlling interest over their financial and operating policies, generally held to accompany a shareholding of more than half the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date at which control is transferred to the group. They are de-consolidated from the date on which such control ceases.

The purchase method is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets existing, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the acquisition cost over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of subsidiaries have been amended where necessary to ensure consistency with the policies adopted by the group.

(b) Associates
Associates are all entities over which the group exercises significant influence but not control, generally held to accompany a shareholding of 20-50% of the voting rights. Investments in associates are accounted for by the equity method and are initially recognised at cost.

The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of post-acquisition profits or losses made by its associates is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been amended where necessary to ensure consistency with the policies adopted by the group.

Foreign currency translation
(a) Functional and presentational currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic location in which the entity operates (the "functional currency"). For the activities in South America USD is the functional currency. The consolidated financial statements are presented in NOK, which is the parent company's functional and presentational currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the profit and loss account. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rate are recognised in the profit and loss account, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss.

(c) Group companies
The results and financial position of all group entities (none of which has the functional currency of a hyper-inflationary economy) which have a functional currency different from the presentational currency are translated into the presentational currency as follows:

(i) assets and liabilities for each of the balance sheets presented are translated at the closing rate at the date of that balance sheet
(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average does not provide a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
(iii) all resulting exchange differences are recognised as a separate equity component (cumulative translation adjustment).

Exchange differences arising from translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and translated at the closing rate.

Property, plant and equipment
Land and buildings mainly comprise mills, machinery and offices. All property, plant and equipment (PPE) are shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure directly attributable to the acquisition of the items.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The residual value and useful life of the assets are reviewed and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and included in the profit and loss account. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Intangible assets
a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on the acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Trademarks and licences
Trademarks and licences are recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

(c) Software
Software licences acquired are capitalised on the basis of the costs incurred to acquire the specific software and bring it into use. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer programmes are recognised as an expense as they are incurred. Costs which are directly associated with the production of identifiable and unique software products controlled by the group, and which will probably generate economic benefits exceeding the costs beyond one year, are recognised as intangible fixed assets. Direct costs include the costs of software development personnel and an appropriate portion of relevant overhead. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Investments
The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, and financial assets available for sale. This classification depends on the purpose for which the investments were acquired. Management determines the classification of an investment at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it was acquired principally for the purpose of short-term sale or if so designated by management. Derivatives are also categorised as held for trading unless designated as hedges. Assets in this category are classified as current if they are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and where there is no intention of trading. They are included in current assets, except for those maturing later than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities which the group's management has the positive intention and ability to hold to maturity.

(d) Financial assets available for sale
Financial assets available for sale are non-derivatives which are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Financial instruments
Accounting for financial instruments follows the intentions underlying the associated contract. At the time a contract is entered into, 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 market value. In cases where the contracts entered into are classified as hedging transactions, revenues and costs are accrued and classified in the same way as the underlying balance sheet items.

The fair value of quoted investments is based on the current market price. If the market for a financial asset is not active, the group applies valuation techniques to establish the fair value. These include the use of recent arm's-length transactions, reference to other instruments which are substantially the same, and discounted cash flow analysis defined to reflect the issuer's specific circumstances.

Shares, bonds, certificates, bills, etc
Shares, bonds and certificates classified as financial assets at fair value through profit or loss are carried at market value.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown as borrowings in current liabilities on the balance sheet.

Inventory
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when objective evidence exists that the group will be unable to collect all the amount due in accordance with the original terms of each receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds (net of transaction costs) and redemption value is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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.

Income taxes
Deferred tax is provided in full, using the liability method, on temporary differences arising between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets are offset against deferred tax liabilities when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current deferred tax liabilities.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the group, and where the temporary difference will not reverse in the foreseeable future.

Tax on current taxable profit and deferred income tax are determined using tax rates enacted or currently enacted by the balance sheet date.

The group´s income tax expense includes current tax based on taxable profit in group companies, change of deferred income taxes for the financial period and adjustments to previous periods.

Employee benefits
(a) Pension obligations
Group companies operate various pension schemes. These are funded through payments to insurance companies, as determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined benefit plan is one which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group makes fixed contributions to a separate entity. The group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds which are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group makes contributions to publicly- or privately-administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been made. These contributions are recognised as an employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based plans
The group has an option programme which provides a cash settlement if the option is exercised. The value of the option is recognised in the profit and loss account at the date when the option is awarded. From the date of award to the date when the options are exercised, changes in the value of the options are recognised in the profit and loss account as they occur.

Provisions
Provisions for environmental restoration, restructuring costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, an outflow of resources is more likely than not to be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where a number of similar obligations exist, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The increase in the liability as a result of getting one year closer to maturity is recognised as an interest cost in the profit and loss account.

Revenue recognition
Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the group.

Leases
Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Dividend distribution
Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

Government grants
Government grants are recognised in the profit and loss accounts over the necessary periods to match the costs they are meant to be compensated for. Government grants which are compensations for losses already incurred, or direct financial support without any relation to future costs, are recognised as income in the period they are granted.

Government grants related to assets are presented in the balance sheet as a reduction of the cost price for the assets the grants are related to. The recognition in the profit and loss is done through periodic income or reduction of the depreciation charges.

Important accounting estimates and assumptions
The group prepares estimates and makes assumptions for the future. Accounting estimates derived from these will by definition seldom accord fully with the final outcome. Estimates and assumptions which represent a substantial risk for significant changes in the capitalised value of assets and liabilities during the coming fiscal year are discussed below.

(a) Estimated reduction in value of goodwill and tangible fixed assets
The group performs annual tests to assess the potential reduction in value of goodwill and tangible fixed assets. The recoverable amount from cash-generating units is determined by calculating utility value. These calculations require the use of estimates.

The group's cash-generating units coincide with its business segments – Europe magazine, Europe newsprint, South America, Australasia and Asia. The capitalised value of goodwill and tangible fixed assets within the cash-generating units is measured against the utility value of goodwill and tangible fixed assets within these units. A possible future change in the composition of the group's cash-generating units could mean changes in utility value within cash-generating units, which could in turn mean a future decline in the value of goodwill and tangible fixed assets.

Calculating the utility value of goodwill and tangible fixed assets within the cash-generating units is based on discounted cash flows. Uncertainties exist in relation to future cash flows. Trend prices have been applied when determining future cash flows. Changes in these trend prices will have the effect of altering the value of cash flows and thereby also utility value within the cash-generating units. Significant changes in trend prices could accordingly mean a future reduction in the value of goodwill and tangible fixed assets.

The required rate of return applied when discounting future cash flows is crucial for the calculated value of goodwill and tangible fixed assets. Viewed in isolation, a future increase in the required return when discounting future cash flows will reduce utility value, which could in turn mean a future reduction in the value of goodwill and tangible fixed assets.

(b) Annual assessment of the remaining economic life of tangible fixed assets
The group makes annual assessments of the remaining economic life of tangible fixed assets. An increase or decrease in the remaining economic life could have an effect on future depreciation.

(c) Provision for future environmental obligations
The group's provision for future environmental obligations

is based on the management's best judgement. The group faces no specific requirements relating to environmental obligations. Possible future requirements could mean an increase in group costs.

Standards not adopted in 2005

Certain new standards as well as changes to and interpretations of existing standards have been published and will be binding on the group from 2006 or later. These have not been incorporated in the group accounts for 2005, and are as follows:

IAS 19 (Amendment). This amendment introduces an alternative method of accounting for actuarial gains and losses (estimate variances). The change to the standard also calls for additional information. Since the group does not intend to change its accounting principle for estimate variances, only additional information which will influence the accounts is required. This amendment will affect the group from 1 January 2006.

IAS 39 (Amendment) – cash flow hedge accounting of forecast intragroup transactions. This amendment makes it possible to qualify currency risk related to very visible future intragroup transactions as hedge objects in the group accounts, providing that (a) the transaction is executed in a currency other than the functional currency of the unit participating in the transaction, and (b) the currency risk affects the group's results. This change is not relevant for the group's operations since it did not have intragroup transactions which qualify as hedge objects in the group accounts at 31 December 2005 and 31 December 2004.

IAS 39 (Amendment) – the fair value option. This amendment changes the definition of financial instruments classified as fair value in profit and loss, and limits the opportunity to allocate financial instruments to this category. The group takes the view that this change will not have a significant effect on its classification of financial instruments.

2. Business regions

At 31 December 2005, the group was organised on a worldwide basis into two main business segments: newsprint and magazine paper.

Key figures from the P&L account by region	Operating revenue 2005	Operating revenue 2004	Depreciation 2005	Depreciation 2004	Operating earnings 2005	Operating earnings 2004
Europe						
Newsprint	8 589	8 319	1 047	1 017	274	222
Magazine paper	6 889	7 287	644	796	446	425
Total Europe	**15 478**	**15 606**	**1 691**	**1 813**	**720**	**647**
South America						
Newsprint	1 230	1 146	190	204	66	142
Australasia						
Newsprint	4 022	4 194	752	564	88	406
Asia						
Newsprint	2 962	2 603	373	278	149	165
Other activities						
Other industry in Norway [1]	585	596	32	35	33	25
Other revenues [2]	2 090	1 637	-	-	-	-
Total other activities	**2 675**	**2 233**	**32**	**35**	**33**	**25**
Staff/eliminations	(641)	(480)	231	199	(652)	(175)
Restructuring costs	-	-	-	-	226	(63)
Impairments	-	-	(197)	-	-	(110)
Total group	**25 726**	**25 302**	**3 072**	**3 093**	**630**	**1 037**

[1] Other industry in Norway includes particle boards, Scandinavian forests up to divestment, hydropower up to divestment, and some other minor activities.

[2] Other revenues include revenue from non-manufactured paper in PanAsia, Australasia and South America, and revenues from wood and energy sold to external parties from European operations.

Operating revenue by market	2005	2004
Norway	1 741	1 534
Rest of Europe	12 832	12 668
North America	1 093	1 512
South America	1 705	1 502
Australasia	4 285	4 063
Asia	3 940	3 925
Africa	130	98
Total operating revenue	**25 726**	**25 302**

Employees by region	2005	2004
Europe	4 691	4 754
South America	593	605
Australasia	1 241	1 223
Asia	2 327	1 131
Other activities	272	270
Staff	248	198
Total group	**9 372**	**8 181**

Investments and capital expenditures by region	2005	2004
Europe	742	771
South America	170	89
Australasia	765	659
Asia	5 071	325
North America	-	-
Other activities	14	6
Staff/eliminations	129	131
Total group	**6 891**	**1 981**

Key figures from the balance sheet by region	Fixed assets 2005	Fixed assets 2004	Interest-free current assets 2005	Interest-free current assets 2004	Interest-free current liabilities 2005	Interest-free current liabilities 2004
Europe						
Newsprint	8 388	8 019	2 038	2 091	931	917
Magazine paper	6 319	7 961	1 497	1 766	738	875
Total Europe	**14 707**	**15 980**	**3 535**	**3 857**	**1 669**	**1 792**
South America						
Newsprint	2 073	1 856	411	425	262	178
Australasia						
Newsprint	7 437	7 158	942	723	786	697
Asia						
Newsprint	11 296	4 423	2 160	788	981	362
Other activities						
Other industry in Norway	212	239	149	418	97	112
Staff/eliminations	265	349	(84)	138	1 013	748
Total group	**35 990**	**30 005**	**7 113**	**6 349**	**4 808**	**3 889**

3. Payroll costs

	2005	2004
Pay	2 947	2 885
Social security contributions	433	497
National insurance, pension and other social costs (see note 4)	311	166
Total	**3 691**	**3 548**

The chief executive´s basic salary at 1 January 2006 is NOK 3 600 000. An annual agreement is concluded on a result-based bonus limited to a maximum of 50% of his basic salary. See below for more details about this bonus agreement. On 1 October 2005, the chief executive was awarded 60 000 synthetic options with a strike price of NOK 95. See below for more information regarding this. The chief executive´s retirement age is 62. The company and the chief executive have the mutual right to terminate the chief executive's employment when he reaches the age of 60. His pension is calculated on the same basis as for all employees working in Norway and will amount to 65% of basic salary until the age of 77 and 60% thereafter. The pension obligation from the age of 64 is insured in a Norwegian insurance company. Pension payments between the age of 60 and 64 are not insured and paid through operations. Should the chief executive depart between the ages of 60 and 62, he will receive an early retirement pension corresponding to 90% of basic salary for the first 12 months and 80% thereafter. Annual expenses relating to the chief executive's future pensions amounted in 2005 to NOK 1 801 203 for the funded portion of the obligation and NOK 700 465 for the unfunded portion.

The mutual period of notice for the chief executive 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 remuneration they may receive from others, for a period of 18 months from the end of the period of notice. This provision applies equally to the chief executive 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 chief executive and other members of the corporate management specify a maximum payment of 50% of basic salary.

The basis for calculating this bonus – the targets – is set annually by the board and chief executive respectively. Fifty 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. The executive vice president for Australasia will receive 25% of his bonus entitlement before tax in the form of Norske Skog shares. 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.

Remuneration for members of the corporate assembly and directors totalled NOK 1 143 000 and NOK 2 441 762 in 2005.

The group had 9 372 employees at 31 December 2005, including Norske Skog PanAsia which became part of the group in 2005.

Share-based remuneration

The chief executive and other members of the corporate management are awarded synthetic options. 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 about 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.

The options are awarded in three tranches:

	Number	Date of award	Exercise period	Strike price
Tranche 1	300 000	20 Nov 03	1 Jul-31 Dec 2006	121.50
Tranche 2	360 000	1 Oct 04	1 Jul-31 Dec 2007	106.00
Tranche 3	330 000	14 Oct 05	1 Jul-31 Dec 2008	95.00

No options have been exercised in 2005.
A provision of NOK 20 million related to the synthetic options programme has been made in the profit and loss account. This reflects the estimated value of the awarded options at 31 December 2005. The options are valued by using the Black Scholes option pricing model.

Pay and conditions for other members of the corporate management working in Norway (in NOK)

In accordance with the code of practice 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 Dec 05	Payments in kind, etc for 2005 [1]	Bonus 2005 [2]	Number of synthetic options [3]	Loans at 31 Dec 05	Loan terms [4]
Jan Oksum	3 600 000	284 090	450 000	180 000	3 901 143	3 901 143 at 5 January 2004, interest-free and without capital repayment. Repayment is due three years after resigning as CEO
Christian Rynning-Tønnesen	2 000 000	80 068	320 025	-	-	-
Vidar Lerstad	1 850 000	144 104	371 600	90 000	488 120	540 833 at 13 February 2004, interest-free and with 10-year term
Jan Clasen	1 550 000	132 272	232 500	90 000	-	-
Jarle Dragvik	1 750 000	200 078	307 650	90 000	-	-
Ketil Lyng	1 550 000	179 858	311 600	90 000	400 490	1 500 000 at 21 march 1994, interest-bearing and with 15-year term
Hanne Aaberg	1 125 000	147 326	225 000	90 000	-	
Rolf Negård	1 475 000	156 119	333 675	90 000	481 250	500 000 at 22 March 2004, interest-bearing and with 20-year term

1 Includes special benefits, company cars, interest-free loans and so forth.
2 Based on results achieved in 2005, paid in 2006.
3 Including 120 000 options for the chief executive and 60 000 options for others awarded in 2003 and 2004 which can be exercised from 1 July-31 December 2006 at a strike price of NOK 121.50, and corresponding awards which can be exercised from 1 July-31 December 2007 at a strike price of NOK 106. The strike prices was changed in 2005 as a result of the share issue. The chief executive was awarded 60 000 options in 2005 and the other members of the corporate management were awarded 30 000 at a strike price of NOK 95.
4 The interest rate paid on all interest-bearing loans is the one which at any given time represents the floor for the taxable benefit of loans from employers.

Auditor's fees (in NOK 1 000)	Total	Parent company	Subsidiaries audited by group auditors	Subsidiaries audited by other auditors
Audit fee	10 184	2 977	6 551	656
Audit-related assistance [1]	8 482	7 750	665	67
Tax assistance	115	-	61	54
Other fees	976	289	567	120
Total	**19 757**	**11 016**	**7 844**	**897**

1 Audit-related assistance includes services which only auditors can provide. These include a limited audit of interim financial statements and 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 schemes are made in accordance with local agreements. A total of 8 774 people are covered by such schemes. Of these, 6 785 are covered by defined benefit plans and 1 989 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	5 097
Norske Skog Parenco	70%	40/37	65/62	60	497

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 31 December is used. This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the life insurance company.

In measuring incurred obligations, the projected obligation at 31 December is used. This projected obligation is corrected every year in accordance with the figures on incurred pension obligations provided by the actuary.

In addition to the benefit obligation funded through insurance plans, the group has uninsured benefit obligations. These include estimated future obligations relating to the Norwegian AFP early retirement scheme as well as obligations to former owners of subsidiaries and pensions for senior managment and directors. Obligations relating to senior management pensions are partly funded 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 is based on the following assumptions:	2005	2004
Discount rate	4.5%	5.0%
Expected return on plan assets	5.5%	6.0%
Pay adjustment	2.5%	2.5%
Social security increase/inflation	2.0%	2.0%
Pension increase	2.0%	2.0%

Some units in the group could deviate from the above assumptions if appropriate for local purposes.

Net periodic pension cost in the consolidated accounts	2005	2004
Benefits earned during the year	87	74
Interest cost on prior period benefits	161	126
Pensions cost contribution schemes	14	10
Expected return on plan assets	(168)	(149)
Periodic employer tax	3	5
Expensed portion of changes in AFP early retirement plan	(2)	(2)
Expensed portion of differences in estimates	12	9
Net periodic pension cost	**107**	**73**

Status of the pension plans reconciled to the consolidated balance sheet

Unfunded pension plans	2005	2004
Projected benefit obligations	(419)	(362)
Plan assets at fair value	-	-
Plan assets in excess of/(less than) obligations	**(419)**	**(362)**
Unamortised changes in AFP early retirement plans	-	-
Differences in estimates not taken to income/expense	-	-
Net plan assets/pension obligations	**(419)**	**(362)**
Accrual employer tax	-	-
Plan assets/(pension obligations) in the balance sheet	**(419)**	**(362)**

Partly or fully funded pension plans	2005	2004
Projected benefit obligations	(2 962)	(2 478)
Plan assets at fair value	2 973	2 621
Plan assets in excess of/(less than) obligations	**11**	**143**
Unamortised changes in AFP early retirement plans	-	-
Differences in estimates not taken to income/expense	83	-
Net plan assets/pension obligations	**94**	**143**
Accrual employer tax	(26)	(21)
Plan assets/(pension obligations) in the balance sheet	68	122

Changes in pension liability during the year	2005	2004
Balance 1 January	2 840	2 786
Changes owing to entities acquired/sold	37	-
Current year's service cost	87	74
Current year's interest cost	156	126
Pensions paid	(103)	(100)
Actuarial gains and losses	341	3
Currency translation effects	23	(49)
Balance 31 December	**3 381**	**2 840**

A return on plan assets of NOK168 million is estimated for 2005. The actual return on the plan assets for 2004 was NOK 114 million, compared with an estimated return of NOK 150 million. The difference between the booked return and the estimated return in 2003 is treated as an estimate difference.

5. Other operating costs

	2005	2004
Distribution costs	2 349	2 294
Packaging	372	388
Maintenance materials, servicing and spare parts	1 090	1 119
Marketing costs	38	34
Administration costs	634	677
Losses on bad debts [1]	4	(29)
Other costs	46	324
Other items	(14)	-
Gain/(loss) on energy hedging contracts	(264)	-
Total other operating costs	**4 255**	**4 807**

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

	2005	2004
Amounts written off during the year	32	(14)
Received amounts previously written off	-	(5)
Changes in bad debt reserves	(28)	(10)
Total	**4**	**(29)**

6. Financial items

	2005	2004
Dividends received	1	1
Interest revenue	70	58
Realised/unrealised gain on foreign currency	-	127
Other financial income	-	8
Total financial income	**71**	**194**

	2005	2004
Interest cost	781	894
Realised/unrealised loss on foreign currency	76	-
Other financial expenses	97	83
Total financial expenses	**954**	**977**
Net financial items	**(883)**	**(783)**

7. Restructuring costs

	2005	2004
Restructuring costs Union [1]	(195)	-
Environmental costs Union	(75)	-
Restructuring costs Tasman [1]	-	(63)
Total	**(270)**	**(63)**

All items are listed at their pre-tax values.

[1] Provision for costs related to downsizing

The corporate assembly approved the closure of Norske Skog Union on 4 October 2005. Other Norske Skog mills will increase their production as a result of this shut-down. In that way, the group will achieve better utilisation of its resources and reduce its annual costs by an estimated NOK 200 million.

8. Tax

Tax expense	2005	2004
Current tax expense	325	40
Change in deferred tax	(481)	(459)
Total tax expense	**(156)**	**(419)**

Income tax reconciliation	2005	2004
Earnings before taxation	(1 004)	210
Computed tax at nominal tax rate of 28%	(281)	59
Differences due to different tax rates	(21)	(19)
Affiliated companies	214	12
Exempt income/non-deductible expenses	(14)	(7)
Change in tax legislation [1]	(28)	(276)
Adjustment previous years	31	(60)
Tax losses not recognised	120	-
Various [2]	(176)	(128)
Total tax expense	**(156)**	**(419)**

[1] The tax cost in 2004 is affected by beneficial changes to tax legislation in Australia and the Netherlands.

[2] The company has booked the tax effect of a loss generated in connection with the Australasian restructuring of assets. This loss has been booked with a tax reducing effect of NOK 156 million in 2005.

Deferred tax	2005	2004
Net deferred tax liability 1 Jan	**2 361**	**2 894**
Deferred tax charged in income statement	(481)	(459)
Adjustement IFRS previous periods	23	(108)
Tax charged in equity	(223)	61
Acquisition PanAsia	570	-
Reclassification of group tax allocations	65	62
Translation differences	137	(89)
Net deferred tax liability 31 Dec	**2 452**	**2 361**

Details deferred tax 2004:

Deferred tax assets	Opening balance 2004	Charged to profit and loss	Charged to balance sheet	Translation adjustment	Closing balance 2004
Tangible and intangible assets	3	16	-	-	18
Other deferred tax assets - long term	252	(110)	108	(1)	250
Total deferred tax assets - long term	255	(94)	108	(1)	268
Current deferred tax assets	106	(36)	-	-	69
Tax losses and tax credit	1 037	309	(62)	(6)	1 277
Total deferred tax assets	**1 398**	**178**	**46**	**(7)**	**1 614**
Offset against def tax liabilities	(1 340)	(178)	(46)	7	(1 556)
Net deferred tax assets	**58**	**-**	**-**	**-**	**58**

Deferred tax liabilities	Opening balance 2004	Charged to profit and loss	Charged to balance sheet	Translation adjustment	Closing balance 2004
Tangible and intangible assets	3 197	(270)	14	(74)	2 866
Pension benefits	73	(20)	-	(1)	52
Contingent provisions and other liabilities	821	(197)	5	(11)	618
FX and financial instruments	158	186	43	(9)	378
Total deferred tax liabilities - long term	4 249	(302)	61	(95)	3 914
Current deferred tax liabilities	43	21	-	(2)	63
Total deferred tax liabilities	**4 292**	**(281)**	**61**	**(97)**	**3 975**
Offset against def tax assets	(1 340)	(178)	(46)	7	(1 556)
Net deferred tax liabilities	**2 952**	**(459)**	**16**	**(89)**	**2 419**

Details deferred tax 2005:

Deferred tax assets	Opening balance 2005	Charged to profit and loss	Charged to balance sheet	Translation adjustment	Closing balance 2005
Tangible and intangible assets	18	3	(3)	-	18
Other deferred tax assets - long term	250	84	4	6	344
Total deferred tax assets - long term	268	86	2	6	362
Current deferred tax assets	69	(11)	11	4	73
Tax losses and tax credit	1 277	98	38	3	1 417
Total deferred tax assets	**1 614**	**173**	**51**	**13**	**1 852**
Offset against def tax liabilities	(1 556)	(233)	269	(8)	(1 528)
Net deferred tax assets	**58**	**(60)**	**320**	**5**	**324**

Deferred tax liabilities	Opening balance 2005	Charged to profit and loss	Charged to balance sheet	Translation adjustment	Closing balance 2005
Tangible and intangible assets	2 866	(160)	588	79	3 372
Pension benefits	52	(11)	(7)	-	34
Contingent provisions and other liabilities	618	(130)	(2)	66	552
FX and financial instruments	378	(6)	(94)	5	283
Total deferred tax liabilities - long term	3 914	(306)	485	150	4 242
Current deferred tax liabilities	63	(2)	2	-	62
Total deferred tax liabilities	**3 975**	**(308)**	**487**	**150**	**4 304**
Offset against def tax assets	(1 556)	(233)	269	(8)	(1 528)
Net deferred tax liabilities	**2 419**	**(541)**	**756**	**142**	**2 776**

Tax losses to carry forward	2005	2004
Europe	3 990	3 088
Australasia	415	544
Asia	161	65
North America	-	8
South America	55	38
Total	**4 621**	**3 743**
Losses available indefinitely	4 460	3 678
Expire 2009 and 2010	161	65
Total	**4 621**	**3 743**

The company is in a constant dialogue with the tax authorities in several jurisdictions regarding several matters which could have a significant effect on the company's tax cost and/or deferred tax. The most significant are mentioned below.

One of the company's subsidiaries is in discussions with the Canadian tax authorities regarding an issue which could in the worst case amount to a claim of about NOK 4.5 billion in taxes and interest. The issue relates to a subsidiary acquired from Fletcher Challenge in 2001, and it is the company's opinion that the position taken by Fletcher Challenge is correct and that the company will prevail in the event a claim be made. Consequently, no provision has been made for this issue. The company has made provisions included in deferred tax for several other smaller issues amounting to NOK 396 million (NOK 380 million in 2004), which is equivalent to the maximum tax for these cases.

The company has significant tax loss carry-forwards available for future use against future taxable profits in several jurisdictions. It is the company's expectation that such losses as detailed below will be utilised. The only exception is losses in Germany with a value of NOK 124 million which are not included in the deferred taxes for 2005. This is due to the long time needed to utilise the loss carry-forwards owing to German rules which limit the portion of each year's profit which may be offset with prior years´ losses. Furthermore, losses are available mainly in various holding companies in various jurisdictions which cannot be utilised, and these are accordingly not booked for value.

9. Earnings per share

	2005	2004
Earnings in NOK million	(854)	621
Average number of shares in 1 000	142 878	132 430
Earnings per share in NOK	(5.98)	4.69

In October 2005, 56 808 538 new shares were issued. The effect of this issue on the average number of shares is relatively low because the shares have not been traded for more than two months.

10. Net cash flow from operations

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

	2005	2004
Earnings before taxes	(1 004)	210
Ordinary depreciation/impairments	3 320	3 203
Share of profit/(loss) in affiliated companies	751	44
Gain/(loss) on sale of fixed assets and other items	(13)	-
Taxes paid	(65)	(69)
Changes in receivables	(163)	(185)
Changes in inventory	(228)	21
Changes in current liabilities	708	(41)
Adjustments for non-cash working capital items and translation differences	(245)	(51)
Net cash flow from operating activities	**3 061**	**3 132**

11. Operational and intangible fixed assets

	Goodwill	Licences, patents and similar rights	Other intangible assets	Biological assets	Buildings and plants	Machinery and equipment	Fixtures and fittings	Plants under construction	Total
Acquisition cost 1 Jan 04	**5 479**	**108**	**251**	**347**	**8 389**	**43 438**	**700**	**840**	**59 552**
Additions 2004 at cost	-	1	8	14	118	1 284	158	407	1 990
Disposals 2004 at cost	(8)	(2)	(12)	(14)	(44)	(251)	-	(11)	(342)
Reclassification	-	-	20	10	46	403	-	(479)	-
Translation differences	(23)	(10)	(19)	(16)	(245)	(383)	-	(24)	(720)
Acquisition cost 31 Dec 04	**5 448**	**97**	**248**	**341**	**8 264**	**44 491**	**858**	**733**	**60 480**
Accumulated depreciation and write-downs 1 Jan 04	**865**	**82**	**81**	**89**	**2 629**	**18 528**	**480**	**-**	**22 754**
Depreciation 2004	-	-	17	-	381	2 678	17	-	3 093
Write-downs 2004	-	-	-	-	-	110	-	-	110
Depreciation and write-downs on fixed assets sold in 2004	-	-	3	-	(20)	(210)	-	-	(227)
Reclassification	-	-	-	-	-	-	-	-	-
Accumulated ordinary depreciation and write-downs 31 Dec 04	**865**	**82**	**101**	**89**	**2 990**	**21 106**	**497**	**-**	**25 730**
Book value 1 Jan 04	**4 531**	**26**	**170**	**221**	**5 760**	**24 936**	**220**	**840**	**36 704**
Book value 31 Dec 04	**4 583**	**15**	**147**	**252**	**5 274**	**23 385**	**361**	**733**	**34 750**
Depreciation plan		5-20 years	5-20 years	10-33 years	10-33 years	10-20 years	3-5 years		

Goodwill, real property and plants under construction are not depreciated.
Total rental cost for property, plant and equipment amounts to NOK 44 million.

Goodwill specification for each acquisition	Year	Book value 31 Dec 04
Golbey	1995	58
PanAsia	1999	45
Union	1999	61
Fletcher	2000	3 577
Walsum and Parenco	2001	721
Klabin	2003	126

	Goodwill	Licences, patents and similar rights	Other intangible assets	Biological assets	Buildings and plants	Machinery and equipment	Fixtures and fittings	Plants under construction	Total
Acquisition cost at 1 Jan 05	**5 448**	**97**	**248**	**341**	**8 264**	**44 491**	**858**	**733**	**60 480**
Additions 2005 at cost	-	142	71	77	351	1 130	243	429	2 443
Additions 2005 related to acquisition of companies	55	-	145	-	-	7 957	-	-	8 157
Disposals 2005 at cost	-	(22)	(16)	(95)	(46)	(410)	(158)	(7)	(754)
Reclassification	-	-	-	-	27	160	31	(218)	-
Translation differences	(70)	(2)	(2)	26	(367)	(343)	(158)	14	(902)
Acquisition cost at 31 Dec 05	**5 433**	**215**	**446**	**349**	**8 229**	**52 985**	**816**	**951**	**69 424**
Accumulated depreciation and write-downs 1 Jan 05	**865**	**82**	**101**	**89**	**2 990**	**21 106**	**497**	**-**	**25 730**
Depreciation 2005	-	86	70	-	194	832	56	-	1 238
Depreciation 2005 related to acquisition of companies	-	-	23	-	-	1 811	-	-	1 834
Write-downs 2005	66	-	-	69	27	84	2	-	248
Depreciation and write-downs on fixed assets sold in 2005	-	(21)	(15)	-	(20)	(341)	(56)	-	(453)
Reclassification	-	-	-	-	-	-	-	-	-
Accumulated ordinary depreciation and write-downs 31 Dec 05	**931**	**147**	**179**	**158**	**3 191**	**23 492**	**499**	**-**	**28 597**
Book value 1 Jan 05	**4 583**	**15**	**147**	**252**	**5 274**	**23 385**	**361**	**733**	**34 750**
Book value 31 Dec 05	**4 502**	**68**	**267**	**191**	**5 038**	**29 493**	**317**	**951**	**40 827**
Depreciation plan		5-20 years	5-20 years	10-33 years	10-33 years	10-20 years	3-5 years		

Goodwill, real property and plants under construction are not depreciated.
Total rental cost for property, plant and equipment amounts to NOK 92 million.

Goodwill specification for each acquisition	Year	Book value 31 Dec 05
Golbey	1995	58
Fletcher	2000	3 577
Walsum	2001	689
Klabin	2003	140
PanAsia	2005	55

12. Receivables

	2005	2004
Accounts receivable	4 087	3 215
Provision for bad debt	(97)	(107)
Other receivables	221	844
Prepaid VAT	42	98
Current receivables	**4 253**	**4 050**
Loans to employees	41	38
Sundry long-term receivables	514	203
Pension plan assets	93	126
Long-term receivables	**648**	**367**

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				
Sikon Øst ASA, Norway	NOK	50 000	2.0	2 000
Industrikraft Midt-Norge AS, Norway	NOK	444	10.0	8 649
Nordic Paper AS, Norway	NOK	40 100	45.0	29 845
Holmen Eiendom AS, Norway	NOK	8 000	43.8	-
Other shareholdings, each with a book value less than NOK 1 million				7 572
Total				**48 066**
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				3 508
Total				**21 729**

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	100
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100.0	14 498 196
Lysaker Invest AS, Lysaker	NOK	1 504 370	100.0	2 004 371
Norske Skog Holding AS, Lysaker	NOK	5 000	100.0	8 454
Foreștia AS, Braskereidfoss	NOK	50 000	100.0	60 000
Wood og Logistics AS, Lysaker	NOK	3 000	76.0	2 295
Total				**16 573 416**

		Currency	Share capital in 1 000	Ownership %	Book value in 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	2 190 829
Pan Asia Paper Company Ltd, Singapore	Ordinary USD	USD	600	100.0	7 072 568
Pan Asia Paper Company Ltd, Singapore	Ordinary SGD	SGD	-	100.0	-
Norske Skog Bruck GmbH, Bruck, Austria		EUR	1 817	99.9	165 918
Norske Skog Steti, Steti, Czech Republic		CZK	883 100	100.0	184 752
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		EUR	100	100.0	400
Norske Skog Belgium S.A., Brussels, Belgium		EUR	19 375	100.0	3 235
Nornews Portugal, Lisboa, Portugal		EUR	400	75.0	-
Norske Skog Espana S.A., Madrid, Spain		EUR	90	100.0	3 607
Norske Skog (Irland) Ltd., Dublin, Ireland		EUR	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, Trångsviken, Sweden		SEK	100	100.0	780
Norske Skog (Cypros) Ltd., Paphos, Cyprus		CYP	1	95.0	-
Norske Skog Asia Pacific Pte Ltd., Singapore		AUD	664 344	100.0	2 786 839
AB Lee Bruk, Trångsviken, 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		PLN	50	100.0	-
Norske Skog Hungary Trading and service Limited, Budapest, Hungary		HUF	3 000	100.0	-
Norske Skog Logistics NV, Antwerpen, Belgium		EUR	2 500	99.96	540
THP Paper Company, Seattle, USA		USD	-	100.0	-
Norske Skog Chile Industrial Limitada, Concepcion, Chile		USD	15 000	0.1	524
Norske Skog Europe Recovered Paper NV, Antwerpen, Belgium		EUR	62	99.84	493
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	Preference	MYR	382 855	100.0	891 779
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	Ordinary	MYR	-	100.0	-
NSI Forsikring A/S, Hvidovre, Danmark		DKK	20 000	100.0	16 552
Norske Skog Walsum GmbH, Duisburg, Germany		EUR	130 025	100.0	2 603 577
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	Preference	BRL	24 550	100.0	-
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	Ordinary	BRL	113 768	99.95	1 137 613
Norske Skog Adria d.o.o., Ljubljana, Slovenia		SIT	164	100.0	164
Papeles Norske Skog Bio Bio Ltda., San Pedro de la Paz, Chile		CLP	77 715	100.0	91
Norske Skog Holdings BV, Amsterdam, Netherlands		EUR	170 100	100.0	2 680 944
Norske Skog Tasman Ltd. Auckland, New Zealand		NZD	600 000	100.0	29 537
Norske Skog Industries Australia Ltd., Sydney, Australia		AUD	-	100.0	16 551
Total					**19 817 955**
Total shares owned by the parent company					**36 391 371**

	Currency	Share capital in 1 000	Ownership %
Shares in foreign subsidiaries and joint ventures owned by consolidated companies			
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	CHF	1 001 100	100.0
Norske Skog (USA)Inc. Southport, USA	USD	-	100.0
Norske Skog Capital (Australia) Pty Ltd, Sydney, Australia	AUD	223 000	100.0
Norske Skog (Australia) No. 1, Sydney, Australia	AUD	-	100.0
Norske Skog (Australasia) Pty Limited, Sydney, Australia	AUD	1 000	100.0
Norske Skog Paper Mills (Australia) Limited, Tasmania, Australia	AUD	7 539	100.0
Norske Skog Forests (Australia) Pty Ltd, Tasmania, Australia	AUD	2 000	100.0
Norske Skog Capital NZ Ltd, Aukland, New Zealand	NZD	1	100.0
Norske Skog Tasman Limited, Auckland, New Zealand	NZD	100	100.0
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
Geosilica International LTD, Auckland, New Zealand	NZD	1	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 Ltda., Jaguariaíva, Brazil	BRL	68 625	100.0
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	BRL	110 269	100.0
Norske Skog CI Ltd, Georgetown, Cayman Islands	CHF	1 300 000	100.0
4346799 Canada Inc., Canada	CAD	1 747 450	100.0
33027 YUKON INC, Vancouver BC, Canada	CAD	19 245	100.0
Norske Skog North America LLC, Seattle, USA	USD	1 000	50.0
Norske Skog Overseas Holdings AG, Zurich, Switzerland	CHF	546 234	100.0
Norske Skog Finance (UK), Cardiff, UK	GBP	100	100.0
Norske Skog Industries (UK) Limited, Cardiff, UK	GBP	569 065	100.0
Norske Skog Forest Holdings AG, Zürich, Switzerland	CHF	63 173	100.0
Parenco Assurantien BV, Renkum, Netherlands	EUR	-	100.0
Parenco Finance BV, Renkum, Netherlands	EUR	18	100.0
Reparco Nederland BV., Nijmegen, Netherlands	EUR	227	100.0
Sapin SA, Harze, Belgium	EUR	8 125	50.0
Papeles Norske Skog Bio Bio Ltda., San Pedro de la Paz, Chile	USD	77 718	100.0
Norske Skog Chile Industrial Ltda., San Pedro de la Paz, Chile	USD	15 000	100.0
33038 YUKON INC, British Columbia, Canada	USD	27 382	100.0
Paroco Rohstoffverwertung GmbH, Essen, Germany	EUR	130	51.0
Reparco Nijmegen BV, Nijmegen, Netherlands	EUR	18	100.0
Reparco Randstad BV, Gravenhage, Netherlands	EUR	14	100.0
Reparco Renkum BV, Renkum, 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 Daalder Winterswijk B.V., Zutphen, Netherlands	EUR	14	100.0
Fletcher Paper Sales North America, Inc, Delaware, USA	USD	10	100.0
Forest Terminals Corporation, California, USA	USD	5	100.0
Norske Skog Parenco BV, Renkum, Netherlands	EUR	245 041	100.0
Norske Skog Bruck GmbH, Bruck, Austria	EUR	1 817	0.1
4159641 Canada Inc., Canada	CAD	26 616 900	100.0
Norske Skog Papier Recycling GmbG, Bruck, Austria	EUR	145	50.0
Forestia LB Wood AB, Taberg, Sweden	SEK	-	100.0
Pan Asia Paper (Thailand) Co. Ltd., Bangkok, Thailand	THB	2 167 500	94.1
Norske Skog Korea Co. Ltd., Republic of Korea	KRW	479 153 000	1000
Shanghai Pan Asia Potential Paper Co. Ltd., Shanghai, China	CNY	USD 44 000	56.1
Hebei Pan Asia Long-Teng Paper Co. Ltd., Zhaoxian, China	CNY	USD 152 705	80.0
Norske Skog Sales (Hong Kong) Ltd., Hong Kong, China	HKD	2	100.0
Pan Asia Paper Sales (Australasia) Pty. Ltd., Australia	AUD	12	100.0

14. Affiliated companies and joint ventures

Shares in affiliated companies are included in the consolidated accounts in accordance with the equity method. Joint ventures are consolidated proportionally.

NOK million	Ownership	Book value 1 Jan 05	Acquired shares	Share of profit for the year	Dividend/other equity corrections	Book value 31 Dec 05
Affiliated companies						
Malaysian Newsprint Industries SDN BHD, Kuala Lumpur, Malaysia	33.7%	200	-	20	60 [1]	280
Nordic Paper AS, Greaker, Norway [2]	45.0%	20	-	3	-	23
Catalyst Paper Corp., Vancouver, Canada [3]	29.4%	1 629	-	(772) [4]	228 [5]	1 085
Other affiliated companies		9	-	(2)	20	27
Total		**1 858**	**-**	**(751)**	**308**	**1 415**
Pan Asia Paper Co. Pte Ltd, Singapore	50% / 100% [6]	3 085	-	74 [7]	(3 159)	-
Total		**3 085**	**-**	**-**	**-**	**-**

[1] Currency translation differences MYR/NOK.
[2] Norske Skog's share of Nordic Paper AS was sold in January 2006.
[3] Norske Skog's share of Catalyst Paper Corp (previously Norske Skog Canada Ltd) was sold in January 2006.
[4] Share of loss for the year, NOK 43 million, and impairments, NOK 729 million.
[5] Includes currency translation differences CAD/NOK of NOK 257 million.
[6] Pan Asia Paper Co Pte was acquired 100% on 18 November 2005. The company has been fully consolidated into the group accounts with effect from this date.
[7] Includes the share of profit until the company was fully consolidated on 18 November 2005. See note 28 for details of the acquisition.

Catalyst Paper had a total equity at 31 December 2005 of CAD 1 020 million.

15. Inventory

	2005	2004
Raw materials and other production inputs	1 185	1 128
Semi-manufactured materials	44	41
Finished goods	1 631	1 130
Total	**2 860**	**2 299**

16. Cash and cash equivalents

	2005	2004
Cash and bank deposits	452	419
Commercial papers	-	470
Total liquid assets	**452**	**889**

The group has limited access to liquid assets in the joint ventures and in companies with large minority interests. In 2005, this totalled NOK 0 million as against NOK 101 million in 2004.

Commercial papers	2004
Bank/insurance	75
Energy	158
Industry/commerce/shipping	190
Total bonds	**423**
Certificates	15
Current bank deposits	30
Quoted investment shares	2
Total	**470**

Commercial paper was classified in 2004 as a current asset and valued as a portfolio. Net unrealised gain on the portfolio was NOK 6.97 million in 2004.

17. Financial assets at fair value through profit or loss

Commercial papers	2005 Average interest rate	Next fixing	2005
Floating interest rate			
Energy		25 Jan 06	80
Industry/commerce/shipping		2 Feb 06	45
Fixed interest rate			
Bank/insurance			112
Energy			68
Industry/commerce/shipping			112
Total bonds	**4.55%**		**417**
Certificates			31
Quoted investment shares			2
Total			**450**

Commercial papers are held for trading and classified at fair value through profit or loss. The net unrealised loss on the portfolio was NOK 1.62 million. The duration of the portfolio was 2.77.

18. Joint venture

Norske Skog acquired 50% of Pan Asia Paper Company in August 2001. It became the sole owner of this company at 18 November 2005 through the acquisition of the 50% shareholding held by Canada's Abitibi Consolidated. PanAsia's balance sheet was consolidated 100% at 31 December 2005.

Share of operating earnings	2005	2004
Operating revenue	2 191	2 603
Operating expenses	2 045	2 443
Operating earnings	**146**	**160**

Share of balance sheet	2005	2004
Tangible fixed assets	-	4 594
Long-term receivables	-	13
Total fixed assets	**-**	**4 607**
Inventory	-	264
Current receivables	-	523
Other liquid assets	-	101
Total current assets	**-**	**888**
Deferred tax	-	309
Long-term debt	-	1 487
Current debt	-	615
Total debt	**-**	**2 411**

19. Minority interests

	2005	2004
Minority at 1 Jan	**186**	**196**
Changes in minority owing to sales/purchases [1]	510 [1]	11
Share of net earnings/(loss)	6	8
Dividend paid	(13)	(10)
Currency translation differences	24	(19)
Minority at 31 Dec	**713**	**186**

[1] Related to the acquisition of Pan Asia Paper company in the fourth quarter of 2005.

20. Interest-bearing long-term liabilities

	2005	2004
Bonds	9 187	10 224
Debt to financial institutions	8 338	6 818
Total	**17 525**	**17 042**
Senior long-term debt in NOK	2 647	3 970
Senior long-term debt in foreign currencies	14 878	13 072
Total	**17 525**	**17 042**

Senior long-term debt by currency

	Currency amount million 31 Dec 05	Currency rate 31 Dec 05	NOK million 31 Dec 05
USD	1 290	6.77	8 729
EUR	574	7.99	4 587
NZD	25	4.62	115
AUD	-	4.96	-
KRW	135 242	0.0067	912
SEK	87	0.85	74
SGD	61	4.07	248
RMB	255	0.84	214
Total debt in foreign currencies in NOK			**14 878**
Total senior long-term debt in NOK			**2 647**
Total long-term debt			**17 525**

Weighted average interest rate at 31 December 2005 was 4.2%.

Repayment of debt

The company's total debt at 31 December 2005 matures as follows:

	Debt banks	Bonds	Total
2006	1 317	1 267	2 584
2007	627	1 916	2 543
2008	373	101	474
2009	769	1 405	2 173
2010	4 566	81	4 647
2011	265	4 061	4 326
2012	175	-	175
2014	-	200	200
2015	121	1 354	1 475
2033	-	1 354	1 354
Total	**8 214**	**11 738**	**19 952**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, unrealised currency effects on forward contracts and fair value hedging. Premiums or discounts on issued bonds will be amortised in the profit and loss account over the lifetime of the issued bonds. At 31 December 2005, the accounts included a discount of NOK 28 million. In 2004 the corresponding discount was NOK 21.7 million.

The repayment schedule does not include unrealised currency effects on forward contracts. This increased debt by NOK 41 million at 31 December 2005 compared with NOK 302 million at 31 December 2004. In addition, the fair value hedging effect increased long-term interest-bearing debt by NOK 147 million.

Norske Skog's liquidity reserve consists mainly of two credit facilities of USD 500 million and EUR 400 million respectively. Both facilities mature mainly in 2009. NOK 6.4 billion of these facilities was undrawn at 31 December 2005.

At 31 December 2005, the company's holding of its own bonds amounted to NOK 925 million. This is deducted from interest-bearing debt in NOK. Norske Skog can draw an additional NOK 4 634 million on existing domestic bond loans.

Norske Skog has given declarations of negative pledge when raising long-term loans. Some of the loan contracts also contain requirements regarding certain financial ratios relating to solvency and other requirements usual in syndicated loan agreements.

These are:

- net tangible worth (equity capital minus intangible fixed assets) must be a minimum of NOK 9 billion
- net interest-bearing debt/equity capital ratio must be a maximum of 1.4.

Norske Skog complies with each and every one of these requirements. The bond loans do not have covenants related to key financial figures.

21. Interest-bearing current liabilities

	2005	2004
Current bank debt	1 317	718
Bonds	1 270	-
Total	**2 587**	**718**

The group has unused bank overdrafts of NOK 150 million. No restrictions are placed on the use of the facility.

Booked bonds differ from the repayment schedule owing to a premium of NOK 3 million.

22. Interest-free current liabilities

	2005	2004
Duties and holiday pay	795	720
Accounts payable	2 318	1 866
Sundry interest-free current debt	717	432
Accrued expenses	1 215	840
Provision emission rights	35	-
Derivatives	(411)	-
Total	**4 669**	**3 858**

23. Financial risk and hedge accounting

Transaction risk currency - cash flow hedging

The group has revenues and costs in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk is the potential difference in the future value of outgoing or incoming funds in the various currencies used by the group. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. Fifty to 100% of the company's cash flow exposure is hedged at any time. The result of the hedging is included under financial items in the consolidated profit and loss account. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a loss of NOK 119 million in 2005. Over time, currency loss or earnings will offset increased or reduced future net operational earnings.

Norske Skog hedges project cash flow. In 2005, the cash flow hedge on the acquisition of 50% of Pan Asia met the criteria for cash-flow hedge accounting pursuant to IAS 39. NOK 118.9 million is booked as a reduction in the acquisition cost and the total gain from this hedge was NOK 139.6 million.

The effective portion of the change in the fair value of derivatives which are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised in the profit and loss account. Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss. When the forecast transaction results in the recognition of a non-financial assets or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the profit and loss account.

Translation risk currency - net investment hedge
The group accounts are presented in NOK. A translation risk arises when the accounts of subsidiaries, presented in local currencies, are translated into NOK.

Up to 2003, the currency mix of debt was aimed at neutralising currency movements which affected corporate gearing. Considerable repayment of debt in recent years has improved the gearing. From a financial perspective, the group changed its mix of currencies in 2003 in order to move closer to an optimal hedging. Debt is drawn in currencies in which the group has net investments in order to reduce its exposure, and contributes to reducing fluctuations in group booked equity as a consequences of currency movements. The result of translation risk hedging is booked against equity and offset by translation differences from assets in subsidiaries. The loss from the balance sheet hedging booked against equity in 2005 was NOK 408 million. Using forward contracts to adjust currency allocation on debt will offset other liquidity outcomes linked to exchange rate movements than the use of traditional currency debt. All combined currency and interest swaps are used for hedging net investments in foreign subsidiaries.

Hedges of net investment in foreign operations are accounted for in the same way as cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Interest rate risk - fair value hedge
Norske Skog considers that a floating interest rate on its corporate debt reduces risk. This relates to the correlation between Norske Skog's earnings and economic cycles, where interest rates are normally high during boom conditions and low during recessions. The switch to floating interest payments on existing fixed interest loans is achieved by using interest rate swaps. The financial risk on the debt portfolio is measured by interest rate sensitivity (duration). In some cases, interest rate derivatives are used to adjust the duration of individual currencies. For combined interest and currency swaps, unrealised currency effects are booked against the translation of underlying debt and translation differences on equity in the group.

Changes in the fair value of derivatives which are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability which are attributable to the hedged risk.

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 at 31 December 2005. The hedge met the requirement for fair value hedge in IFRS. Hedging instruments and the underlying debt are presented at fair value.

Derivatives which do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and the change in fair value of any derivative instruments which do not qualify for hedge accounting is recognised immediately in the profit and loss account.

Derivatives

NOK million	Net investment hedging [1]		Fair value hedging [3]		Held for trading [2]		Total value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	-	-	147	(25)	3	(56)	149	(82)
FRA	-	-	-	-	6	(5)	6	(5)
Currency option	-	-	-	-	4	-	4	-
Forward contracts	38	(147)	-	-	18	(95)	57	(242)
Cross-currency contracts	6	(60)	-	-	-	(2)	6	(61)
Financial commodity contracts	-	-	-	-	274	(21)	274	(21)
Embedded derivatives	-	-	-	-	286	-	286	-
Total	**45**	**(207)**	**147**	**(25)**	**591**	**(179)**	**783**	**(411)**
Non-current portion	**6**	**(60)**	**147**	**(25)**	**351**	**(67)**	**504**	**(152)**
Current portion	**38**	**(147)**	**-**	**-**	**240**	**(112)**	**278**	**(259)**

[1] The effective portion of a negative NOK 38 million of the fair value of derivatives is designated as and qualifies for hedge accounting. The gain or loss relating to the ineffective portion is recognised in the profit and loss account.

[2] Includes: active management portfolio, long-term assset portfolio, embedded derivatives in physical contracts, commodity hedging contracts and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through profit or loss.

[3] The notional principal amounts of the interest rate swap in the fair value hedge was NOK 8 610 million.

Duration table	USD	EUR	KRW	AUD	CAD	Total[1]
Currency allocation in NOK million	5 791	7 267	3 138	2 286	877	20 113
Duration per currency	0.65	1.11	1.10	1.25	0.32	0.95

[1] Debt in other currencies: NOK 754 million.

The table presents the currency split of the group's debt. The figures present the debt at face value (including synthetic debt – in other words, cross-currency swaps and forward contracts used to modify the currency mix).

Duration is calculated for each currency and indicates the interest rate fixing period in years.

Liquidity risk

Norske Skog is exposed to liquidity risk when payments of financial liabilities do not correspond to the group's cash flow from net profit. To offset these effects, the group spreads payments related to financial liabilities throughout the year. In addition, its policy is to have a liquidity reserve of 20% of the turnover in the form of cash and unused/undrawn credit facilities. The group had unused facilities of NOK 6.4 billion at 31 December 2005.

Credit risk

Norske Skog makes a credit evaluation of all counterparts in financial trading. The counterpart must be at least an A-rated company. For non-rated companies, calculations are made whereby the minimum criteria for key figures are the same as for an A-rated company. Based on the rating and other calculations, a limit on credit exposure is established for all counterparts. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements.

Credit policy for sales is centralised at corporate headquarters, while the authority to grant credits to customers is decentralised to the sales units. Receivables are monitored closely through a comprehensive rating programme, and overdue amounts are 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 its hedging. The hedging ratio represents a trade-off between risk exposure and opportunities for taking advantage of short-term price drops. Contracted volumes have rated counterparts.

24. Mortgages

The following loans were secured by mortgages on real property at 31 December	2005	2004
Other mortgage debt	2 175	755
Total	**2 175**	**755**

Book value of assets securing this debt at 31 December	2005	2004
Machinery	2 640	934
Buildings	410	100
Forest, land and other real property	-	-
Other	255	-
Total	**3 304**	**1 034**

As a general principle, Norske Skogindustrier ASA and subsidiaries pledge no assets above a predefined threshold. The increase in 2005 mortgages is a result of the acquisition of the remaining 50% of Pan Asia Paper Company.

25. Environment

NOK 111 million was invested in environmental measures at Norske Skog's mills during 2005. The corresponding amount for 2004 was NOK 157 million. Most of this spending went on reducing emissions to the air and discharges to water, and on waste treatment.

Investment to reduce water consumption, discharges to water and emissions to the air each accounted for roughly a third of total spending on environmental measures. Just over 15% went on improving waste treatment. Other spending related to safer handling of chemicals, energy saving and noise reduction.

Norske Skog is not aware of any governmental requirements for cleaning up sites where the group conducts business.

In connection with the divestment of businesses during recent years, surveys have been carried out in some areas where possible pollution might be suspected. This has been done partly as a matter of routine and partly in response to government orders. As of today, none of these surveys have resulted in requirements to clean up sites which will incur major costs for the company. Following the closure of Norske Skog Union, environmental investigations will be carried out to identify possible pollution. Results from these surveys will form the basis for assessing possible measures required to satisfy requirements for environmental quality in the area.

Norske Skog developed group guidelines during 2005 for identifying possible environmental obligations. These will form the basis for preparing mill-specific plans and initiatives during 2006. The guidelines specify requirements for documenting the history of the facility, a description of its locality, legal obligations which apply, the impact of the activity now and in the past and estimated costs for measures that should be applied.

At 31 December 2005, the company has a provision for future environmental obligations of NOK 291 million which is included in long term interest free liabilities. This provision is the net present value of future obligations. The change in the net present value during 2005 is charged through the profit and loss account as a financial item of NOK 33 million.

26. Other commitments

In 1998, Norske Skog finalised a lease-out-liease-in arrangement with US investors for PM5 and PM6 at Norske Skog Saugbrugs. The present value of the cost of the leaseback is about NOK 4 000 million, which is irrecoverably deposited in favour of the US investors. Although the sum has been deposited, Norske Skog is not exonerated from liability for payment. However, the credit risk is extremely low because 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 arrangement, it is obliged to recompense the investors for any loss. The investors' loss will vary over the term of the lease and will at most amount to USD 85.6 million. By June 2014, this amount will be zero. The possibility of Norske Skog being unable to perform the contract is extremely low. The contract could only be broken off as the result of extraordinary circumstances in the nature of force majeure. The leasing arrangement is classified as a financial lease.

Norske Skog and Klabin Fabricadora de Papel e Celulose SA each owned 50 per cent of the shares in the Norske Skog Klabin joint venture in Brazil. 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 at Klabin. This commitment is limited to three years from the termination of the agreement.

During the spring of 2004, the European Commission initiated an investigation of Norske Skog and other European paper producers for assumed violation to the EU's competition rules. The background for the investigation was that one of Norske Skogs's competitors, UPM-Kymmene of Finland, has initiated a cooperation with the competition authorities in the EU, the USA and Canada after an internal review of the company's business policies. Investigations have been initiated against Norske Skog in a case of alleged illegal sales cooperation among producers of newsprint in Europe. The European Commission is likely to request more explanations and evidence during 2006.

Following the investigation initiated by the European Commission, publication paper producers both in Europe and in the USA have been sued by customers in the USA claiming compensation for losses caused by alleged breach of competition rules. The lawsuits are group actions. This means that the plaintiff represents all potential customers in the USA following an investigation outside the USA. However, American competition authorities have initiated an investigation of American-based producers of magazine paper. Norske Skog is not included in this investigation.
In the USA, a total of 30 lawsuits against companies in the publication paper industry have been initiated. Six of these are proceeding in local state courts in California and 24 are proceeding in Federal courts.

At this stage it is not possible to say anything about when the cases mentioned above will be closed, or the outcome of the cases.

27. Dividend per share

Dividend paid in 2004 and 2003 amounted to NOK 795 million in both years (NOK 6.00 per share which adjusted for the rights offering of new shares, amounts to 5.43 per share). A dividend of NOK 5.5 per share for 2005, amounting to a total dividend of NOK 1 040 million, will be proposed to the annual general meeting on 20 April 2006. These financial statements do not reflect this dividend.

28. Information regarding the acquisition of Pan Asia Paper Company

During 2005, Norske Skog acquired the remaining 50% of Pan Asia Paper Company.

Before the acquisition, Pan Asia Paper Company was a 50-50 joint venture between Norske Skog and Abitibi Consolidated. The date of the acquisition was 18 November 2005.

Norske Skog paid USD 600 million for the shares. In addition, Abitibi is entitled to an adjusted purchase price limited to USD 30 million, to be based on splitting the proportion of PanAsia's 2006 EBITDA which exceeds USD 175 million. Costs directly related to the acquisition amount to USD 4 million.

To finance the acquisition, 56 808 538 new shares were issued at an issue price of NOK 70.00 per share.

The table below shows Norske Skog's consolidated profit and loss account as if the acquisition of Pan Asia was carried through at 1 January 2005 (in NOK million).

Operating revenue	**28 871**
Variable costs	(18 248)
Other operating costs	(5 943)
Restructuring costs	(270)
Depreciation and amortisation	(3 181)
Impairments	(248)
Operating earnings	**981**
Affiliated companies	(751)
Financial items	(963)
Other items	-
Earnings before tax	**(733)**
Tax	64
Earnings	**(669)**
Minority's share of earnings	12
Majority's share of earnings	**(681)**

The table below shows PanAsia's total assets, liabilities, cash and cash equivalents at the time of acquisition.

Total assets	**11 589**
Total liabilities	**5 477**
Total cash and cash equivalents	**113**

Pursuant to IFRS 3, the accounting of the transaction has resulted in a write-up of excess value from previous acquisitions of NOK 474 million.

29. Events after balance sheet date

Norske Skog reached agreement on 30 January 2006 concerning the sale of its 63 million shares in Catalyst Paper. The sales price for these shares indicate a loss of NOK 729 million. The investment in Catalyst Paper has been written down by this amount in the group profit and loss account.

An agreement has been concluded by Norske Skog on the sale of its interest in Nordic Paper. Closed on 16 January 2006, this disposal yielded a gain of NOK 30 million.

Norske Skog reached agreement in January 2006 concerning the sale of its shares in Forestia to the listed company Byggma ASA. The sales price for the shares indicates an impairment requirement of NOK 24 million. This has been implemented in the group profit and loss account for 2005. The sale will be closed 3 March 2006.

30. Related parties

Some of the company's shareholders are forests owners delivering forestry products to the company's production units in Norway. All transactions with related parties are conducted at arm's length.

One director, Øivind Lund, is employed as national head of ABB in Turkey. The ABB group delivers technical equipment to Norske Skog 's paper mills from time to time. Chair Lars Wilhelm Grøholt and director Halvor Bjørken are forest owners who supply wood to the company on normal standardised terms. No director is remunerated for their work for the company from any source other than the company itself.

31. Biological assets

Norske Skog has forest properties in Australia and Brazil. These are booked at their estimated sales value.

The forest properties in Australia were located in New South Wales and Tasmania. Those in New South Wales were sold during the fourth quarter of 2005. Since they were booked at their estimated sales value, no gain on their sale has been recorded in the profit and loss account. No change occurred in the estimated sales value of the forest properties in Tasmania during 2005.

A NOK 11 million increase in value was recorded for the forest properties in Brazil during the year. This change has been recorded under other gains and losses.

32. Other gains and losses

Other gains and losses consist of a gain of NOK 264 million from energy hedging and power trading, and a gain of NOK 11 million from changes in the value of forests in Brazil.

33. Implementation of IFRS

Outlined below are the effects of implementing IFRS.

Preliminary balance sheet in accordance with IFRS at 1 January 2004

NOK million	Notes	Balance sheet according to NGAAP 31 Dec 03	Effect of implementing IFRS	Balance sheet according to IFRS 1 Jan 04
Intangible fixed assets	6, 7	4 727	141	4 868
Operational fixed assets	2, 3	31 996	153	32 149
Long-term receivables and affiliated companies	1	2 622	(233)	2 389
Fixed assets		**39 345**		**39 406**
Inventory		2 321	-	2 321
Receivables		3 868	-	3 868
Short-term investments		596	-	596
Liquid assets		334	-	334
Current assets		**7 119**		**7 119**
Total assets		**46 464**		**46 525**
Paid-in equity		8 445	-	8 445
Retained earnings	11	10 680	335	11 015
Minority interests		197	-	197
Shareholders´ equity		**19 322**		**19 657**
Deferred taxes	6	2 460	385	2 845
Interest-free long-term liabilities and obligations	4 ,5	872	136	1 008
Interest-bearing long-term liabilities		18 290	-	18 290
Interest-free current liabilities	8	4 864	(795)	4 069
Interest-bearing current liabilities		656	-	656
Total liabilities and shareholders´ equity		**46 464**		**46 525**

1. Deferred tax from acquisitions has been valued at net present value when this gives a better reflection of the realities of the transaction. Under IFRS, valuing deferred tax at net present value is not allowed. Deferred tax needs to be restated to nominal value in the IFRS opening balance. The effect of this is that deferred tax increases. Norske Skog has also presented deferred tax related to the investment in NorskeCanada at net present value. The effect of revaluing this deferred tax from net present value to nominal value is that the book value of the investment in NorskeCanada decreases. The effect on deferred tax amounts to NOK 513 million. The effect on the book value of the investment in NorskeCanada amounts to NOK 233 million. The total effect on the group equity is a reduction of NOK 746 million.

2. According to IAS 41, biological assets should be valued at fair value. Forests are considered to be biological assets. At 1 January 2004, the sale of the forests in mid-Norway was not recognised in the Norske Skog accounts. In the IFRS opening balance, the fair value of these forests must be recognised. The sales contract on these forests indicated a fair value which was NOK 142 million higher than the book value of the forests. In addition, fair value of the forests in Australia is estimated to be NOK 37 million higher than the book value at 31 December 2003. In total, this gives an increased value of operational fixed assets of NOK 179 million in the IFRS opening balance. In the group equity, this change represents an increase of NOK 179 million.

3. IFRS 1 First Time Addoption of IFRS opens for the use of fair value as deemed cost on items of property, plant and equipment. This deemed cost will be the basis for depreciations going forward. Norske Skog has taken the opportunity of using fair value on selective items of property, plant and equipment as deemed cost in the IFRS opening balance. Norske Skog has analysed the property, plant and equipment of the group, and identified items at the Skogn mill, the Parenco mill and the Union mill which will be valued at fair value in the IFRS opening balance. Items of property, plant and equipment with a fair value NOK 1 520 million above book value are identified at the Skogn mill. At the Parenco mill, items of property, plant and equipment with a fair value NOK 1 120 million below book value are identified. At the Union mill, items for property, plant and equipment with a fair value NOK 426 million below book value are identified. The total effect of the revaluing of the identified items of property, plant and equipment is a reduction in the value of operational fixed assets of NOK 26 million and a reduction in group equity of NOK 26 million.

4. Norske Skog has established a captive to handle its insurance. This captive is run as an insurance company. Through its business, the captive has built up an equalisation reserve. Under NGAAP, this equalisation reserve has been classified as a liability. Equalisation reserves does not qualify as a liability under IFRS. The liability will be reclassified to equity in the IFRS opening balance. The effect of this is an increase in the group's equity of NOK 21 million.

5. Norske Skog has been reporting pension liabilities, pension assets and pension costs in accordance with the Norwegian Accounting Standard on Pensions. The Norwegian standard is similar to IAS 19 in that one can choose to spread the effects of changes in estimates and pension plans and the difference between actual and anticipated returns over the average remaining service life of the employees, when the accumulated effects exceed 10 per cent of whichever is the higher of the pension scheme funds or the pension obligations. This is the corridor approach. Retrospective implementation of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plans until the date of transition to IFRS into a recognised portion and an unrecognised portion. However, IFRS 1 allows a first-time adopter to recognise all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses. Norske Skog will use this opportunity. The effect of this in the Norske Skog IFRS opening balance is a reduction in net pension liabilities of NOK 93 million, an increase in deferred tax of NOK 26 million and an increase in group equity of NOK 67 million.

6. IFRS is stricter than NGAAP when it comes to netting of deferred tax assets against deferred tax liabilities. In the closing balance at 31 December 2003, Norske Skog has netted deferred tax assets against deferred tax liabilities amounting to NOK 58 million which cannot be netted under IFRS. The effect of this change is that deferred tax assets and deferred tax liabilities in the balance sheet both increase by NOK 58 million. For other items affecting deferred tax, see notes 1, 5, 7, 9 and 10.

7. In the Norske Skog accounts under NGAAP, negative goodwill from the acquisition of Parenco in 2001 is recognised. Negative goodwill cannot be recognised under IFRS. This negative goodwill has to be booked directly to equity in the IFRS opening balance. The negative goodwill amounts to NOK 83 million. The effect of this change is an increased goodwill of NOK 83 million, an increase of deferred tax of NOK 23 million and an increase in equity of NOK 60 million.

8. Under IFRS, no provision for proposed dividend should be made. A provision for proposed dividend does not meet the definition of a liability under IFRS. Dividend should reduce equity when the annual general meeting decides the dividend. In the IFRS opening balance, the provision for dividend made at 31 December 2003 must be reversed. The effect of this is an increased equity of NOK 795 million compared with the closing balance for 2003 under NGAAP. This increase in equity will only be temporary, since NOK 795 million will be charged to equity when the dividend is decided by the annual general meeting.

9. As part of the work with the IFRS implementation, Norske Skog has reviewed all its provisions. This review has identified provisions related to tax issues that might be of a general nature. These provisions were reversed in the IFRS opening balance. In total these provisions amount to NOK 160 million. The effect of reversing these provisions is an increased equity and a reduction in liabilities. In the 2004 accounts under NGAAP, these reversals are recognised in the profit and loss account. The fact that the reversals are recognised in the opening balance under IFRS means that they will not be recognised in the IFRS profit and loss account under IFRS.

10. As part of the work with the IFRS implementation, Norske Skog has evaluated the company's environmental obligations. In the event of a future close-down of any of Norske Skog's production units, costs related to cleaning up of the sites in questions may occur. These liabilities should be recognised at net present value. Total discounted liability at 1 January 2004 is estimated to be NOK 250 million. The effect of this is an increase in liabilities of NOK 250 million, a reduction in deferred tax of NOK 75 million and decreased equity of NOK 175 million.

11. The total effect on retained earnings is:

Restating of deferred tax from net present value to nominal value	(746)
Market value of biological assets	179
Rebalancing of property, plant and equipment	(26)
Reclassification of equalisation reserve	21
Changes in pension plans and estimates not recognised in profit and loss	67
Negative goodwill	60
Reversing provision for dividend	795
Reversing of provisions	160
Provision for environmental clean up costs	(175)
Total effect on retained earnings	**335**

The total effect on Norske Skog's equity of implementing IFRS amounts to NOK 335 million at 1 January 2004. The main reason for this increase in equity is the reversal of the dividend provision for 2003. Disregarding this change, the IFRS implementation charges the Norske Skog equity with NOK 616 million.

Preliminary IFRS group profit and loss account 2004

NOK million	Notes	Profit and loss under NGAAP 2004	Effect of implementing IFRS	Profit and loss under IFRS 2004
Revenue		**25 302**	**-**	**25 302**
Variable costs		(13 026)	-	(13 026)
Change in inventory		(6)	-	(6)
Distribution costs		(2 294)	-	(2 294)
Other operating expenses		(5 673)	-	(5 673)
EBITDA		**4 303**		**4 303**
Depreciation	1	(3 373)	280	(3 093)
EBIT before impairments and restructuring costs		**930**		**1 210**
Impairments		(110)	-	(110)
Restructuring costs		(63)	-	(63)
EBIT		**757**		**1 037**
Affiliated companies	2	(41)	(3)	(44)
Financial items	2	(718)	(65)	(783)
Other items	3	142	(142)	-
Pre-tax profit		**140**		**210**
Taxes	4	523	(104)	419
Profit before minorities		**663**		**629**
Minority interests		8	-	8
Net earnings		**655**		**621**

1. No amortisation of goodwill under IFRS. Total goodwill amortisation recognised in the profit and loss under NGAAP amounted to NOK 280 million in 2004.
2. Profit and loss effects of restating deferred tax from net present value to nominal value.
3. The gain from the sale of the forests in mid-Norway is recognised in the profit and loss account for 2004 under NGAAP. In the IFRS opening balance, biological assets are recognised at market value. As a consequence, the sale of the forests in mid-Norway does not create a gain or loss in the profit and loss account.
4. Some provisions related to tax issues are reversed in the IFRS opening balance. Some of these provisions are reversed in the profit and loss account under NGAAP in 2004. Since the provisions are reversed in the opening balance under IFRS, the reversal will not have any profit and loss effect under IFRS. In addition, the tax effect of reversed goodwill amortisation is reversed.

Preliminary IFRS closing balance sheet at 31 December 2004

Mill NOK	Balance sheet under NGAAP 31 Dec 04	Effect of implementing IFRS	Balance sheet under IFRS 31 Dec 04
Intangible fixed assets	4 382	421	4 803
Operational fixed assets	29 994	11	30 005
Long-term receivables and affiliated companies	2 485	(236)	2 249
Fixed assets	**36 861**		**37 057**
Inventory	2 299	-	2 299
Receivables	4 050	-	4 050
Current investments	470	-	470
Liquid assets	419	-	419
Current assets	**7 238**		**7 238**
Total assets	**44 099**		**44 295**
Paid-in equity	8 436	-	8 436
Retained earnings	10 272	301	10 573
Minority interests	186	-	186
Shareholders´ equity	**18 894**		**19 195**
Deferred taxes	1 865	554	2 419
Interest-free long-term liabilities and obligations	896	136	1 032
Interest-bearing long-term liabilities	17 291	-	17 291
Interest-free current liabilities	4 684	(795)	3 889
Interest-bearing current liabilities	469	-	469
Total liabilities and shareholders´ equity	**44 099**		**44 295**

IAS 39 has been implemented from 1 January 2005. The NOK 158 million effect of the implementation of includes interest rate and currency hedging instruments with a fair value of NOK 148 million and a positive effect of NOK 306 million arising from the recognition of embedded derivatives related to power contacts in the balance sheet.

Profit and loss account

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Operating revenue	2	**7 301**	**7 348**	**7 348**	**6 933**
Changes in inventory		(67)	(2)	(2)	30
Cost of materials		3 432	4 233	4 233	3 788
Payroll expenses	3	1 324	1 287	1 287	1 287
Other operating costs	4	1 699	880	880	786
Depreciation and amortisation	7	670	653	607	593
Restructuring costs	7	270	-	-	50
Impairments		182	-	-	-
Operating expenses		**7 510**	**7 051**	**7 005**	**6 534**
Operating earnings		**(209)**	**297**	**343**	**399**
Group contribution		142	975	274	924
Financial income		603	846	846	820
Financial expenses		(1 148)	(969)	(969)	(1 797)
Financial items, net		**(403)**	**852**	**151**	**(53)**
Other items	10	(766)	-	142	935
Earnings/(loss) before tax		**(1 378)**	**1 149**	**636**	**1 281**
Tax	5	873	(170)	(182)	(26)
Earnings/(loss)		**(505)**	**979**	**454**	**1 255**
Application of net earnings/(loss):					
Allocated from/to other equity		505	(979)	341	(460)
Dividend to shareholders		-	-	(795)	(795)
Total		**505**	**(979)**	**(454)**	**(1 255)**

Cash flow statement

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Cash flow from operating activities					
Cash generated from operations		7 401	7 410	7 410	7 051
Cash used in operations		(6 648)	(6 265)	(6 265)	(6 008)
Financial income received		575	207	207	820
Financial expenses paid		(1 257)	(1 168)	(1 168)	(1 507)
Taxes paid		3	2	(182)	53
Net cash flow from operating activities	6	**74**	**186**	**2**	**409**
Cash flow from investment activities					
Investments in tangible fixed assets	7	(339)	(446)	(446)	(231)
Sales of tangible fixed assets		16	17	17	3
Net change in intercompany receivables		676	3 342	3 342	2 270
Net financial investments		(4 195)	(962)	(962)	(660)
Taxes paid		-	(184)	-	-
Net cash flow from investment activities		**(3 842)**	**1 767**	**1 951**	**1 382**
Cash flow from financial activities					
Net change in long-term liabilities		205	(409)	(409)	(945)
Net change in current liabilities		(302)	-	-	-
Dividend paid		(795)	(795)	(795)	(795)
Share issues		3 840	-	-	-
Net cash flow from financial activities		**2 948**	**(1 204)**	**(1 204)**	**(1 740)**
Total change in liquid assets		**(820)**	**749**	**749**	**51**
Cash and cash equivalents at 1 January		**1 320**	**571**	**571**	**520**
Cash and cash equivalents at 31 December		**500**	**1 320**	**1 320**	**571**

Balance sheet at 31 December

NOK million	Notes	IFRS 2005	IFRS 2004	NGAAP 2004	NGAAP 2003
Assets					
Intangible fixed assets	7	**49**	**66**	**60**	**67**
Operational fixed assets	7	**5 307**	**5 788**	**4 745**	**4 919**
Intercompany receivables	15	2 471	3 433	3 433	5 199
Other long-term receivables		45	58	58	59
Pension plan assets	3	22	60	60	63
Deferred tax asset	5	240	-	-	-
Shares in other companies and partnerships	17	48	51	51	66
Shares in subsidiaries	17	36 391	33 042	33 042	32 044
Derivatives	13	447	-	-	-
Securities and long-term financial assets		**39 664**	**36 644**	**36 644**	**37 431**
Fixed assets		**45 020**	**42 498**	**41 449**	**42 417**
Inventory	12	686	609	609	558
Intercompany receivables	15	513	485	708	2 372
Other receivables		643	952	952	916
Financial assets at fair value through profit or loss		421	447	447	547
Cash and cash equivalents		79	873	873	24
Derivatives	13	123	-	-	-
Current assets		**2 465**	**3 366**	**3 589**	**4 417**
Total assets		**47 485**	**45 864**	**45 038**	**46 834**
Shareholders' equity and liabilities					
Share capital		1 899	1 331	1 331	1 331
Own shareholding		(9)	(8)	(8)	(7)
Share premium reserve		10 419	7 137	7 137	7 121
Paid-in equity		**12 309**	**8 460**	**8 460**	**8 445**
Other consolidated equity		5 409	6 617	5 319	5 663
Shareholders' equity	8	**17 718**	**15 077**	**13 779**	**14 108**
Deferred tax	5	267	849	570	388
Pension obligations	3	88	83	83	85
Provisions		**355**	**932**	**653**	**473**
Long-term intercompany liabilities	15	10 769	10 053	10 053	10 849
Other long-term liabilities	11	15 888	15 974	15 930	16 203
Derivatives	13	151	-	-	-
Long-term liabilities		**26 808**	**26 027**	**25 983**	**27 052**
Current intercompany liabilities	15	877	2 187	2 187	2 557
Other current liabilities		985	1 095	1 095	1 276
Accounts payable		401	496	496	336
Duties and holiday pay		71	50	50	54
Provision for dividend		-	-	795	795
Tax liabilities	5	17	-	-	183
Derivatives	13	253	-	-	-
Current liabilities		**2 604**	**3 828**	**4 623**	**5 201**
Total shareholders' equity and liabilities		**47 485**	**45 864**	**45 038**	**46 834**

Lysaker, 2 March 2006

Ingrid Wiik

Lars Wilhelm Grøholt
Chair

Gisèle Marchand

Kåre Leira

Jan Oksum
President and CEO

Halvor Bjørken

Stein Roar Eriksen

Annette Brodin Rampe

Øivind Lund
Deputy chair

1. Accounting principles

When preparing the accounts for Norske Skogindustrier ASA, the company has taken advantage of the opportunity to apply a simplified version of IFRS as specified by the EU. This means that the IFRS valuation rules are observed, while keeping to the Norwegian Accounting Act and Norwegian generally accepted accounting principles for presentation plans and notes. Adopting IFRS involves changes to the accounting principle for valuing financial assets. The principles for valuing biological assets are also amended. Nor can goodwill continue to be amortised under IFRS.

Shares in subsidiaries are recorded in accordance with the cost method in the parent company accounts. All amounts are in NOK million unless otherwise stated.

Rights and obligations relating to foreign subsidiaries where it is unlikely that claims on or liabilities to the foreign subsidiary will be settled in the foreseeable future are considered to represent a supplement to or deduction from net investment in the relevant subsidiaries. Accounting for currency gains or losses on rights and obligations considered to represent a supplement to or deduction from net investment in the relevant subsidiaries is postponed, and these are first recorded in the profit and loss account in the event of a possible disposal of the investment. The same applies for liabilities in foreign currencies used to hedge the net investment in foreign subsidiaries.

See the accounting principles presented in note 1 to the group accounts for further details.

2. Operating revenue

Operating revenue includes NOK 1 235 million in ordinary revenue from the sale of goods and services to companies within the group in 2005. The corresponding figure in 2004 was NOK 1 255 million.

Operating revenue by market	2005	2004
Norway	828	959
Rest of Europe	5 024	4 392
North America	708	1 118
South America	215	226
Australasia	127	111
Asia	378	525
Africa	21	17
Total operating revenue	**7 301**	**7 348**

3. Payroll costs, pension costs and obligations

Payroll costs	2005	2004
Pay	931	960
Social security contributions	266	262
National insurance, pension and other social costs	127	65
Total	**1 324**	**1 287**

Note 3 to the group accounts provides supplementary information on pay and other remuneration for senior employees. This note also reports on the synthetic option scheme available to the corporate management and fees to auditors.

Number of employees	2005	2004
Norske Skogindustrier ASA	2 415	2 377

Net periodic pension cost	2005	2004
Benefit earned during the year	51	49
Interest costs on prior period benefit	62	58
Expected return on plan assets	(72)	(69)
Periodic payroll tax	3	5
Expensed portion of changes in AFP early retirement scheme	(2)	(2)
Expensed portion of differences in estimates	12	9
Net periodic pension cost	**54**	**50**

Status of pension plans reconciled with the balance sheet

	2005	2004
Projected benefit obligations	(1 445)	(1 234)
Plan assets at fair value	1 296	1 186
Plan assets in excess of/(less than) obligations	**(149)**	**(48)**
Differences in estimates not taken to income/expenses	107	46
Net plan assets/(pension obligations)	**(42)**	**(2)**
Accrual payroll tax	(24)	(21)
Plan assets/(pension obligations) in the balance sheet	**(66)**	**(23)**
Pension obligation	(88)	(83)
Pension assets	**22**	**60**

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

4. Other operating expenses

NOK 5 million in loss on bad debts is included in operating expenses. Losses include NOK 32 million in external bad debt and a negative NOK 27 million in change in provision for bad debts.

5. Tax

Tax expense	2005	2004
Current tax expense	(5)	12
Change in deferred tax	(868)	158
Total tax expense	**(873)**	**170**

Income tax reconciliation	2005	2004
Earnings before taxation	(1 378)	1 149
Computed tax at nominal tax rate of 28%	(386)	322
Exempt income/non-deductible expenses	(57)	(133)
Write-down of shares in subsidiaries	214	-
Change in tax legislation	(22)	-
Adjustment previous years [1]	(176)	39
Recognition of tax assets (-) / tax losses not recognised	(417)	156
Various [2]	(30)	(214)
Total tax expense	**(873)**	**170**

Deferred tax	2005	2004
Net deferred tax liability 1 January	849	691
Deferred tax charged in income statement	(868)	158
Adjustment IAS 39	46	-
Tax charged in equity	(32)	-
Reclassification of group tax allocations	32	-
Net deferred tax liability 31 December	**27**	**849**

[1] Deferred tax is not recognised on realised gains or losses related to asset hedging and intercompany loans included in the net investment of the company. In previous years, deferred tax has been recognised. The reversal of this reduces the tax expense for 2005 by NOK 188 million.

[2] The company has booked the tax effect of a loss generated in connection with the Australasian restructuring of assets. This loss has been booked with a tax reducing effect of NOK 156 million in 2005. Furthermore, a loss in the company's French branch has been included with an effect of NOK 261 million in 2005.

Details deferred tax 2004:

Deferred tax assets	Opening balance 2004	Charged to profit and loss	Charged to balance sheet	Closing balance 2004
Pensions	24	(1)	-	23
Other deferred tax assets - long term	12	59	-	71
Total deferred tax assets - long term	36	58	-	94
Current deferred tax assets	41	(34)	-	7
Tax losses and tax credit	278	(53)	-	225
Total deferred tax assets	**355**	**(29)**	**-**	**327**
Offset against deferred tax liabilities	(355)	29	-	(327)
Net deferred tax assets	**-**	**-**	**-**	**-**

Deferred tax liabilities	Opening balance 2004	Charged to profit and loss	Charged to balance sheet	Closing balance 2004
Tangible and intangible assets	683	(46)	-	637
Pension benefits	18	(1)	-	17
Gain and loss account	192	(34)	-	158
Contingent provisions and other liabilities	10	14	-	24
FX and financial instruments	117	196	-	313
Total deferred tax liabilities - long term	1 019	129	-	1 148
Inventory reserves	27	-	-	28
Other current deferred tax liabilities	-	-	-	-
Total deferred tax liabilities	**1 046**	**130**	**-**	**1 176**
Offset against deferred tax assets	(355)	29	-	(327)
Net deferred tax liabilities	**691**	**158**	**-**	**849**

Details deferred tax 2005:

Deferred tax assets	Opening balance 2005	Charged to profit and loss	Charged to balance sheet	Closing balance 2005
Pensions	23	1	-	25
Other deferred tax assets - long term	71	45	-	116
Total deferred tax assets - long term	94	47	-	141
Current deferred tax assets	7	(6)	-	2
Tax losses and tax credit	225	469	-	694
Total deferred tax assets	**327**	**510**	**-**	**837**
Offset against deferred tax liabilities	(327)	(230)	(40)	(597)
Net deferred tax assets	**-**	**280**	**(40)**	**240**

Deferred tax assets	Opening balance 2005	Charged to profit and loss	Charged to balance sheet	Closing balance 2005
Tangible and intangible assets	637	(92)	-	544
Pension benefits	17	(11)	-	6
Gain and loss account	158	(29)	-	129
Contingent provisions and other liabilities	24	(24)	-	(1)
FX and financial instruments	313	(201)	46	158
Total deferred tax liabilities - long term	1 148	(357)	46	837
Inventory reserves	28	-	-	28
Other current deferred tax liabilities	-	(1)	-	(1)
Total deferred tax liabilities	**1 176**	**(358)**	**46**	**864**
Offset against deferred tax assets	(327)	(230)	(40)	(597)
Net deferred tax liabilities	**849**	**(588)**	**6**	**267**

6. Net cash flow from operations

The relationship between earnings before tax and cash flow from operations is shown below.

	2005	2004
Earnings before tax	(612)	1 149
Ordinary depreciation/impairments	852	653
Taxes paid	3	2
Gain/(loss) on sale of fixed assets and other items	-	-
Group contribution	(142)	(975)
Change in receivables	(260)	(36)
Change in stocks	(77)	(51)
Change in liabilities	163	(37)
Adjustments for changes in working capital without cash effect	147	(519)
Net cash flow from operating activities	**74**	**186**

7. Operational and intangible fixed assets

	Goodwill and other exclusive rights	Buildings, plant and real property	Machinery and equipment	Fixtures and fittings, tools, office machinery	Plants under construction	Total
Acquisition cost 1 Jan 04	**98**	**3 195**	**11 152**	**330**	**229**	**15 004**
Additions 2004 at cost	-	24	271	151	-	446
Disposals 2004 at cost	(1)	-	-	(147)	-	(148)
Reclassification	-	-	6	-	(6)	-
Acquisition cost 31 Dec 04	**97**	**3 219**	**11 429**	**334**	**223**	**15 302**
Accumulated depreciation and write-downs 1 Jan 04	**31**	**1 389**	**7 231**	**291**	**-**	**8 942**
Depreciation 2004	-	99	506	48	-	653
Write-downs 2004	-	-	-	-	-	-
Depreciation and write-downs of fixed assets sold in 2004	-	-	-	(147)	-	(147)
Reclassification	-	-	-	-	-	-
Accumulated ordinary depreciation and write-downs 31 Dec 04	**31**	**1 488**	**7 737**	**192**	**-**	**9 448**
Book value 1 Jan 04	**67**	**1 539**	**3 093**	**39**	**229**	**4 967**
Book value 31 Dec 04	**66**	**1 731**	**3 692**	**142**	**223**	**5 854**
Depreciation plan	5-20 år	10-33 år	10-20 år	3-5 år		

Goodwill, real property and plants under construction are not depreciated

Goodwill specification for each acquisition

	Year	Book value 31 Dec 04
Norske Skog Union	1999	61

	Goodwill and other exclusive rights	Buildings, plant and real property	Machinery and equipment	Fixtures and fittings, tools, office machinery	Plants under construction	Total
Acquisition cost 1 Jan 05	**97**	**3 219**	**11 429**	**334**	**223**	**15 302**
Additions 2005 at cost	60	27	258	83	(29)	399
Disposals 2005 at cost	-	(51)	(109)	(106)	-	-266
Reclassification	-	-	-	-	-	-
Acquisition cost 31 Dec 05	**157**	**3 195**	**11 578**	**311**	**194**	**15 435**
Accumulated depreciation and write-downs 1 Jan 05	**31**	**1 488**	**7 737**	**192**	**-**	**9 448**
Depreciation 2005	16	88	500	66	-	670
Write-downs 2005	61	28	60	6	-	155
Depreciation and write-downs on fixed assets sold in 2005	-	(24)	(102)	(68)	-	(194)
Reclassification	-	-	-	-	-	-
Accumulated ordinary depreciation and write-downs 31 Dec 05	**108**	**1 580**	**8 195**	**196**	**-**	**10 079**
Book value 1 Jan 05	**66**	**1 731**	**3 692**	**142**	**223**	**5 854**
Book value 31 Dec 05	**49**	**1 615**	**3 383**	**115**	**194**	**5356**
Depreciation plan	5-20 år	10-33 år	10-20 år	3-5 år		

Goodwill, real property and plants under construction are not depreciated.

8. Equity

	Share capital and share premium reserve	Other equity	Total
Equity at 31 Dec 2004	8 460	5 854	14 314
Shares issued	3 834	-	3 834
Change in holding of own shares	15	(9)	6
Fair value gains financial assets	-	158	158
Profit/(loss) for the year	-	(505)	(505)
Dividend	-	(795)	(795)
Other adjustments	-	706	706
Equity at 31 Dec 2005	**12 309**	**5 409**	**17 718**

At 31 December 2005, the share capital of the company totalled 189 946 626 shares, each with a nominal value of NOK 10. The number of own shares held was 846 531.

Principal shareholders	Ownership in %
State Street Bank & Trust Co, USA	8.7
Viken Skogeierforening, Hønefoss	8.2
JP Morgan Chase Bank, UK	8.1
Folketrygdfondet, Oslo	3.2
AT Skog, Skien	3.0
Allskog BA, Trondheim	2.8
JP Morgan Chase Bank, UK	2.7
Mellon Bank NA, USA	2.4
The Northern Trust Co, UK	2.4
Mjøsen Skog BA, Lillehammer	2.1
Vital Forsikring ASA, Bergen	1.5
Verdipapirfondet Skagen Vekst, Oslo	1.4
Verdipapirfondet Odin Norge, Oslo	1.3
Bank of New York, Belgium	1.1
Rederiselskapet Henneseid, Skien	1.1
AS Havlide, Skien	1.0

Shareholders in the corporate assembly	Number of shares
Elected by the shareholders	
Ivar B Korsbakken, Oslo, chair	578
Emil Aubert, Porsgrunn	74 925
Ole H Bakke, Trondheim	53
Turid Fluge Svenneby, Spydeberg	142
Halvard Sæther, Lillehammer	4 495
Svein Aaser, Drøbak	1 283
Kirsten C Idebøen, Høvik	100
Christian Ramberg, Bø in Telemark	20 471
Elected by the employees	
Harald Bjerge, Norske Skog Saugbrugs	3 471
Magnus Straume, Norske Skog Union	38
Eigil Fredriksen, Norske Skog Union	510
Ove Magne Anseth, Forestia Braskereidsfoss	310
Observers from the employees	
Terje Andre Bråten, Norske Skog Follum	25
Tor Kr Larsen, Forestia Braskereidsfoss	1 000

Shareholders on the board of directors	Number of shares
Elected by the shareholders	
Lars Wilhelm Grøholt, Hov, chair	4 442
Halvor Bjørken, Verdal	3 591
Øivind Lund, Istanbul, Turkey	1 995
Gisele Marchand, Oslo	428
Ingrid Wiik, Fort Lee, USA	250
Elected by the employees	
Kåre Leira, Skogn	1 457

Shareholders among senior executives	Number of shares
Jan A Oksum	22 404
Rolf Negård	2 884
Hanne Aaberg	3 215
Jan-Hinrich Clasen	2 054
Jarle Dragvik	4 711
Ketil Lyng	4 970
Rob Lord	3 223
Antonio Dias	2 627
Vidar Lerstad	6 676
Dag Tørvold	3 336
Christian Rynning-Tønnesen	2 042

9. Guarantees

The company has guaranteed debts totalling NOK 764 million on behalf of its subsidiaries. Other guarantees amounts to NOK 609 million.

10. Other items

Other items consisted in 2004 (NGAAP) of sales of forest in mid-Norway. In 2005 (IFRS) the amount is related to a write-down of the shares in Norske Treindustrier AS as a result of the loss from the sale of the shares in Catalyst Paper.

11. Repayment plan interest-bearing debt

The company's total debt at 31 December 2005 matures as follows:

	Debt banks	Bonds	Total
2006	248	1 065	1 313
2007	62	1 377	1 439
2008	62	-	62
2009	521	725	1 246
2010	4 057	-	4 057
2011	31	4 061	4 092
2014	-	200	200
2015	-	1 354	1 354
2033	-	1 354	1 354
Total	**4 981**	**10 136**	**15 117**

Debt in foreign currencies is entered at the current rate in the instalment profile. Debt used as hedging instruments for hedging net investments in foreign currencies is entered at historical cost in the balance sheet.

For more information see note 20 to the group accounts.

12. Inventory

	2005	2004
Raw materials and other production inputs	250	240
Semi-manufactured materials	-	-
Finished goods	436	369
Total	**686**	**609**

13. Derivatives

NOK million	Net investment hedge [1] Assets	Net investment hedge [1] Liabilities	Fair value hedge [3] Assets	Fair value hedge [3] Liabilities	Held for trading [2] Assets	Held for trading [2] Liabilities	Total value Assets	Total value Liabilities
Interst-rate swaps	-	-	147	(25)	3	(56)	149	(82)
FRA	-	-	-	-	6	(5)	6	(5)
Currency option	-	-	-	-	4	-	4	-
Forward contracts	38	(147)	-	-	18	(95)	57	(242)
Cross currency contracts	6	(60)	-	-	-	(2)	6	(61)
Financial commodity contracts	-	-	-	-	71	(13)	71	(13)
Embedded derivatives	-	-	-	-	277	-	277	-
Total	**45**	**(207)**	**147**	**(25)**	**378**	**(172)**	**570**	**(404)**
Non-current portion	**6**	**(60)**	**147**	**(25)**	**294**	**(66)**	**447**	**(151)**
Current portion	**38**	**(147)**	**-**	**-**	**84**	**(106)**	**123**	**(253)**

[1] The negative NOK 38 million in the effective portion of the fair value of derivatives is designated and qualifies as hedge accounting. The gain or loss relating to the ineffective portion is recognised in the income statement.

[2] Includes active management portfolio, long-term asset portfolio, embedded derivatives in physical contracts, commodity hedging contracts and rolling cash flow hedging. Norske Skog does not use hedge accounting on rolling cash flow hedge and hedging of commodity costs. These contracts are presented at fair value through profit or loss.

[3] The notional principal amount of the interest rate swap in the fair value hedge was NOK 8 610 million.

See note 23 in the group accounts for financial risk and accounting treatment of derivatives.

14. Leasing

Norske Skogindustrier ASA has two large leasing arrangements. The leasing agreement for PM5 and PM6 at Norske Skog Saugbrugs in Halden is described in more detail in note 26 in the group accounts. The headquarter facilities at Oksenøya near Oslo was in 2001 sold and leased back and is classified as a financial lease. The annual leasing cost is NOK 18 million.

In addition to the large rental agreements classified as financial leasing, the company has several smaller rental agreements of various duration classified as operational leasing. The total cost of leasing for the operational leasing contracts was NOK 32 million in 2005.

15. Intercompany receivables/liabilities

Intercompany receivables	2005	2004
Norske Skog Holdings B.V.	1 229	1 889
Norske Skog Walsum GmbH	1 259	1 379
Other intercompany receivables	(17)	165
Total intercompany receivables	**2 471**	**3 433**

Current intercompany receivables	2005	2004
Norske Skog Golbey S.A	59	3
Pisa Papel de imprensa SA	13	67
Norske Skog Industries Australia Ltd.	39	-
Norske Skog (Australasia) Pty. Ltd.	14	17
Norske Skog Pan Asia	17	17
Norske Skog Holdings B.V.	177	131
Norske Skog Walsum GmbH	23	37
Norske Skog USA Inc.	123	82
Other current intercompany receivables	48	131
Total current intercompany receivables	**513**	**485**

Long-term intercompany liabilities	2005	2004
Lysaker Invest AS	300	376
Norske Treindustrier AS	5 860	5 703
Nornews AS	340	356
Norske Skog Bruck GmbH	551	315
Norske Skog Golbey S.A	646	329
FC Industries Ltd.	2 638	2 475
Norske Skog Tasman Ltd.	55	52
Oxenøyveien 80 AS	249	226
Norske Skog Asia Pacific	30	-
Norske Skog Insurance AS	10	-
Other long-term intercompany liabilities	90	221
Total long-term intercompany liabilities	**10 769**	**10 053**

Current intercompany liabilities	2005	2004
Norske Skog Holding AS	304	337
Lysaker Invest AS	109	-
Norske Treindustrier AS	46	176
Norske Skog Bruck GmbH	30	85
Norske Skog Golbey S.A	41	51
WoodLog Norge AS	73	45
Norske Skog Deutschland GmbH	37	27
Norske Skog UK Ltd.	55	43
Nornews AS	17	-
Union Paper Co. Ltd.	18	18
Norske Skog Tasman Ltd.	63	9
Norske Skog Parenco BV	31	-
FC Industries Ltd.	-	24
Norske Skog Asia Pacific	-	26
Norske Skog Insurance AS	-	11
Other current intercompany liabilities	53	1 335
Total current intercompany liabilities	**877**	**2 187**

16. Implementation of IFRS

Outlined below are the effects of implementing IFRS.

Preliminary balance sheet under IFRS at 1 January 2004

NOK million	Notes	Balance sheet under NGAAP 31 December 2003	Effect of implementing IFRS	Balance sheet under IFRS 1 January 2004
Intangible fixed assets		67	-	67
Operational fixed assets	1,2	4 919	1 236	6 155
Long-term receivables		5 321	-	5 321
Shares		32 110	-	32 110
Fixed assets		**42 417**		**43 653**
Inventory		558	-	558
Receivables		3 288	-	3 288
Current investments		547	-	547
Liquid assets		24	-	24
Current assets		**4 417**		**4 417**
Total assets		**46 834**		**48 070**
Paid-in equity		8 445	-	8 445
Retained earnings	5	5 663	1 685	7 348
Shareholders´ equity		**14 108**		**15 793**
Deferred taxes	3	388	303	691
Interest-free long-term liabilities and obligations	6	85	43	128
Interest-bearing long-term liabilities		27 052	-	27 052
Interest-free current liabilities	4	2 644	(795)	1 849
Interest-bearing current liabilities		2 557	2 557	
Total liabilities and shareholders´ equity		**46 834**		**48 070**

[1] IFRS 1 First Time Addoption of IFRS opens for the use of fair value as deemed cost on items of property, plant and equipment. This deemed cost will be the basis for depreciations going forward. Norske Skog has taken the opportunity of using fair value on selective items of property, plant and equipment as deemed cost in the IFRS opening balance. Norske Skog has analysed the property, plant and equipment of the group, and identified items at the Skogn mill and the Union mill which will be valued at fair value in the IFRS opening balance. Items of property, plant and equipment with a fair value of NOK 1 520 million above book value are identified at the Skogn mill. At the Union mill, items for property, plant and equipment with a fair value of NOK 426 million below book value are identified. The total effect of the revaluing of the identified items of property, plant and equipment is a reduction in the value of operational fixed asses of NOK 1 094 million.

[2] According to IAS 41, biological assets should be valued at fair value. Forests are considered to be biological assets. Per 1 January 2004 the sale of the forests in mid Norway was not recognised in the Norske Skog accounts. In the IFRS opening balance, the fair value of these forests must be recognised. The sales contract on these forests indicated a fair value which was NOK 142 million higher than the book value of the forests.

[3] The total effect of the adjustment of the value of certain operational fixed assets on deferred tax is NOK 306 million. In addition comes other effects on deferred tax of a negative NOK 3 million.

[4] Under IFRS, no provision can be made for dividend. This kind of provision does not comply with the definition of a liability under IFRS. In the IFRS opening balance, the provision for dividend for 2003 is thus reversed.

[5] **The total effect on retained earnings is:**

Rebalancing of property, plant and equipment	788
Market value of biological assets	142
Effect on interest-free long-term liabilities	(40)
Reversing provision for dividend	795
Total effect on retained earnings	**1 685**

[6] A provision of NOK 44 million is made in the IFRS opening balance for future environmental obligations. This effect, combined with a positive effect on the pension liability of a negative NOK 1 million from resetting actuarial gains and losses not recognised in the profit and loss account, gives an effect on long-term interest-free liabilities of NOK 43 million.

Preliminary IFRS group profit and loss account 2004

NOK million	Notes	Profit and loss under NGAAP 2004	Effect of implementing IFRS	Profit and loss under IFRS 2004
Operating revenue		**7 348**	**-**	**7 348**
Variable costs		(4 233)	-	(4 233)
Change in inventory		2	-	2
Other operating expenses		(2 167)	-	(2 167)
EBITDA		**950**		**950**
Depreciation	1	(607)	(46)	(653)
EBIT before impairments and restructuring costs		**343**		**297**
Impairments		-	-	-
Restructuring costs		-	-	-
EBIT		**343**		**297**
Financial items	2	151	701	852
Other items	3	142	(142)	-
Earnings before tax		**636**		**1 149**
Tax	4	(182)	12	(170)
Earnings before minorities		**454**		**979**

[1] Effect of increased depreciation as a result of new deemed cost on property, plant and equipment and effect of ceasing amortisation of goodwill under IFRS.

[2] Effect of new principles on accounting for group contribution.

[3] The gain from the sale of the forests in mid-Norway is recognised in the profit and loss account for 2004 under NGAAP. In the IFRS opening balance, biological assets are recognised at market value. With the market value recognised in the opening balance, the sale of the forests gives no profit and loss effect for 2004 under IFRS.

[4] Effect on the tax cost of converting to IFRS.

Preliminary IFRS closing balance sheet 31 December 2004

NOK million	Balance sheet under NGAAP 31 December 2004	Effect of implementing IFRS	Balance sheet under IFRS 31 December 2004
Intangible fixed assets	60	6	66
Operational fixed assets	4 745	1 043	5 788
Long-term receivables	3 551	-	3 551
Shares	33 093	-	33 093
Fixed assets	**41 449**		**42 498**
Inventory	609	-	609
Receivables	1 660	(223)	1 437
Current investments	447	-	447
Liquid assets	873	-	873
Current assets	**3 589**		**3 366**
Total assets	**45 038**		**45 864**
Paid-in equity	8 460	-	8 460
Retained earnings	5 319	1 298	6 617
Shareholders´ equity	**13 779**		**15 077**
Deferred taxes	570	279	849
Interest-free long-term liabilities and obligations	16 013	44	16 057
Interest-bearing long-term liabilities	10 053	-	10 053
Interest-free current liabilities	2 436	(795)	1 641
Interest-bearing current liabilities	2 187	-	2 187
Total liabilities and shareholders´ equity	**45 038**		**45 864**

17. Notes corresponding with notes in the group accounts

For shares in other companies and partnerships, note 13 in the group accounts provides supplementary details about shares held by the parent company and other group companies.

Note 3 to the group accounts provides supplementary information on pay and other remuneration for senior employees. This note also reports on the synthetic option scheme available to the corporate management.

Note 30 to the group accounts reports on events after the balance sheet date which are also relevant for Norske Skogindustrier ASA.

Note 20 to the group accounts covers the group's credit facilities. Undrawn credit facilities reported in this note are identical with undrawn credit facilities for Norske Skogindustrier ASA.

Auditor's report for 2005

We have audited the annual financial statements of Norske Skogindustrier ASA as of December 31, 2005, showing a loss of NOK 505 millions for the parent company and a loss of NOK 848 millions 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 coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statement of the parent company comprise the balance sheet, the statements of income and cash flows, and the accompanying notes.
Simplified IFRS according to the Norwegian accounting act § 3-9 have been applied in the preparation of the financial statements of the parent company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by Den Norske Revisorforening. These auditing standards 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 of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in accordance with simplified IFRS according to the Norwegian accounting act § 3-9
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of December 31, 2005, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and comply with the law and regulations

Oslo, March 02, 2006
PricewaterhouseCoopers AS

Erling Elsrud
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian 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 account and balance sheet for 2005 for Norske Skogindustrier ASA and the group as proposed by the board, and agrees with the boards proposal for covering the loss for the year.

Lysaker, 2 March 2006

Ivar B Korsbakken
Corporate assembly chair

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 coming 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, CO_2 and combustible sludge.
Bleaching: Removal or modification of the coloured components in the pulp to improve its brightness. Mechanical pulp is bleached mainly 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 according to 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 treatment.
Fillers: Inorganic fillers are used as additive in paper production to, among other things, give the paper a more even and brighter surface. Various types are used, 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 (Light Weight Coated) magazine paper: Wood-containing coated publication paper.
Mechanical pulp: A mixture of fibres having been 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 Calendered) magazine paper: Wood-containing uncoated publication paper. This paper is given a mechanical surface treatment to give it a smoother surface and better printing characteristics.
Sedimentation plant: Mechanical treatment of effluent in which fibre and suspended solids is 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.
Thermo Mechanical Pulp (TMP): Mechanical pulp produced by refining chips that are pre-heated to 100-115oC. The high temperature softens lignin and helps separate the fibres, thus yielding longer and stronger fibres than in 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 to sawmills and pulp- and paper mills.

Communication on progress – UN Global Compact

THE GLOBAL COMPACT

We have committed ourselves to contribute to sustainable development. Customers, suppliers and the world at large can rely on us. We take work on environmental and social responsibility issues seriously. Our core values of openness, honesty and cooperation, our policies and our guidelines build on the UN Universal Declaration of Human Rights and the 10 principles of the UN Global Compact (UNGC).

These are not just fine words to Norske Skog, but commitments demonstrated through specific actions. We were accordingly the first international pulp and paper company to sign a global agreement on employee rights with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM).

On that basis, we have also developed a close and good collaboration with our unions through several channels – most recently the creation of a Global Employee Forum. The latter provides a common meeting place for employees and management, where we can give and receive information and discuss relevant issues relating to Norske Skog.

We also accept our social responsibility to the local communities in which our operations are pursued. Mills and employees involve themselves in a number of areas in these communities. We support many activities which help to improve the quality of life, health and knowledge.

We have defined education as our topic for the UN's millennium development goals, expressed through our commitment to improving reading skills among young people by using newspapers in education. Special efforts are being made in new democracies where the free press has achieved better conditions.

Through a close relationship with the World Association of Newspapers, we are helping to develop Young Reader programmes in both developing and mature markets.

We also belong to the Global Compact Nordic Network (GCNN), where participants from Denmark, Finland, Norway and Sweden discuss the implementation of the 10 principles and common challenges. Since 2002-03, this network has rapidly expanded its work. It holds regular meetings twice a year, forming working groups and organising other UNGC-specific activities. One recent event included a seminar on human rights and responsibility in the supply chain. A GCNN web site is currently under development, and a GCNN summit in the autumn of 2006 is also on the agenda, hopefully with UN secretary-general Kofi Annan present.

We became sole owner of Pan Asia Paper Company in 2005, and this Singapore-based enterprise is now being integrated in our organisation. With activities in China, Korea and Thailand, we face new challenges based on cultural differences. We will be implementing our values in 2006, including the CSR commitments in which the UNGC plays a key part. We are also preparing an in-house CSR campaign and developing new tools to train employees on different CSR issues. We promote diversity through our leadership planning process, and are one of the few companies in Norway with 50 per cent female directors. We won the national Norwegian award for the best sustainability report in 2005 for the third time.

The UN Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social players in promoting responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalisation.

UN Global Compact Principles	Corresponding on GRI Indicators	Annual report 2004 page
PRINCIPLE 1 Human Rights: Business should support and respect the protection of internationally proclaimed human rights within their sphere of influence	HR1-HR4	62-63, 104, 150
PRINCIPLE 2 Human Rights: Make sure that they are not complicit in human rights abuses	HR2-HR3	62-63, 104, 150
PRINCIPLE 3 Labour: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining	HR5, LA3-LA4	62-63, 65, 104, 150
PRINCIPLE 4 Labour: The elimination of all forms of forced and compulsory labour	HR7	62-63, 104, 150
PRINCIPLE 5 Labour: The effective abolition of child labour	HR6	62-63, 104, 150
PRINCIPLE 6 Labour: Eliminate discrimination in respect of employment and occupation	HR4, LA10-LA11	62-63, 104, 105
PRINCIPLE 7 Environment: Business should support a precautionary approach to environmental challenges	3.13	32-33, 37-38, 104
PRINCIPLE 8 Environment: Undertake initiatives to promote greater environmental responsibility	1.1, EN1-EN16	32-49, 104
PRINCIPLE 9 Environment: Encourage the development and diffusion of environmentally friendly technologies		32-49
PRINCIPLE 10 Anticorruption: Business should work against all forms of corruption, including extortion and bribery	SO2	91-92, 104

Global Reporting Initiativ (GRI)

The GRI's guidelines for sustainability reporting have been developed through a process involving a broad-based group of interests. Intended for voluntary use, the guidelines cover reporting under the three pillars for sustainable development: economic growth, environmental performance and social responsibility.

Norske Skog supports the work of establishing a global standard for sustainability reporting. It integrated reporting on environmental performance and social responsibility in its regular annual report in 2002, and the GRI guidelines have been used since 2003 as a tool in the work of developing such reporting. In the company's view, its reporting practice is almost wholly in line with the GRI's principles. Norske Skog now reports on a large number of indicators.

Nevertheless, the company does not report fully on all the elements and indicators specified in the GRI guidelines. That applies primarily to issues which have little relevance to its operations. The chart indicates where relevant information on the various items can be found in the report. This information may be provided in several places, and will overall meet the GRI guidelines fully or in part.

For more information on the GRI, see www.globalreporting.org.

www.globalreporting.org

	GRI GUIDELINE ELEMENTS	Reference
1	**Vision and strategy**	
1.1	Statement of vision and strategy regarding contribution to sustainable development	2,16-17, 32-33, 43, 59
1.2	Statement from CEO (or equivalent senior manager) Should preferable explicitly refer to the organisation's commitment to sustainability and to key elements of the report. The statement may be combined with the statement of vision and strategy	2, 16-17, 32-33
2	**Profile**	
	ORGANISATIONAL PROFILE	
2.1	Name of the reporting organisation	Cover, 96
2.2	Major products and/or services, including brands if appropriate	5, 12, 13
2.3	Operational structure of the organisation	90-96
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We listen to you

We have many groups of stakeholders. Employees and trade unions are two, owners and investors, customers, analysts, suppliers, the media and environmental organisations are others. We are concerned with the expectations these stakeholders have of us, and how we can get better at meeting their requirements. This is important for avoiding unrealistic expectations. We also get good suggestions for tailoring our interim and annual reports more closely to the needs of stakeholders.

Such input has been received through press conferences and meetings, general meetings, meetings with analysts, and external analyses and assessments of our reports.

What we do with suggestions

We have received many important and useful suggestions. Satisfying all the requirements presented by every stakeholder group is a challenge. We try to strike an appropriate balance between the provisions of the Norwegian Accounting Act concerning the contents of an annual report from a listed company, what the various stakeholder groups want to see and what we feel could be of interest.

Invitation to our readers

Should there be topics we should have covered, facts which could be better documented, or other suggestions concerning our interim and annual reports – both positive and negative – please send an e-mail to **terje.dahlen@norskeskog.com**