NORSKE SKOG
ANNUAL REPORT &
sustainability report

06

Grounds for optimism

Future on Paper

Norske Skog

AT THE END OF **2006,** COULD WE LOOK BACK ON ANOTHER **EVENTFUL YEAR** FOR NORSKE SKOG. THE GOALS WE HAVE SET FOR OURSELVES ARE **AMBITIOUS, BUT REALISTIC,** AND THE **COMMITMENT** BEING SHOWN TO OUR TURNAROUND GIVES EVERY **REASON FOR OPTIMISM.**

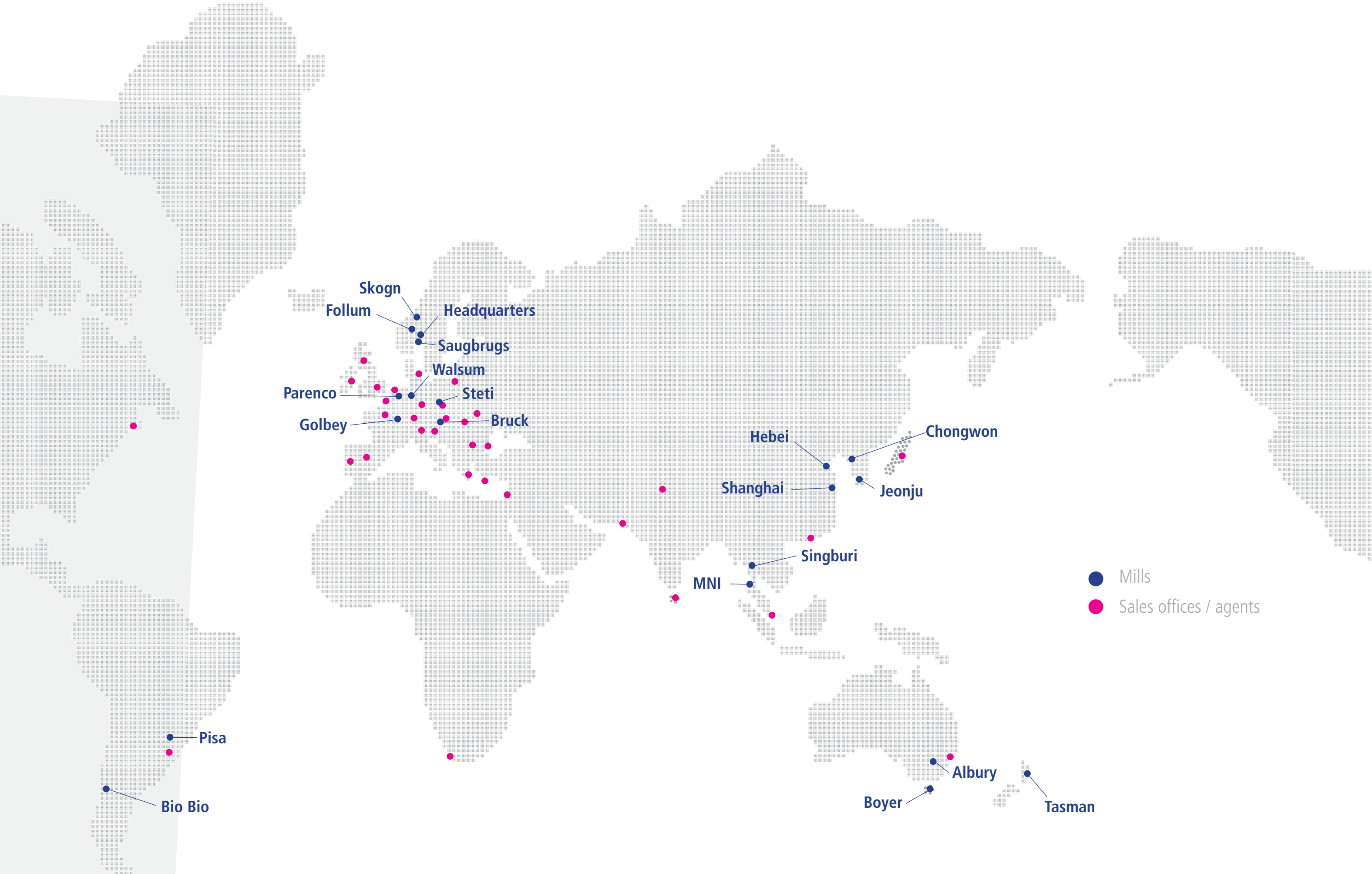
MAIN FINANCIAL FIGURES

DEFINITIONS		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Profit and loss account (NOK mill)												
Operating revenue		28 812	25 726	25 302	24 068	23 471	30 354	26 635	18 054	14 908	13 312	13 265
Gross operating earnings	1	3 932	4 220	4 303	4 686	5 198	8 419	6 599	3 818	3 103	2 223	3 136
Operating earnings		(2 527)	630	757	1 536	1 306	5 096	4 211	2 129	1 780	1 083	1 916
Earnings before financial expenses	2	(2 275)	(51)	868	1 383	1 833	5 581	4 575	2 252	1 948	1 194	2 076
Earnings before taxation		(3 480)	(1 004)	140	770	806	3 894	3 021	1 825	1 417	650	1 732
Earnings for the year		(2 809)	(854)	655	402	1 162	2 494	1 958	1 300	1 020	590	1 317 7
Balance sheet (NOK mill)												
Fixed assets		37 577	43 740	36 861	39 219	38 197	45 417	43 717	18 828	17 586	12 778	12 031
Current assets		7 653	8 293	7 238	7 119	6 769	10 855	17 510	6 086	6 663	4 515	4 592
Total assets		45 230	52 033	44 099	46 338	44 966	56 272	61 227	24 914	24 249	17 293	16 623
Shareholder's equity incl. minority int.		18 550	22 679	18 894	19 416	17 921	19 526	22 351	11 727	10 029	9 123	7 691
Long term debt		18 802	21 700	20 052	21 402	18 814	30 858	31 906	9 021	9 564	4 947	5 178
Current liabilities		7 878	7 654	5 153	5 520	6 210	5 888	6 970	4 166	4 656	3 223	3 754
Total liabilities and shareholder's equity		45 230	52 033	44 099	46 338	42 945	56 272	61 227	24 914	24 249	17 293	16 623
Net interest bearing debt		17 320	19 063	16 871	17 759	18 204	22 820	20 535	7 618	7 082	4 145	4 827
Profitability												
Gross operating margin %	3	14	16.4	17.0	19.5	22.1	27.7	24.8	21.1	20.8	16.7	23.6
Net operating margin %	4	(9)	2.4	3.0	6.3	5.6	16.8	15.8	11.8	11.9	8.1	14.4
Net profit margin %	5	(10)	(3.3)	2.6	1.7	5.0	8.2	7.4	7.2	6.8	4.4	9.9
Return on assets %	6	(4.7)	(0.1)	1.9	3.0	3.6	9.5	10.6	9.2	9.4	7.0	13.2
Return on equity % *	7	(13.6)	(4.1)	3.4	2.2	6.2	11.9	11.5	12.0	10.7	7.0	18.5
Equity ratio	8	41	43.6	42.8	41.9	39.9	34.7	36.5	47.1	41.4	52.8	46.3
Net interest bearing debt/equity		1	0.84	0.89	0.91	1.02	1.17	0.92	0.65	0.71	0.45	0.63
Return on capital employed %	9, 15	4	2.8	2.5	3.6	3.2	13.7	13.1	11.0	11.7	8.4	15.9
Net earnings per share after tax (NOK)	10	(15)	(5.98)	4.95	3.04	8.79	20.68	19.17	14.01	11.36	6.94	16.99
Net earnings per share fully diluted (NOK) *	10	(15)	(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)	11	15	21.42	22.04	22.45	27.89	58.47	48.18	23.29	31.85	19.00	33.74
Cash flow per share fully diluted (NOK) *	11	15	21.42	22.04	22.45	27.89	23.29	48.18	23.29	31.85	19.00	29.22
Liquidity												
Liquid assets (NOK)	12	485	902	889	930	868	4 158	8 629	803	2 312	853	1 088
Cash flow (NOK)	13	2 763	3 061	2 948	2 973	3 687	7 052	4 922	2 162	2 859	1 615	2 616
Current ratio	14	97	1.08	1.40	1.29	1.09	1.84	2.51	1.46	1.43	1.40	1.22

Definitions main financial figures:

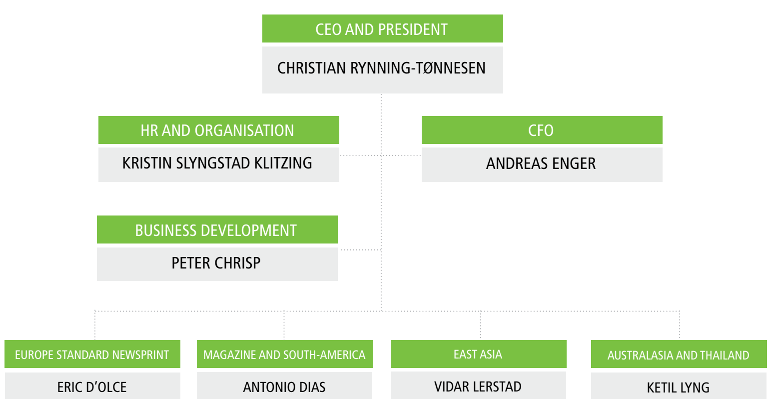
1. Gross operating earnings = operating earnings + ordinary depreciation + restructuring expenses
2. Earnings before financial expenses = operating earnings + interest income + share of profit in affiliated companies
3. Gross operating margin = gross operating earnings : operating revenue
4. Net operating 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 statement of cash flow)
14. Current ratio = current assets : current liabilities
15. Capital employed = total assets less affiliates interest free current liabilities and interest bearing assets

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



THE WORLD OF NORSKE SKOG

During its 45 years of operation, the company has positioned itself as one of the world's largest suppliers of newsprint and an important source of paper for the magazine and directory sectors. Developments in the media industry place constant new demands on publishers of newspapers and magazines worldwide. Norske Skog meets these challenges with modern, technically-advanced production and extensive technical customer services in Europe, Australasia and the growth regions of Asia and South America. It also has 44 sales offices and agents around the world. Norske Skog builds its business on the values of openness, honesty and cooperation, and is conscious of its responsibility for the development and well-being of its own employees as well as for the environment and the community. Among other activities, the company is making a substantial global commitment together with its customers to improving the reading skills of children and young people.



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Grounds for optimism

Extensive measures for improving the profitability of Norske Skog made their mark on 2006. A good turnaround process in line with our core values of openness, honesty and cooperation is our most important job for 2007.

At the end of 2006, we could look back on another eventful year for our company. A new corporate management team had been established, we had re-organised the group, and the development of a turnaround programme had been a key task. The goals we have set for ourselves are ambitious but realistic, and the commitment being devoted to the turnaround work gives every reason to be optimistic. We are due to implement improvement measures by the end of 2008 which will add NOK 3 billion to our net operating earnings on an annual basis compared with 2005. Just under half of this improvement is due to be visible by the end of 2007.

The reorganisation meant that our corporate structure had been changed by 31 December. Each mill has become a separate business unit, responsible for procurement, production and sales, and now reports directly to the corporate management at Oxenøen. Many of the issues previously decided centrally are now the responsibility of the individual unit.

As one of several measures to improve group profitability, we have unfortunately been forced to reduce our workforce. This has already been done at the head and regional offices. Special demanning programmes have been adopted by the business units.

Excess production capacity for newsprint has been a major contributory factor to the profitability problems in our industry. We have taken substantial steps to reduce capacity, and a total of five paper machines were shut down in Norway, New Zealand and Korea during 2006. This helped to ensure a better balance between supply and demand, and an improvement in our profitability.

Our employees face two years when execution of the turnaround will occupy a central place. Each business unit's ability to pursue the programme will be monitored. Unexpected challenges will undoubtedly emerge, but so will new opportunities. We have many able people and an expertise we can be proud of. This puts us in a position to tackle the challenges and seize the opportunities.

An extensive turnaround also calls for some degree of investment. We have a solid and growing cash flow, which means that we can finance the programme from our ordinary operations.

Our vision of being recognised as a world leader for newsprint production remains unchanged. In addition to today's core business, however, we will look at opportunities for expanding our scope. Within a few years, we will not only restore existing operations to profitability but also initiate new business activities. This will allow us to reach our goals of good profitability, growth and a long-term approach.

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
PRESIDENT AND CEO

Within a few years, we will not only restore existing operations to profitability but also initiate new business activities.

Highlights of 2006

JANUARY

- Norske Skog divests its holdings in Nordic Paper, Forestia AS and Catalyst Paper. Catalyst Paper (formerly NorskeCanada) is the largest of these disposals, involving 63 million shares or 29.4% of the total with a value of some NOK 1 080 million. Norske Skog owned 45% of the shares in Nordic Paper, while Forestia was a wholly-owned subsidiary.

- An improvement in prospects for newsprint means that Norske Skog Follum's paper machine 2 (PM2) resumes operation after a six-month shutdown.

FEBRUARY

- Norske Skog Albury begins its longest-ever production shutdown, lasting 28 days. This is the final phase in a NOK 650 million upgrading of the mill.

MARCH

- The last reel of paper is produced at Norske Skog Union.

- Jan Oksum resigns as chief executive.

APRIL

- Chair Lars Wilhelm Grøholt announces a turnaround to restore Norske Skog to profitability, with a requirement to raise the return on capital employed from 2.8% in 2005 to 11%.

MAY

- Hydro and Norske Skog agree to study the production of biodiesel.


JUNE

- Christian Rynning-Tønnesen is appointed as the new chief executive, while Andreas Enger becomes chief financial officer.
- The Klosterøya – New Opportunities report is published in cooperation with the local authorities. This presents a vision of how commercial, cultural and recreational opportunities can be brought to the former Norske Skog Union mill site at Klosterøya in Skien.

JULY

- After 50 years of operation, PM1 at Norske Skog Tasman in New Zealand is shut down as part of the restructuring of production in Australasia.

AUGUST

- The board approves a reorganisation of the company, which involves major changes. The corporate management team is reduced from 11 to eight members, the regional administration is eliminated, and four senior vice presidents each become responsible for a portfolio of mills. Every mill becomes responsible for its own sales. A demanning process totalling some 1 000 jobs is approved.
- The decision is taken to move the thermo-mechanical pulp (TMP) plant from the closed Union mill to Norske Skog Follum.

SEPTEMBER

- Shutting down two paper machines at Norske Skog Jeonju in Korea reduces production capacity by 180 000 tonnes.


OCTOBER

- The demanning process gets under way, with the head office at Oxenøen shedding 40 staff. Regional functions in Singapore, Sydney, Australia, and Curitiba, Brazil, are discontinued.
- Workers at Norske Skog Singburi in Thailand are hit by a disastrous flood, with 60 employees losing their homes and another 25 being affected by the damage. The group organises a collection for the flood victims, and promises to match the contributions.

DECEMBER

- The board resolves to transfer PM7 from the closed Union mill to Norske Skog Pisa in Brazil during 2007-08. This will increase Norske Skog's annual Brazilian capacity for newsprint production from 185 000 tonnes to 385 000 tonnes.

71 000 000

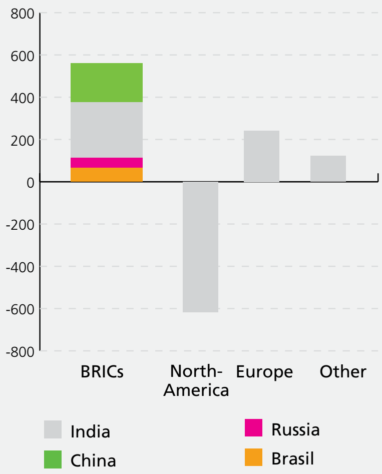
Global consumption of paper in 2006

Renewed growth in demand

After a slight decline in 2005, global demand for publication paper began to grow again in 2006. This trend was strongest in Brazil, Russia, India and China – the BRICs economies.

Newsprint demand 2005 vs 2006

(1000 tonnes)



The world consumes 7 million tonnes of publication paper annually. Global demand reached a record level in 2006, exceeding the previous peak in 2005. Over the past three years (2003-2006) demand grew by 3.7 million tonnes or 5.5%. With a moderate expansion in 2006, print media maintained its position in relation to the internet. However, in terms of share of advertising expenditure, print media has lost out to web-based media in recent years.

NEWSPRINT

Global newsprint demand grew just under 1% in 2006.

Goldman Sachs wrote in 2003 about the development of the BRICs economies (Brazil, Russia, India and China) toward 2050. According to Goldman Sachs, and other experts in the field of economics, it is highly likely that the BRICs economies will become a much larger force in the world economy by 2050. Higher growth in these economies could offset the impact of ageing populations and slower growth in developed economies. We have witnessed this phenomenon in the global market for newsprint in 2006: Growth in demand in the BRICs countries offset the decline in newsprint demand registered in North America.

EUROPE

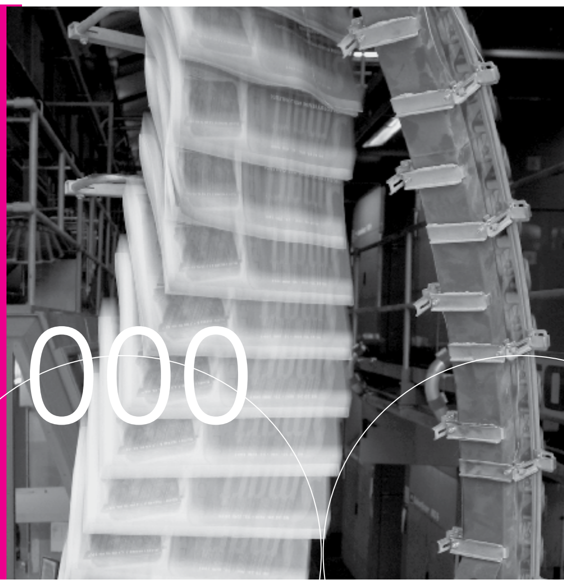
Free newspapers are spreading in mature European markets. New publications of this kind in Western Europe underpinned a moderate growth in demand of about 2% in 2006. This contrasted with developments in the USA, where demand for newsprint continued to decline. North America is the only region where overall demand is dropping, with a 6% fall in 2006.

Stronger growth in newsprint demand was experienced in Eastern Europe. At over 5%, it was twice the 2005 increase. Both traditional newspapers and free newspapers are expanding in this region. Russia experienced particularly robust growth in 2006, primarily reflecting a strong economic performance.

The market balance in Europe improved during 2006, both

Norske Skog´s production capacity in Asia in tonnes

1600 000



because of growing demand and as a result of substantially reduced imports from North America.

CHINA AND ASIA

Overall demand in the non-Japan Far East (NJFE) region increased by about 5% in 2006. China and India continued to show strong growth, at 7% and 12% respectively. After a sharp decline of 5% in South Korean demand from 2005, the demand remained stable during 2006 at the level of 2005.

China shifted from being a net importer of newsprint to net exporter during 2006 because new capacity exceeded the growth in demand. Prices in China fell in 2006 as a result of the capacity increases and a weaker market balance. Chinese export tonnage was primarily directed at other Asian markets. As a region however Asia remains dependent on substantial imports. Chinese demand for newsprint is expected to continue growing at 6-8% in 2007.

AUSTRALASIA

The market in Australia and New Zealand displayed the same trends as mature European markets. Demand declined by 2-3% across the region, reflecting lower print advertising expenditure in real terms and some weakening in private consumption.

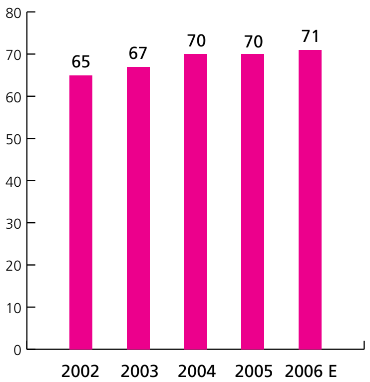
SOUTH AMERICA

Robust growth of 7% was achieved in South America during 2006, with demand in Brazil increasing 10%. New and reasonably-priced regional newspapers have proven profitable for a number of the largest publishers. Most of the countries in South America experienced solid growth in demand in 2006. The exception was Chile, which stagnated at the 2005 level. Chile is regarded as the continent's most mature market.

South America has a substantial import requirement for newsprint. Norske Skog's strategic decision to double its production capacity for this product in Brazil

World publication market demand

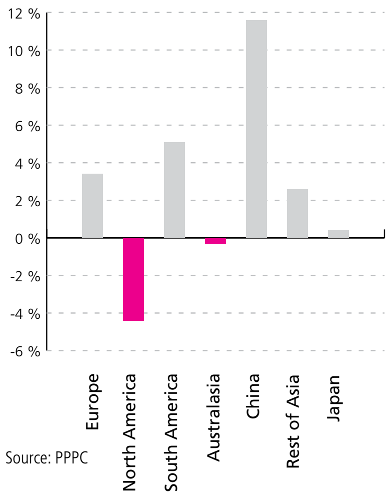
(million tonnes)



Source: PPPC

Newsprint demand by region

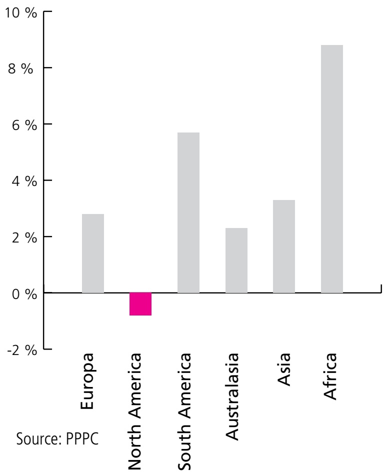
(annual growth 2003-2006)



Source: PPPC

Publication papers demand by region

(% growth 2003-2006)



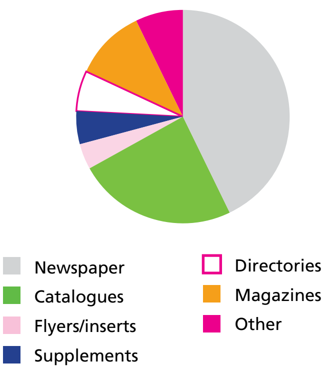
Source: PPPC

will make a considerable contribution to reducing such imports.

MAGAZINE PAPER

Global demand for magazine paper increased by about 1.5% in 2006. Magazine paper comprises two grades, LWC and SC, and the demand picture differed significantly between these. While SC showed a strong growth of about 3.5%, development in the LWC segment was flat. Western Europe is the region with the largest production capacity for magazine paper, and has substantial global exports. A number of publishers shifted from LWC to SC catalogue during the year, which worsened the overcapacity situation in the LWC segment and increased pressure on prices. However, a number of players have announced plans to shut down machines in 2006-07. The market balance for LWC is expected to improve during 2007.

Publication paper – and end use applications



Source: ANEC

Stronger commitment to South America

Plans were unveiled by Norske Skog in December 2006 to double its production capacity for newsprint in Brazil.

This will be accomplished by moving a paper machine from the closed Union mill in Skien to Norske Skog Pisa, and upgrading its annual capacity to 200 000 tonnes.

This South American expansion is in line with the group's strategy of being a world leader for cost efficiency, either through closeness to markets or through a strengthened presence in regions particularly suited to paper production.

The commitment in Brazil meets both requirements. New production capacity in this region reduces the cost of importing paper from other continents, which also has positive environmental effects. Access to raw material from certified fast-growing plantation forests and closeness to markets, combined with the growth in regional demand, also provide good opportunities for cost-effective output.

Brazil's newspaper flora is expanding, with more titles and an aggressive commitment to recruiting young readers. Norske Skog is sponsoring long-term projects on using newspapers as a teaching aid in schools. New and reasonably-priced regional newspapers have proved profitable for a number of the biggest publishers.

Top choice in Europe

For the first time, Norske Skog has topped a poll which invites European newsprint consumers to name their preferred supplier.

Twenty-seven per cent of the companies questioned in the Competitive Perception survey picked the company in response to the question "if you had to buy newsprint from just one supplier, which one would you choose?"

That secured Norske Skog the title of preferred supplier in Europe for the first time in this global and independent poll conducted annually by MGT Information. The second-placed supplier received 19% of the votes. Customers in South America placed the company second in the same survey, just two percentage points behind the leader.

In Brazil, the biggest newsprint market in South America, 58% of newspapers replied that they would have picked Norske Skog if they could deal only with one supplier. That was twice the votes of the company in second place.

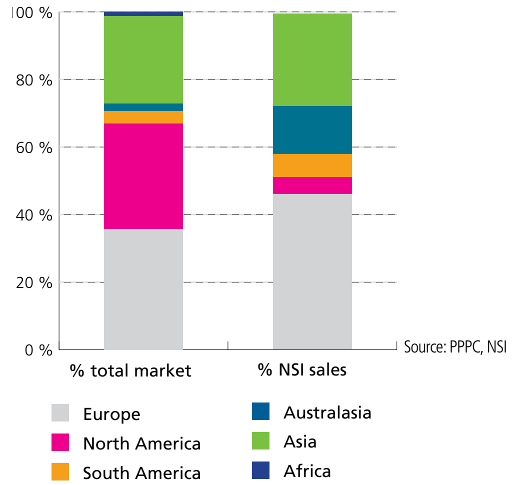
Norske Skog dominates the scene in Australasia. In Asia, the acquisition of PanAsia is so recent that the survey will not be relevant until 2007.

Good collaboration with sub-contractors was essential for meeting the goal of being a preferred supplier in Europe for 2006. Deliveries of wood and recovered paper were stable.

The customer database was upgraded in 2006. Updated and accessible information made it simpler to follow up clients and provide better service. A strong commitment to key customers paid off in greater satisfaction among the biggest buyers. Major investments in broader paper reels and the associated logistics also helped customers to boost their production efficiency.

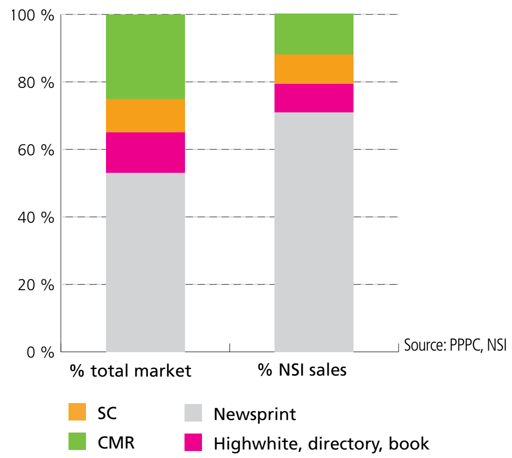
Publication papers by region

(tonnes)



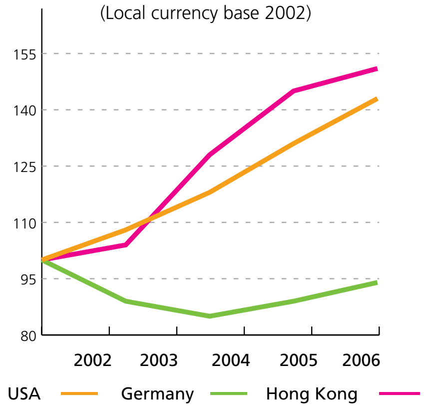
Publication papers by type

(tonnes)



Newsprint price index

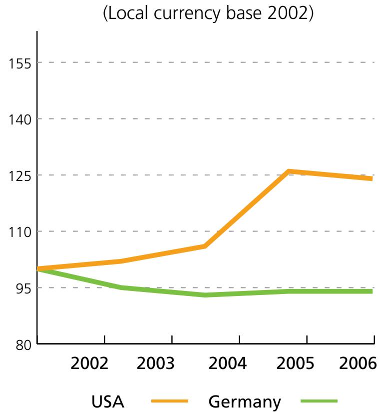
(Local currency base 2002)



Source: RISI

LWC price index

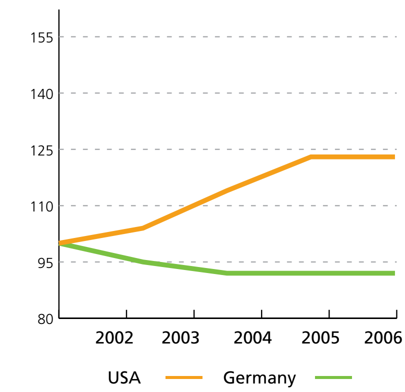
(Local currency base 2002)



Source: RISI

SC price index

(Local currency base 2002)



Source: RISI

Norske Skog products

This overview presents the complete product range, including 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 brand: Nornews
End use: Newspapers, free-sheets, directories, supplements, insert/flyers
Printing method: Cold set web offset, flexo, letterpress
Mills: Albury, Bio Bio, Boyer, Bruck, Chongwon, Follum, Golbey, Hebei, Jeonju,Parenco, Pisa, Shanghai, Singburi, 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 brand: Bio Bio Directory, Tasman Directory
End use: Telephone directories, catalogues
Printing method: Heat set web offset, cold set web offset
Mills: Bio Bio, Boyer, 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 brightness and bulk. This allows their use for innovative and cost effective advertising, inserts and flyer production.

Product brand: 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, Tasman

NorSC

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

Product brand: 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 thermomechanical 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 optimises surface and paper strength.

Product brand: 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, makes the product range truly easy to handle.

Product brand: Norcote
End use: Magazines, catalogues, supplements, direct mail, inserts/flyers
Printing method: Heat set web offset, rotogravure
Mills: Bruck, Walsum

6 475 000

Production capacity of Norske Skog (tonnes)

Restructuring paper production

Production and deliveries for 2006 totalled just over six million tonnes globally, up by 10 % from last year.

The lost-time injury (LTI) frequency per million working hours was 1.3 for the year, the same as 2005. Six of the 18 mills had lost time injuries in 2006.

With the exception of Australasia, demand for Norske Skog's products increased from 2005 to 2006 in all the geographic regions in which the company has mills. Demand for newsprint in North America continued to decline, but Norske Skog does not have mills in that part of the world.

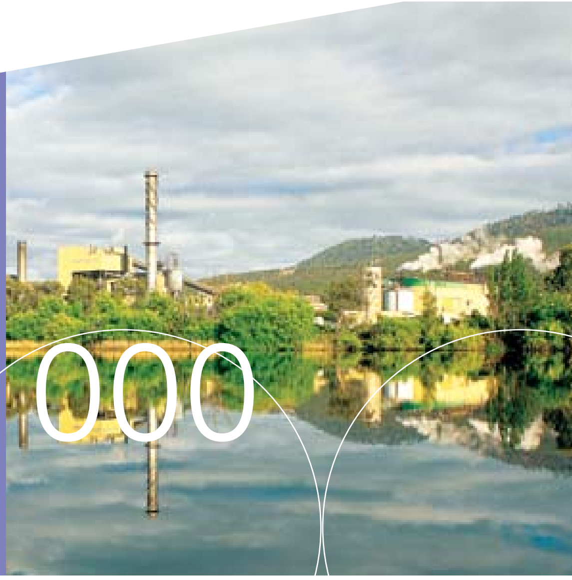
Shutting down five paper machines made its mark on production in 2006. The two machines at Norske Skog Union ceased operation early in the year. It was later resolved to transfer one of these units to the company's mill at Pisa mill in Brazil, which will double Norske Skog's production capacity in that country.

Two machines were shut down at Norske Skog Jeonju in Korea. One has been permanently discontinued, while the other will remain as reserve capacity for the time being.

The oldest paper machine at Norske Skog Tasman in New Zealand was also shut down after an extensive upgrading project had been completed at Norske Skog Albury and with the other two machines at Norske Skog Tasman. Despite this shutdown, overall production capacity has been maintained in the region. Profitability will improve because overheads have been reduced and because some of the tonnage previously exported from New Zealand will now be produced in Australia.

Production volume 2006 in Korea (tonnes)

1 051 000



NORSKE SKOG **SKOGN**

Norske Skog Skogn had two lost-time in injuries in 2006. Last year was the best production year ever for Skogn, mainly due to the excellent performance of PM3. Skogn produced in total a record 584,000 tonnes, and increased productivity for the fourth year running. There were some unplanned shutdowns and hindrances in 2006 on PM1 and PM2.

NORSKE SKOG **STETI**

There were no lost time injuries at Norske Skog Steti during 2006. Norske Skog Steti achieved the highest production and productivity ever in 2006, with a total of 125 000 tonnes. An extended maintenance program during 2006 resulted in higher maintenance costs, however this should provide a solid basis for mill performance during 2007.

NORSKE SKOG **PARENCO**

There was one lost time injury at Norske Skog Parenco during 2006. The production improved from 419 000 tonnes in 2005 to 431 000 tonnes in 2006. The main negative event was a fire which occurred inside the press section of PM1 in November, causing the machine to stop for more than one week.

NORSKE SKOG **GOLBEY**

In terms of saftey it was a difficult year with one fatal accident and one accident with absence. The mill produced 599,000 tonnes in 2006. Production increased slightly from 2005. There were many unplanned shutdowns in the TMP and energy plants, and a high sheet break rate on PM2. The sheet break rate showed significant improvements in the last three months of the year.The mill has started the implementation of the Norske Skog Production System (NSPS) as a pilot mill, after the preparatory work that was done at Norske Skog Jeonju.

NORSKE SKOG **BRUCK**

In 2006, a record period of 799 days without lost-time accidents ended. A special programme has been implemented to reinforce the focus on safety. The magazinepaper machine achieved productivity record while the newsprint machine also set a volume record with 126 000 tonnes. Both newsprint and magazine paper met high quality standards.

NORSKE SKOG **FOLLUM**

Norske Skog Follum nearly reached two years without lost-time accidents. Sick absence was reduced by 16 % compared to 2005. Overall, the mill performed well in 2006, with the best results since 2001. PM2 started up again after six months of downtime and rebuild, producing improved grades. PM1 improved productivity and reached another production record. A decision to move the TMP 2 plant from Union to Norske Skog Follum was made in the summer. The project is expected to be in operation later in 2007, which will improve quality and fiber availability.

NORSKE SKOG **SAUGBRUGS**

The mill's good safety performance continued in 2006. The whole organisation has been highly engaged throughout the year preparing for the 620 project coming up in 2007. The main goal of this project is to improve print quality by rebuilding the thermo-mechanical pulp plant and the forming section of PM6. Although in a pressed magazine market, Norske Skog Saugbrugs was able to run near to full capacity, with a total sales volume at the same level as 2005, and a production of 52 600 tonnes.

NORSKE SKOG **WALSUM**

In 2006, Norske Skog Walsum reached more than seventeen months without lost-time accidents. This was the best result ever. Electricity price-peaks forced several production-stops. The operating rate was also reduced by weak LWC demand. Investments in quality and cost-reduction (TMP capacity, jet flow coating technology, production of XXL-rolls of up to 4.35 m) could not balance the poor market. Organisational changes and the started turnaround plan will help to tackle these challenges in the future. The total production was 378 000 tonnes in 2006.

NORSKE SKOG **BIO BIO**

A full year without lost-time injury was celebrated in July, but unfortunately during the rest of the year the mill had five lost time injuries of minor consequences. The year got off to a slow start, the performance improved considerably during the second half of the year. In total it produced 122 000 tonnes. A secondary effluent treatment plant project was approved, which will allow the mill to significantly improve its environmental performance and meet future tougher legal standards. The first stage of the project will be implemented in March 2007.

HNLC **HEBEI**

In 2006 HNLC Hebei had its first full year of operation, and had no lost-time accidents. The mill managed to produce 240 000 tonnes in spite of 45 days downtime and a difficult market. The full production capacity of 330 000 tonnes should be reached by early 2008, showing the most impressive start-up curve in the industry.

NORSKE SKOG **PISA**

Norske Skog Pisa accomplished a record of 1 327 days without lost-time accidents in 2006, deservedly receiving a Norske Skog's Presidential Health and Safety award. Environmental factors were stable during 2006 when compared to 2005. Production and sales volumes rose 2% compared to previous year. In December, the transfer of Union PM7 from Norway to Brazil was approved, which will double Norske Skog Pisa's capacity.

NORSKE SKOG **TASMAN**

Norske Skog Tasman had 2 lost-time injuries in 2006. The main focus for 2006 was the rebuild of PM2 in June and the closure of PM1 in August. The rebuild shutdown of PM2 went very well. PM2 also started up well, but due to changes in wet end chemistry production has been well below capacity. Production volume for the year was 311 000 tonnes. The shutdown of PM1 went without incident. Manning levels were reduced by 127 and there have been substantial changes to the operation of the mill. During the shutdown, there was also a major focus on getting PM3 up to its rated capacity after it had been rebuilt in 2005. Both machines have started to run well.

NORSKE SKOG **SINGBURI**

Severe flooding affected the community around the mill but did not cause any interruptions in production. Production volume was 130,000 tonnes, mainly serving the domestic Thai market. Norske Skog Thailand recorded two lost-time accidents in 2006. The mill ran full operations with stable performance throughout the year.

NORSKE SKOG **ALBURY**

There was one lost-time accident in 2006, ending the record of 946 days injury free. 2006 saw major development at Albury with the rebuild of the paper machine to increase capacity by 50,000 tonnes to 265,000 tonnes per year. The start-up and subsequent months provided many challenges with performance issues predominantly in the press section and paper print quality issues. Increasing the speed of the machine and optimising customer supply are the main focus areas for 2007.

SNP **SHANGHAI**

SNP Shanghai achieved a new lost-time accident free record of 1022 days in 2006, one of the best performances in Norske Skog. SNP is the first foreign-owned newsprint manufacturer in China with one paper machine. This has a capacity of 145,000 tonnes of newsprint a year with 100% recycled paper. SNP had nine days of shutdown maintenance in October, its longest planned shutdown maintenance ever. Equipment reliability and availability has been significantly improved. Post flotation cell, the biggest investment of the mill since its establishment, was successfully installed, commissioned and put into normal operation in the year.

NORSKE SKOG **BOYER**

Boyer achieved a significant safety milestone during 2006, as it has gone three years without a lost-time accident. A focus on improved process stability and efficiency supported both machines in achieving record levels of efficiency and productivity. Norske Skog Boyer's annual production was 293 500 tonnes, an increase of 0.8% over the previous record and the 11th year of the past 12 where record levels have been realised. This result was achieved through solid improvement in overall efficiencies on both paper machines. Along with the mill production record, PM2 passed the 140 000 tonne milestone in the final week of the year.

NORSKE SKOG **KOREA**
(CHONGWON AND JEONJU)

In 2006 there was one lost time accident at Norske Skog Jeonju. Norske Skog Chongwon has run without lost time accidents since October 2004. Chongwon produced 173 000 tonnes of newsprint. PM1 had a rebuild of the headbox at the end of the year, which took 12 days. This improved paper quality, mainly profiles and formation. Two machines at Jeonju were shut down during September – PM1 permanently, and PM4 indefinitely idled. PM4 was running only part of the time up until September. PM7 had a major rebuild and shutdown that lasted 30 days. Norske Skog Jeonju produced 856,000 tonnes of newsprint and 188 000 tonnes of groundwood specialties.

The total production in the Korean mills was 1 051 million tonnes, of which 920 000 tonnes was newsprint and 131 000 tonnes was groundwood specialties.

Turnaround aims for NOK 3 billion boost

Norske Skog needs to improve its profitability considerably, and has initiated an extensive improvement programme. At the end of 2008, gross operating profit (EBITDA) shall be increased by NOK 3 billion compared to 2005.

This extensive improvement programme was launched in the autumn of 2006. When tracking the actual improvement effects, external factors such as changes in prices on input factors and finished goods, will be excluded in the comparison. Some of the initiatives will lead to investments, but within the group's normal level of capital expenditures.

MANY MEASURES

Substantial differences in productivity and earnings exist between Norske Skog's 18 mills. Efficiency and profitability will be enhanced across the group through continued development of global best practices and by exploiting the experience and expertise of each mill.

A new organisational model has been established by Norske Skog, with each mill as an independent business unit. Experience with the new structure is good. The individual measures in the improvement programme have been identified through a lengthy process involving the company's senior management and business units. A list of 43 initiatives was presented at the end of October. Another 114 measures have since been added.

Norske Skog is also conducting a detailed review of its product and customer portfolio. The company currently produces about 100 different grades of magazine paper and newsprint.

The principal areas in the improvement programme are:

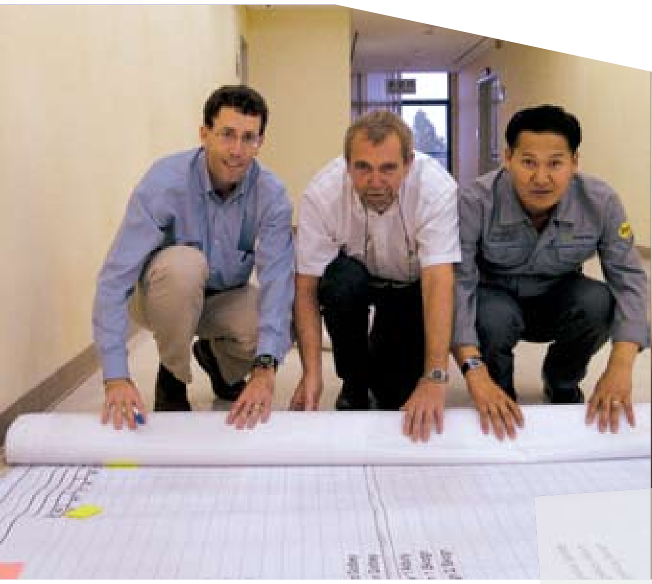
- production and maintenance
- energy
- supplies and procurement
- sales and logistics
- demanning

The turnaround means reducing the Norske Skog workforce by about 1 000 people. When these measures have been fully implemented during the first half of 2007, group payroll costs will have been reduced by about NOK 450 million on an annual basis.

Good proposals for energy savings have been submitted by the business units who are driven to offset price increases in this area. Efficiency improvements and savings in production and maintenance also offer a higher-than-expected potential.

NEW SALES AND RENAME MODEL

In the new model, each mill has been assigned a local territory. The principle is



Terry Hamilton, Terje Lien and Andrew Joo play key roles in the roll out of the Norske Skog Production System (NSPS) .

Senior vice president business improvement Peter Chrisp is responsible for the improvement programme.

that the sales organisation will function locally but with a central governance. This will let each mill cultivate customers on the basis of its local knowledge of prices and service.

The global sales governance department has been created to provide a infrastructure for sales work. It will function as the centre of expertise for the local sales organisations and play a role as market regulator. Global sales governance will take over surplus capacity in one market and channel it to where the best price can be obtained.

Capacity cut pays off

Five paper machines with a combined annual newsprint production capacity of 570 000 tonnes were shut down or approved for re-location during 2006. This restructuring means that Norske Skog has cut costs without losing sales volume. Overall, the company expects to improve its annual results by NOK 500 million as a result.

POSITIVE

Decisions to shut down the five machines were taken in 2005 and implemented in 2006. These moves have had a big positive effect, reducing overheads without losing sales volume.

The restructuring now under way, most recently with the decision to move a paper machine from the closed Union mill in Skien to Norske Skog Pisa in Brazil, will continue for as long as production capacity remains in significant imbalance with the market.

GROWTH

Norske Skog wants to have production capacity in growth markets. The Union case illustrates this. An annual newsprint capacity totalling 260 000 tonnes was closed down, helping to solve the problem of overcapacity in the European market. Transferring a machine to Brazil will expand the group's capacity annual in that country from 185 000 tonnes to 385 000. Demand for newsprint is growing in South America, which currently imports paper from other parts of the world. Brazil is also a favourable production location, with low costs and a good supply of raw material.

UPGRADED

While some capacity has been taken out, other paper machines in the group have been upgraded. Although a newsprint machine in New Zealand with an annual capacity of 130 000 tonnes was shut down, a substantial investment was made in the remaining machines. This maintains sales volume while reducing costs. Two machines in Korea, with a combined annual capacity of 180 000 tonnes, were shut down as a result of weak market developments. One is to be dismantled, while the other will be retained as reserve capacity.

From geothermal power plant to finished newsprint .

Energy strategy gains importance

Energy supply and efficient energy use has become an even more important strategic part of our business during recent years, as energy prices have escalated.

Energy costs have increased 12 % during the last year, and by 63 % since 2002. On a per tonne basis the changes have been 10 % and 45 % respectively. The difficult energy situation has caused changes in strategic focus. It has also spurred an even greater incentive for decreasing energy use per tonne of paper produced across the entire operation.

Examples of energy saving and cost cutting measures are many. For instance, Norske Skog Parenco has continued to implement changes in production that take advantage of daily fluctuations in electricity prices. Power is produced at the cogeneration plant not continuously, but only when it is cheaper to produce power than to buy it at market prices – in combination with necessary heat production for ongoing processes. This results in a savings of approximately 8 percent in power costs. TMP processes are operated as much as possible during the night hours, when power is less expensive.

Organic waste and other waste from the paper production process is utilized as fuel in the cogeneration plant at Norske Skog Parenco. Technical teams have begun a series of surveys of the entire mill, where all aspects of production are scrutinized for the possibilities of energy saving.

Norske Skog Tasman in New Zealand is situated in a geothermal area, and the company was instrumental in securing local authorities' approval and building of a geothermal power station there by Mighty River Power. Construction has started, and the power station will be finished at the end of 2008. Norske Skog Tasman has a contract for 65 % of the total mill consumption. Energy saving projects at the mills have received support from various authorities in several countries. For example, an energy saving project for the TMP process at Norske Skog Skogn will reduce consumption by 17 % annually when it is completed in 2009. The project has a budget of NOK 330 million. Enova, a Norwegian state agency under the Oil and Energy Department, is supporting the project with NOK 50 million.

Positive feedback on R&D function

Norske Skog Research & Development has changed name to Technical Support and Development (TSD) from November 2006.

Norske Skog will continue to help the business units generate cash through technical support and development projects to drive productivity improvements while maintaining or improving quality and driving down costs. We will share knowledge and learn together with the business units to improve technical competence in Norske Skog.

The change of name was in harmony with the announced turnaround process towards the new structure where each mill is defined as a Business Unit (BU). The new name also reflects better what the department has actually done and will continue to do.

TSD's primary tasks are to give technical support to the BU's to strengthen their teams when solving complex problems, and to work on development projects to help BU's achieve productivity, quality improvements and cost reductions. The individuals in the department are located throughout the world close to the Business Units and travel as required to provide the technical support required.

Before the end of the year Business Units and their customers had provided positive feedback to the new structure resulting in a closer relationship and improved service.

The energy market

Energy prices in continental Europe increased in the first half of 2006 due to increasing oil prices, high CO_2 prices and low winter temperatures. A drop in the CO_2 prices in April, caused a drop in power prices from close to 60 MWh to about 48 MWh. However, power prices subsequently increased to the mid and high fifties, mainly due to higher oil prices.

In the second half a reduction in oil prices, increased supply of gas, and expectations of warm weather combined to cause power prices to decline. In Scandinavia, high energy prices caused mainly by low rainfall dropped when reservoir levels increased late in the year.

Impacts of fluctuating energy prices were cushioned by the degree of hedging in our operations. Analysts generally expect the European price level to continue to decrease and vary in their assessment of where it will level off.

Both South America and Australasia have a high hedging degree and have not felt the pressure of increasing oil price. Electricity prices in Asia are regulated and did not rise to the same degree seen in Europe. The cost of oil used to generate heat has generally followed the oil price development but was mitigated by increased efficiency and fuel switching.

The energy volume and price risk is managed primarily through supply contracts. The term of these contracts varies depending on the nature of the market and the type of fuel. In general terms, we have long-term energy supply contracts in Norway, South America and Australasia. This includes long-term supply agreements recently entered into in Australia, New Zealand and in Brazil.

Electricity prices in Asia are regulated and are characterized by lower volatility than prices in liberalized markets. The rolling hedge for continental Europe is monitored in accordance with the existing mandate.

Biodiesel from wood

A decision is due to be taken during 2007 on a possible partnership between Norske Skog and Hydro over a plant to supply a future Norwegian market for biological fuels.

A letter of intent signed by these two companies in late May 2006 signalled the start to a joint feasibility study of opportunities for establishing a large plant to produce biodiesel in Norway.

This work will clarify whether the plan is financially and technically viable. Should that prove to be the case, the idea is to locate the plant somewhere in south-east Norway where wood can be readily obtained and the logistics are good. A possible facility could become operational in 2012 at the earliest.

Underlying this initiative is an awareness that biofuels are a future product with several clear advantages. In addition to being renewable and environment-friendly, they also meet very high quality standards when produced from wood.

New targets set by the European Union, among others, will create a big market for such products, which makes them all the more interesting.

The EU target is for biofuels to meet 5.75% of all vehicle energy consumption by 2010, and 20% by 2020.

Big nations such as Brazil and the USA are also promoting alternative energy sources for cars.

A crucial consideration for the two partners is the cost of producing biodiesel. They have emphasised that long-term political terms and incentives which make such production economic will be important for establishing a plant. Among other requirements, technology not currently available on the market will need to be developed.

Malaysian Newsprint industries (MNI)

Norske Skog owns 34% 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 2006 totalled NOK 35 million, compared with NOK 11.5 million the year before.

Total sales rose from 246 300 tonnes in 2005 to 254 000 tonnes. MNI has 350 employees, and suffered one lost-time injury in 2006.

Key figures

	2006	2005	2004
Operating revenues in USD mill	163.4	144.5	125.1
EBITDA in USD mill	57.6	50.2	41.7
EBITDA margin	35%	35%	32%

Production capacities 31 December 2006 (1 000 tonnes)

MILL	COUNTRY	NEWSPRINT [1]	OTHER UNCOATED PAPER	SC MAGAZINE PAPER	LWC MAGAZINE PAPER	TOTAL
EUROPE:						
Norske Skog Skogn	Norway	590				
Norske Skog Saugbrugs	Norway			550		
Norske Skog Follum	Norway	130	145		140	
Norske Skog Golbey	France	630				
Norske Skog Bruck	Austria	125			260	
Norske Skog Steti	Czech Rep.	125				
Norske Skog Walsum	Germany				435	
Norske Skog Parenco	Netherlands	460				
Total Europe		**2 060**	**145**	**550**	**835**	**3 590**
ASIA:						
Norske Skog Jeonju	Korea	735	90			
Norske Skog Chongwon	Korea	190				
SNP Shanghai	China	145				
HNLC Hebei	China	330				
Norske Skog Singburi	Thailand	125				
Total Asia		**1 525**	**90**			**1 615**
AUSTRALASIA:						
Norske Skog Tasman	New Zealand	270	50			
Norske Skog Albury	Australia	270				
Norske Skog Boyer	Australia	200	85			
Total Australasia		**740**	**135**			**875**
SOUTH AMERICA:						
Norske Skog Pisa	Brasil	185				
Norske Skog BioBio	Chile	120	5			
Total South America		**305**	**5**			**310**
Total consolidated capacity		**4 630**	**375**	**550**	**835**	**6 390**
Malaysian Newsprint Industries Sdn. Bhd. (MNI) Ownership 33.65 % [2]	Malaysia	**85**				**85**
Total inclusive share of MNI		**4 715**	**375**	**550**	**835**	**6 475**

1) Newsprint capacity is based on 48.8 g/m2 in South America, and on 45 g/m2 in other parts of the world.
2) Capacity in Australia and New Zealand was earlier calculated on a 48.8 g/m2 basis, and amounted to 940,000 tonnes, which is about the same as 875,000 based on 45 g/m2.
3) Capacity in MNI on a 100 % basis is 250,000 tonnes. Norske Skog owns 33.65 % of the company and uses equity accounting when consolidating its share of the result.

3 932 000 000

Norske Skogs gross operating earnings in 2006 (NOK)

Focus on return and cash flow

The paper industry is capital-intensive and cyclical. It has accordingly faced problems at times in generating a sufficient return on capital invested.

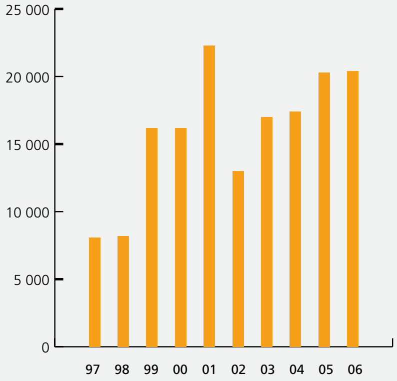
Norske Skog's ambition is to be the paper-industry company which provides the best total shareholder return (TSR). But this goal cannot be reached unless the return is also competitive with other industries. Norske Skog's goal is to provide a return on capital employed (ROCE) of 11% over a business cycle. The ROCE for 2006, before all types of special items, was 3.7%. This means that earnings must be improved by almost NOK 3 billion if the 11% target is to be met.

A profitability improvement programme was introduced by Norske Skog in August 2006. The goal is to improve gross earnings (EBITDA) at a pace which corresponds to NOK 3 billion as run rate by the end of 2008, calculated by comparison with 2005. This programme is extensive, and includes demanning and reorganisation as well as measures to improve productivity and the market mix. Norske Skog has also shut down several paper machines, which helps not only to reduce costs but also to create a generally better industry structure.

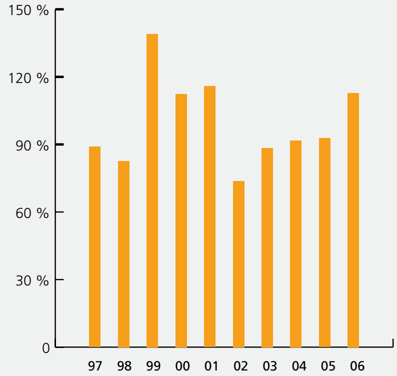
Great attention is being paid to cash flow by Norske Skog in order to monitor the business and measures to improve profitability. All the mills are now organised as business units, with cash return on capital employed (CROCE) as the key performance measure. In this context, cash flow is defined as earnings before interest, tax, depreciation and amortisation (EBITDA) corrected for changes in working capital and less all non-strategic investments. The aim for CROCE is 13%, which harmonises with an ROCE of 11%. To meet the CROCE target, Norske Skog must generate a gross operating margin of 25%. The units in the group which are most efficient and have the best market mix meet the goal of a gross operating margin at this level. Through the improvement programme, the objective is to improve these parameters for every unit, so that the group can meet its overall target. The gross operating margin in 2006 was 16.4%.

The table below provides an overview of Norske Skog's most important financial targets.

Market value Norske Skog at 31 Dec.
(NOK mill)



Market value as % of book value



Financial goals	
Total shareholder return (TSR)	Best in the paper industry
Dividend	Stable, corresponding over time to 15-25% of cash flow from operations
Return on capital employed (ROCE)	11% over a business cycle
Cash return on capital employed (CROCE) – as a target for all the mills	13% over a business cycle
Gross operating margin (EBITDA)	25% over a business cycle
Net debt/equity (gearing)	< 0,80 over a business cycle
Liquidity reserve (% of turnover)	20%
Average term for debt	> five years

Norske Skog´s operating revenue in 2006 (NOK)

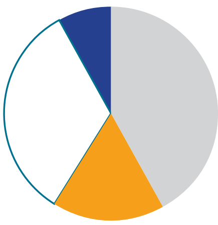
28 800 000

Financing

Norske Skog gives weight to good financial flexibility. To ensure this, it seeks to have a diversified loan portfolio, a long-term repayment structure and a solid liquidity position.

Debt financing primarily takes the form of syndicated bank loans as well as domestic and international bond loans. Norske Skog spreads its financing over different banks, investor groups and markets. Such diversification is intended to reduce the group's financing risk. The diagram below shows the composition of the group's funding sources at 31 December 2006.

Funding sources



Banks 42%
Norwegian bonds 17%
US bonds 33%
Other bonds 8%

A smooth and long-term debt repayment profile is also sought for the debt portfolio to reduce refinancing risk and to ensure a satisfactory ability to service debt even in years of economic downturn. Limited use is made of short-term sources of finance, because frequent and short-term rollovers help to increase the refinancing risk. If short-term loan instruments are used, it is assumed that adequate back-up facilities are available. One aim is that the debt portfolio will have an average term to maturity of at least five years. At 31 December 2006, the average term to maturity was 5.4 years. The bar chart below shows the repayment schedule for the group's debt at 31 December 2006. A Bond issue with a five-year term in the Norwegian market represent the first stage of refinancing work in 2007.

Liquidity risk is defined as the risk that Norske Skog will be unable to refinance or service its financial obligations when these fall due. The group seeks to reduce this risk by holding a liquidity reserve corresponding at a minimum to 20% of forecast annual turnover. Comprising bank deposits and short-term placements as well as undrawn credit facilities with a remaining tenor of more than one year, the reserve totalled NOK 6.1 million at 31 December 2006.

The liquidity reserve consists primarily of two syndicated bank facilities, one of USD 500 million maturing in 2009 and the other of EUR 400 million maturing in 2012. The latter was established in the autumn of 2006 through the refinancing of one of Norske Skog's earlier syndicated credit facilities, which also totalled EUR 400 million. The new EUR facility was substantially over-subscribed, and a total of 19 banks participate in this syndicate. The company accordingly has a broad

and good group of banks.

Norske Skog's credit facilities are subject to 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.

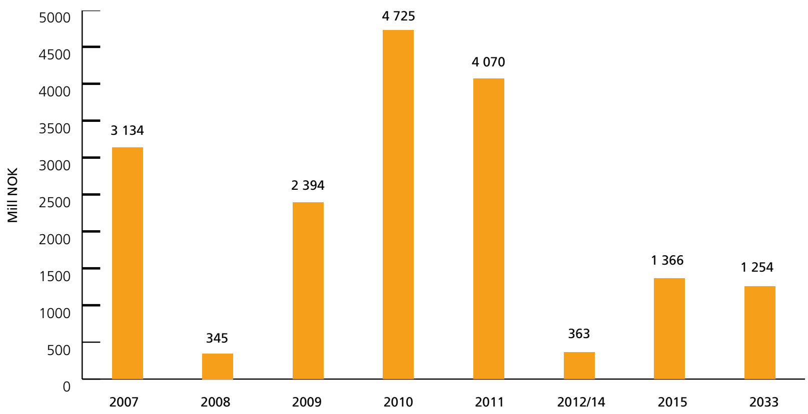
Loans taken over through the acquisition of PanAsia Paper, and which have subsidiaries or joint venture companies as the borrower, contain financial covenants with terms other than those specified above. These requirements are then linked to the respective subsidiary which has taken up the loan in question. All financial covenants were satisfied at 31 December 2006.

Norske Skog is credit-rated by Moody's and Standard and Poor's, two of the world's leading rating agencies. These credit ratings help to secure the group access to international bond markets.

At 31 December, the long-term rating was BBB+ Stable Outlook from Standard & Poor's and Ba1 Stable Outlook from Moody's. Both agencies downgraded Norske Skog in 2006 – Standard & Poor's from BBB- and Moody's from Baa3.

This means that Norske Skog has been downgraded from investment to non-investment grade ratings by both agencies. These downgradings have not affected the price or other conditions of existing loans. However, higher loan margins must be expected for future borrowing than if Norske Skog had retained an investment grade rating.

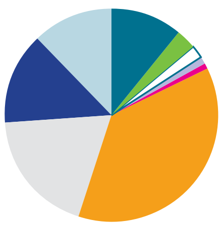
Repayment schedule long-term debt



Financial risk management

A good understanding of risk is important for the ability to create shareholder value in markets characterised by competition and uncertainty.

Net 12-month currency exposure at 31 Dec 06



Balance sheet risk at 31 Dec 06 Gross assets less non-interest-bearing debt

Distribution at 31 Dec. 2006:	
NOK	20%
EUR	25%
AUD	12%
NZD	8%
USD	15%
KRW	18%
Other	2%

Interest-bearing debt

Distribution at 31 Dec. 2006:	
EUR	49%
AUD	11%
USD	32%
KRW	5%
Other	3%

Norske Skog faces a complex risk picture through its global business, and has worked systematically over a number of years to define its overall risk tolerance. Risk is managed and transferred in various ways, depending on the market and the risk category. Financial instruments are used where these provide efficient and financially-acceptable hedging. This applies first and foremost to interest rates and currency, and to some extent to energy.

CASH FLOW HEDGING

Norske Skog's cash flow is spread over a number of currencies, and exchange rate changes can have a big impact on its earnings and expenses. The purpose of currency hedging is accordingly to reduce the effect of exchange rate fluctuations on cash flow and equity. The group's strategy is to hedge 50-100% of its net cash flow per currency for the next 12 months. This hedging helps to reduce the impact of exchange rate changes on its cash flow measured in Norwegian kroner. The goal is for cash flow effects from the hedging instruments to coincide with currency effects on the underlying cash flow. This cannot always be achieved with currencies subject to capital restrictions. On-going cash flow hedging is accordingly limited for such currencies.

Net cash flow over a 12-month period is around NOK 6 billion, and the most important currencies are the EUR, the USD and the GDP. These account for about 70% of the total.

BALANCE SHEET HEDGING

The bulk of Norske Skog's assets are recognised in currencies other than Norwegian krone. A balance sheet risk arises when translating these assets. The group's primary approach to this risk is to have liabilities and assets in the same currency. In addition, balance sheet hedging is organised in such a way that debt has largely been apportioned to those currencies in which the group has a positive cash flow. Should there be a risk that currency fluctuations could lead to a breach of loan covenants, the hedging will be directed towards protecting these. Norske Skog has hedged currency exposures in USD, EUR and AUD in accordance with IAS 39 for net investment in foreign currencies.

The result of balance sheet hedging in 2006 was a gain of NOK 69 million, with NOK 22 million recognised directly as equity and NOK 47 million recognised in the income statement. Negative effect on equity, taking account of both translation differences and the result of balance sheet hedging, was NOK 171 million in 2006.

HEDGING INTEREST RATE RISK

The goal for managing interest rate risk has been to secure low interest expenses over time and to contribute to an acceptable management of financial risk exposure. Norske Skog's interest policy is based on floating rates. By this is meant that interest rates for the bulk of the debt portfolio are fixed for periods of less than a year. The background for this is that interest expenses will then be determined by the direction of the monetary policy, and that the historical correlation of money market interest rates with prices and demand for newsprint and magazine paper has been good. International and regional business cycles are expected to continue to affect demand for publication paper, although industry-specific factors and other structural changes could also influence market conditions. Historically, the approach adopted for Norske Skog's

Vice president investor relations Jarle Langfjæran and sales director in China, George Mao.

interest rate policy has contributed to lower interest expenses both over time and during years of economic recession.

ENERGY

Energy represents an important input factor for Norske Skog, and its 2006 cost of roughly NOK 4.5 billion amounted to 20% of total operating costs. Purchased electricity accounted for roughly 75% of these costs, with natural gas and heating oil responsible for most of the remainder.

The group's exposure varies from market to market, and is handled and managed depending on the energy source and geographic region.

Long-term physical contracts with energy suppliers are the general rule in Norway, South America and Australasia. These contracts provide a hedging of more than 80% in these regions. The group is nevertheless exposed to increased prices, since the contracts are subject to various price regulation mechanisms. However, they help to ensure more stable prices and a favourable price level in relation to the underlying spot prices in the same markets.

Energy price exposure in continental Europe is handled through a three-year rolling hedging programme. This specifies minimum and maximum levels for each year, with the hedging ratio highest in the short term and gradually declining towards the end of the third year.

Electricity in Asia is largely delivered by government-regulated monopoly supplies. Prices are also regulated and display less volatility than in other deregulated markets. Heating oil also represents an important energy source in Asia. This is purchased in the spot market and follows the international price level.

Energy hedging at 31 December 2006 meant that short-term exposure to price changes was limited. For 2007, a 5% change can be expected to have an earnings effect of about NOK 40 million.

In addition to this hedging programme, which is directed at covering price-related risk, Norske Skog seeks to reduce its total energy costs through efficiency improvement programmes and measures to cut energy consumption per tonne produced.

INSURANCE

Norske Skog has a centralised system for operating and maintaining its insurance programme. Active efforts are made to strengthen loss prevention work, and all the facilities maintain high operating and maintenance standards. During 2006, Norske Skog worked with the insurance market to continue developing the format of its technical insurance surveys. New surveys are planned at all the mills in the course of 2007, with the emphasis on risk relating to machinery. Despite active loss prevention efforts, claims arose at two of the mills in 2006. These will result in payouts from NSI Insurance, which is the group's captive underwriter.

The group acquired full control of PanAsia Paper in 2005. This business is now integrated in the central insurance programmes. Insurance surveys of its facilities have been carried out, and the results documented through the "Green Light Risk Evaluation Matrix", which is the group's internal risk benchmarking standard.

Norske Skog continued its centrally-managed insurance programmes in 2006. During the year, the group chose to insure a substantial proportion of its exposure through NSI Insurance. Established in 2001, this captive was hit in 2006 by the two claims mentioned above. The long-term strategy remains to create an optimal balance between internal and external risk financing through the use of the group's own captive.

Norske Skog's shareholder policy

- Norske Skog's goal is to deliver the best shareholder value in the paper industry.
- Norske Skog's shares will be freely negotiable and based on the principle of one share – one vote.
- Dividend policy will be competitive and responsible.
- Norske Skog's capital structure will 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 RETURN TO SHAREHOLDERS

A new measurement 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 fourth 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 an 18.7% return in the fourth quarter of 2006, which was the fifth best return among the companies included in the comparison. The measurement solution method will be changed with effect from 2007.

Investor relations in Norske Skog

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 making outlook statements.

Relevance and appropriate timing are an important part of information work directed at the stock market. Norske Skog's financial calendar for 2007 is:

- Annual general meeting – 12 April
- 1st quarter 2007 – 4 May
- 2nd quarter 2007 – 3 August
- 3rd quarter 2007 – 2 November

Electronic information via the internet is becoming increasingly important. However, direct contact with investors and analysts is even more important. The website 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.

In addition to printed and electronic information, Norske Skog holds quarterly webcast conferences and presentations for the Norwegian and international financial market. Roughly 200 presentations and investor meetings were held in Norway and many other countries during 2006. As before, the main emphasis was on the UK and the USA, where most of the foreign investors are resident. Speakers from Norske Skog participated in six international conferences and seminars for investors.

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 website.

The company's shares are qualified for a number of unit trusts which invest in companies with high standards for environmental protection and sustainable development.

Dividend policy at Norske Skog

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% of cash flow from operations, after financial expenses and tax.

PROPOSED DIVIDEND FOR 2006

Given the desire for a stable dividend and the company's own expectations that earnings and cash flow will improve sharply over the next two years, the board has proposed a dividend of NOK 5.50 per share for 2006.

This is unchanged from the year before, and gives a return of 5% in relation to the share price at 31 December 2006. The dividend will be paid on 24 April 2007 to those shareholders listed in the register of shares when the annual general meeting is held on 12 April.

Shares and share capital

The company's share capital at 31 December 2006 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.

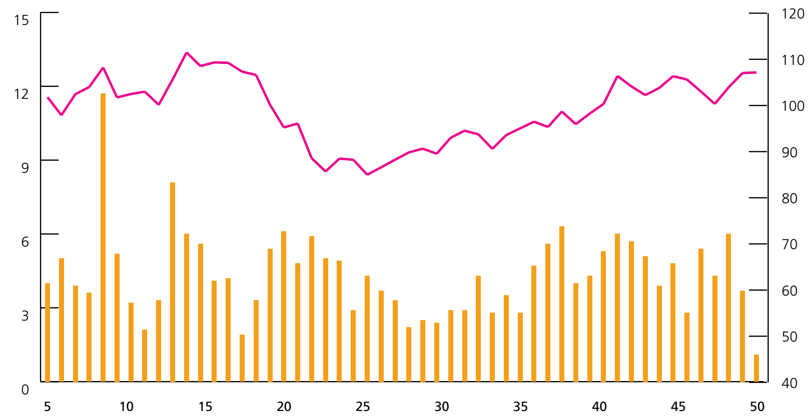
The proportion of shares held by foreign owners totalled 67% at 31 December, compared with 56.9% a year earlier. Apart from employees at Norske Skog's mills outside Norway, most foreign investors are registered through custodial banks. The Capital International investment fund (including Capital Guardian) owned around 10% of the shares in Norske Skog at 31 December. Another investment fund, Franklin Resources, disclosed a holding of more than 5% in July 2006.

According to information from the Norwegian Central Securities Depository, Norske Skog had 22 967 shareholders at 31 December, including 1 355 resident outside Norway.

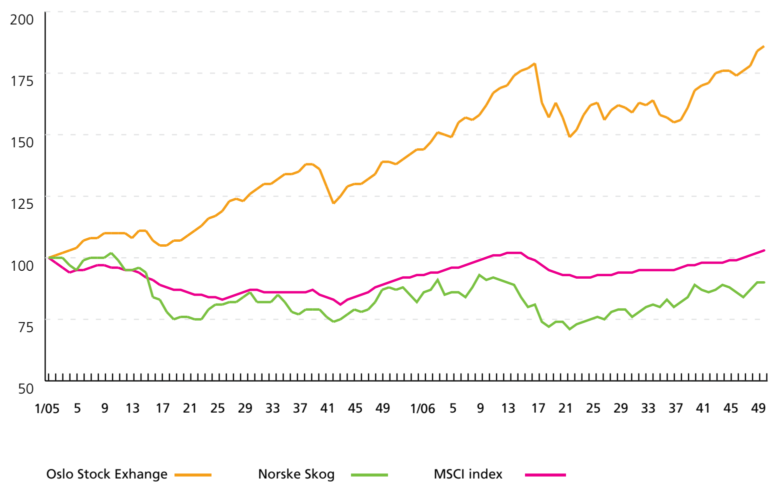
The company owned 631 731 of its own shares at 31 December 2006 as against 846 531 at 1 January. This reduction largely reflects sales to the company's own employees and partial settlement of bonus agreements.

The board is mandated to buy back up to 10% of the outstanding shares. This mandate runs until the AGM in 2007, and the board will seek to have it extended further. No shares were bought back in 2006.

Weekly volume and share price 2006



Norske Skog share price, Oslo Stock Exchange benchmark index and MSCI World F&P index 2005-2006



Share saving scheme

Through the annual share sales, the whole organisation gets its attention focused on the owners' role in Norske Skog and 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, and has since been expanded to embrace personnel at all units worldwide owned more than 90% by Norske Skog. The mills in China are not included, both because the ownership interest is less than 90% and for legal reasons. 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 815 employees bought 189 210 shares in the sale which took place in the winter of 2006, at a price of NOK 88 per share after the discount.

Long-term incentive programme

Norske Skog has had an incentive programme in the form of synthetic options for the corporate management team. The latest allocation under this programme took place in July 2006, when the chief executive received 60 000 options and each member of the corporate management team was allocated 30 000. A total of 600 000 synthetic options had been awarded under the programme at 1 February 2007, including 150 000 to the chief executive.

As mentioned above, the options are synthetic. This means that, if they are exercised, an amount corresponding to the difference between the market and strike prices will be paid. That sum will be treated as salary, and the net amount after tax will be used to buy Norske Skog shares at market price, with a three-year lock-in period. 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.

Subject to the approval of the AGM on 12 April 2007, the synthetic option programme will be replaced another long-term incentive scheme for the corporate management team. Payouts under the new programme will depend on the Norske Skog share yielding a return which is among the eight best in a defined group of 16 listed companies in the paper industry, including Norske Skog. This scheme will provide a payout if Norske Skog falls into the best half of the reference group. A possible payout rises in steps from 30%, and reaches 100% if Norske Skog is in the top quartile. In addition, an absolute requirement is a positive return on the Norske Skog share for the period. Progress is measured over three-year period, with a new period beginning each year. The first will start in 2007, with a possible payout in 2010.

The maximum annual allocation will correspond to the value of 35 000 shares before tax for the chief executive and 17 500 shares before tax for the other members of the corporate management team. A ceiling will also be set, so that the maximum allocation in any given year is limited to 1.25times annual salary. At least 50% of the allocation from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to the holder's gross annual salary.

Share options already awarded in 2006 or before will remain unchanged until they fall due in accordance with existing agreements. The new programme has no dilution effect, and neither did the former scheme.

Specification of outstanding options at 1 Feb 07

Exercise period	Number of options	Strike price
1 Jul-31 Dec 07	150 000	NOK 106.00
	30 000	NOK 121.50
1 Jul-31 Dec 08	150 000	NOK 95.00
1 Jan-30 Jun 09	240 000	NOK 87.50

Stock market in 2006

The Oslo Stock Exchange made strong progress for the third year in a row during 2006, with its Oslo Benchmark Index improving by 32%.

The Norske Skog share yielded a return of 6.6% during the 2006 calendar year when the value of the dividend is included. The lowest pricing of the share occurred in May, from where the price increased by 30% until year end. This return is unsatisfactory in a longer perspective, and clearly reflects weak results.

Share price information[1]

	NOK/share
Official price for tax assessment at 31 Dec 06[2]	86.60
Price 29 Dec 06	107.50
Price 30 Dec 05	107.25
Average price 2006	99.92
Average price 20053	102.95
Highest price 2006 (15 March)	114.00
Lowest price 2006 (22 May)	83.00
Highest price last 5 years (11 March 2002)[3]	158.79
Lowest price last 5 years (2 October 2002)[3]	74.65

1) With the exception of the tax assessment price, all prices are based on the close of trading.

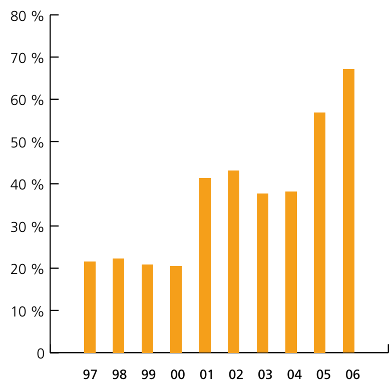
2) For use by Norwegian shareholders when determining their wealth at 31 December 2006, and calculated as 80% of the market price.

3) Historical prices before 23 September 2005 are adjusted for the value of subscription rights in connection with the rights issue in 2005. The adjustment factor is 0.9048.

Trading in Norske Skog

The company's shares have been listed on the Oslo Stock Exchange since 1976. A total of 230,5 million Norske Skog shares were traded in 2006. Given the average number of outstanding shares (excluding those owned by the company itself), this trading volume represents a turnover ratio of 122%. That was a slight decrease from the year before. 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.

Ownership by non-Norwegians



Principal shareholders at 31 December 2006

(<0,5% OWNERSHIP)	NUMBER OF SHARES	%
JPMORGAN CHASE BANK, GBR (NOM)	22 063 619	11.62
VIKEN SKOG BA	15 597 825	8.21
STATE STREET BANK, USA (NOM)	11 208 922	5.90
CAPITAL WORLD FUND C/O JPMORGAN CHASE BANK	5 081 713	2.68
FOLKETRYGDFONDET	4 160 355	2.19
AT SKOG BA	4 118 324	2.17
STATE OF NEW JERSEY PENSION FUND C/O BANK OF NEW YORK	3 986 717	2.10
EQUITY TRI-PARTY C/O BANK OF NEW YORK	3 976 200	2.09
MJØSEN SKOG BA	3 955 270	2.08
MELLON BANK AS, USA (NOM)	3 852 409	2.03
ALLSKOG BA	3 458 990	1.82
NATEXIS BANQUES POPULAIRES C/O BANK OF NEW YORK	2 738 275	1.44
SKAGEN VEKST	2 700 057	1.42
THE NORTHERN TRUST CO., GBR (NOM)	2 666 637	1.40
BANK OF NEW YORK, BEL (NOM)	2 467 363	1.30
THE NORTHERN TRUST CO., GBR (NOM)	2 274 646	1.20
CREDIT SUISSE SECURITIES (USA) LLC, USA (NOM)	2 259 300	1.19
REDERIAKTIESELSKAPET HENNESEID	2 144 203	1.13
FRANKLIN TEMPLETON LENDING C/O JPMORGAN CHASE BANK	2 098 168	1.10
CREDIT AGRICOLE INVESTOR SERVICES, FRA (NOM)	2 045 210	1.08
A/S HAVLIDE	1 885 248	0.99
BANK OF NEW YORK, BEL (NOM)	1 878 921	0.99
BEAR STEARNS SECURITIES CORP., USA (NOM)	1 811 162	0.95
ALLSKOG HOLDING AS	1 802 424	0.95
STATE STREET BANK, USA (NOM)	1 565 562	0.82
MELLON BANK AS, USA (NOM)	1 552 065	0.82
GMO FOREIGN FUND C/O BROWN BROTHERS HARRIMAN & CO.	1 531 000	0.81
RBC DEXIA INVESTOR SERVICES TRUST, GBR (NOM)	1 472 134	0.78
CLEARSTREAM BANKING S.A., LUX (NOM)	1 393 615	0.73
JPMORGAN CHASE BANK, GBR (NOM)	1 378 772	0.73
HSBC BANK PLC, GBR (NOM)	1 257 253	0.66
J.P. MORGAN BANK LUXEMBOURG S.A., LUX (NOM)	1 234 891	0.65
A/S HERDEBRED	1 170 885	0.62
GARTMORE C/O HSBC SECURITIES SERVICES (LUX) SA	1 159 291	0.61
GMO ERISA POOL TRUST, USA	1 133 054	0.60
VITAL FORSIKRING ASA	1 101 224	0.58
SKIENS AKTIEMØLLE ASA	1 010 575	0.53
NUMBER OF SHARES <0,5%	127 192 279	66.96
Total number of shares	**189 945 626**	**100.00**

Key figures related to shares

		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Nominal value (NOK/share)		10	10	10	10	10	10	20	20	20	20
Average number of shares ex. shares held in treasury (1000)		189 258	142 878	132 430	132 415	132 194	120 604	102 159	92 829	89 773	84 991
Average number of shares after full conversion (1 000)		189 258	142 878	132 430	132 415	132 194	120 604	102 159	92 829	89 773	84 991
Net earnings per share after tax (NOK)	1	-14.84	-5.98	4.95	3.04	8.79	20.68	19.17	14.01	11.36	6.94
Net earnings per share after full conversion (NOK)	1	-14.84	-5.98	4.95	3.04	8.79	20.68	19.17	14.01	11.36	6.94
Cash flow per share after tax (NOK)	2	14.60	21.42	22.04	22.45	27.89	11.00	48.18	23.29	31.85	19.00
Cash-flow per skare after full conversion (NOK)	2	14.60	21.42	22.04	22.45	27.89	11.00	48.18	23.29	31.85	19.00
Dividend per share (NOK)		5.50	5.50	6.00	6.00	6.00	6.00	6.00	5.50	4.25	3.50
Price/earnings ratio	3	-7.23	-17.93	26.5	41.8	11.1	8.2	7.9	12.1	7.9	12.5
Price/cash flow ratio	4	7.35	5.01	5.9	5.7	3.5	15.3	3.1	7.3	2.8	4.6
Payout ratio (%)		-37.1	-92.0	121.2	197.4	68.3	29.0	26.9	33.6	31.9	42.7
Number of shares 31.12. (1 000)	A share	189 946	189 946	133 137	133 137	133 137	133 137	67 972	57 592	57 592	57 592
	B share	-	-	-	-	-	-	25 172	25 172	18 832	18 832
	Total	**189 946**	**189 946**	**133 137**	**133 137**	**133 137**	**133 137**	**93 144**	**82 764**	**76 424**	**76 424**
Share prices high (A)		114.00	124.86	146.50	139.00	175.50	168.50	172.10	172.51	110.81	120.1
Share prices low (A)		83.00	86.50	110.00	86.50	82.50	115.00	90.11	82.80	66.97	77.12
Share prices 31.12.	A free	107.50	107.25	131.00	127.00	98.00	168.00	150.59	169.67	90.11	86.86
	B share	-	-	-	-	-	-	146.00	168.50	95.50	100.00
Trading volume (Oslo Stock Exchange)	1.000 stk.	230 507	186 297	157 839	119 400	107 649	116 458	54 118	46 424	47 650	61 000
Number of shareholders 31.12.	A free	22 967	23 646	23 851	23 212	21 083	22 587	19 431	17 900	18 002	17 466
	B share						-	14 915	14 693	13 746	13 796
	Total	**22 967**	**23 646**	**23 851**	**23 212**	**21 083**	**22 587**	**21 779**	**19 884**	**18753**	**18 075**
Number of foreign shareholders 31.12.	A free	1355	1355	1 271	1 222	1 210	1 092	546	483	203	186
	B share			-	-	-	-	133	110	88	97
	Total	**1 355**	**1 355**	**1 271**	**1 222**	**1 210**	**1 092**	**589**	**518**	**222**	**208**
Foreign shareholding 31.12.	A free	67.0 %	56.9 %	38.2 %	37.6 %	43.1 %	41.3 %	25.1 %	27.6 %	27.6 %	26.0 %
	B share			-	-	-	-	8.3 %	5.6 %	6.0 %	8.3 %
	Total	**67.0 %**	**56.9 %**	**38.2 %**	**37.6 %**	**43.1 %**	**41.3 %**	**20.5 %**	**20.9 %**	**22.3 %**	**21.6 %**
Market value (NOK mill.)		**20 419**	**20 372**	**17 441**	**16 908**	**13 047**	**22 367**	**16 284**	**16 278**	**8 191**	**8 100**

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

a) When calculating financial ratios per share after full conversion net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.
A restricted and A free shares were merged at the turn of the year 1994/95. The A and B share classes were merged in May, 2001.

1 899 456 260

Norske Skog´s share capital (NOK)

Corporate governance in Norske Skog

Norske Skog's goal is to deliver the best shareholder value in the industry. Important instruments for achieving this objective include good principles for corporate governance and a clearly defined division of responsibilities and roles between the company's governing bodies.

As a company listed on the Oslo Stock Exchange, Norske Skog is required to provide an overview of its corporate governance in the annual report based on the Norwegian code of practice in this area. This code can be found at www.nues.no and www.oslobors.no/ob/cg. Compliance and reporting in accordance with this code are based on the principle of "comply or explain".

DIVISION OF ROLES BETWEEN THE COMPANY'S EXECUTIVE MANAGEMENT, BOARD OF DIRECTORS, CORPORATE ASSEMBLY AND GENERAL MEETING

No member of Norske Skog's executive management belongs to the board of directors or corporate assembly. Pursuant to the Norwegian Act on Public Limited Companies, the board exercises both a controlling and a management function in respect of the company's activities and the executive management of the company. The board is elected by the corporate assembly. The corporate assembly is established in accordance with considerations of industrial democracy and the right of workers to co-determination. The corporate assembly has been created pursuant to Norwegian law.

The Norwegian Act on Public Limited Companies establishes a clear division between the company's governing bodies, and is supplemented by further practice and principles for good corporate governance. A more detailed account of the role, function and responsibilities of each governing body is provided below.

THE COMPANY'S VALUES BASE AND ETHICAL GUIDELINES

Norske Skog's operations are based on three core values – openness, honesty and cooperation. Its success as a global company builds on cooperation between different cultures and values, and guidelines for ethical business behaviour have been established on the foundation of this values base. The board conducted a review and assessment of the company's ethical

Corporate governance

Corporate governance is regulated by:

- Norske Skog's articles of association (see page 43)
- the Norwegian Act on Public Limited Liability Companies of 13 June 1997 no 45
- the instructions for the board of directors of Norske Skog
- instructions and mandates given to the chief executive officer
- 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

guidelines in 2006, and will continue this work during 2007.

THE COMPANY'S BUSINESS

Norske Skog's articles of association specify that the company's object is to pursue pulp and paper operations and activities connected with these. The applicable articles, last amended by the extraordinary general meeting in 2005, are presented in their entirety on page 43 of this annual report. Norske Skog can also participate in other commercial activity by subscribing to shares or in other ways. The company ranks today as a leading world player in the production and distribution of wood-containing publication paper. This embraces such products as standard and upgraded newsprint and various grades of magazine paper. Within the framework provided by its articles, the company has clear goals and strategies for its business. Norske Skog has been disposing for several years of businesses related to the pulp and paper industry but not directly connected to the production and distribution of wood-containing publication paper. This also includes upstream operations such as electricity generation and forest management/logging. Together with Hydro, the company launched a joint feasibility study in 2006 on the possible production of biodiesel from wood.

EQUITY, DIVIDEND, SHARES, NEGOTIABILITY

Norske Skog's equity capital is tailored to its goals, strategies and risk profile. The board regularly assesses the company's dividend policy, which was revised in 2005 with effect for fiscal 2004 and has since remained unchanged. See page 29 in this annual report for further details. The AGM in 2006 mandated the purchase of the company's own shares up to a value of NOK 133 137 000, subject to a maximum of 10% of the outstanding shares. This mandate was given for the period until the next AGM. The company holds its own shares in order to sell them to employees or for partial settlement of bonus schemes.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Norske Skog has only one share class, and each share carries one vote. This promotes equal treatment of all shareholders. Transactions by the company in its own shares will, pursuant to mandates given by the general meeting to the board, be carried out at prevailing stock exchange prices, and in such a way that equal treatment of all shareholders is assured.

Directors must act independently and in such a way that nobody obtains an unreasonable advantage. Pursuant to the instructions established for the company's board, each director is duty bound to inform the board about possible personal and/or significant commercial relations with the company which might call their independence and objectivity into question. Specific mandates given by the board to the chief executive mean that the directors deal only occasionally with contractual issues relating to the company. Of the directors, Grøholt and Bjørken are forest owners who supply wood to the company on normal market terms. No director is remunerated for their work for the company from any source other than the company itself.

FREE NEGOTIABILITY OF THE SHARES

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. This article was deleted by the general meeting on 14 April 2005, and no longer applies. As a consequence, the company's shares are freely negotiable.

GENERAL MEETING

The company's supreme authority is the general meeting. Pursuant to the articles of association, it is chaired by the chair of the corporate assembly. This helps to ensure independent conduct of the meeting.
Its responsibilities are to choose the shareholder-elected members of the corporate assembly and their alternates, adopt the annual accounts and directors' report, allocate the net result for the year and declare 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 for the company's nomination committee.

The 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, and be accompanied by sufficient supporting documentation for shareholders to be able to form an opinion about the items on the agenda. This documentation will also be made available simultaneously on the company's website at www.norskeskog.com. The recommendations of the nomination committee will also accompany the notice. 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 representing at least one-twentieth of the share capital.

Efforts are made to facilitate the highest possible attendance at the general meeting, and 45.85% of the share capital was represented at the 2006 AGM in person or by proxy. Proxies, with or without instructions on how they should be exercised, are permitted at the general meeting. All the directors and members of the nomination committee attended the 2006 AGM. The company's external auditor will always be in attendance.

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 of the meeting can only be introduced with the consent of all the shareholders represented at the general meeting.

NOMINATION COMMITTEE

Norske Skog's articles of association provide for a nomination committee comprising the chair of the corporate assembly and three other members chosen by the general meeting for one year at a time. Efforts are made to secure the best possible composition of the committee to take account of the interests of shareholders in general. The committee's mandate is to promote recruitment to the company's governing bodies, and to make recommendations on the remuneration of posts on these bodies. When matters pertaining to remuneration are under discussion, one of the employee-elected members of the corporate assembly also joins the committee. The committee presents its recommendations, which must be justified, on candidates for election after a detailed analysis of the company's requirements and with a view to securing the broadest possible expertise, capacity and diversity. In this process, it takes contact with shareholders, directors and the executive administration. Where remuneration is concerned, weight is given to ensuring that this reflects the responsibility, expertise and time commitment required as well as the complexity of the work. The fees paid are fixed. The nomination committee is free to draw on independent advisers. Norske Skog satisfied applicable Norwegian requirements for the representation of both genders on the company's board in 2006. Election of worker directors is not part of the nomination committee's mandate.

CORPORATE ASSEMBLY

The corporate assembly comprises twelve 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 elected by the shareholders. The assembly is also responsible for monitoring the management of the company by the directors and the chief executive. It 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. An election for worker members will be held in 2007.

BOARD OF DIRECTORS

The company's board of directors currently has nine members. See page 40. It is broadly composed in terms of expertise and diversity in order to function well as a collegial body and in attending to the interests of the shareholders in general. Directors are elected by the corporate assembly. The chair and deputy chair of the board are separately elected by the assembly. Pursuant to article 5 of the articles of association, directors are elected for two-year terms, while the chair and deputy chair are elected for one year at time. Most of the directors are independent of the company's principal shareholders. The work and functions of the board are based on the principle of independence from the executive management. Neither the chief executive nor any other member of the executive management is a director of the company, but the chief executive attends board meetings on a permanent basis and reports to the board. The board works to a specified schedule, with the emphasis on management and supervision, strategy and achievement of targets. A special instruction adopted for the board establishes a clear division of responsibilities and roles. The board carries out annual assessments of its own competence, mode of working and activity. The nomination 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. No changes took place in the board's composition in 2006, but Marchand, Lund and Bjørken were re-elected for new two-year terms. Jarle Halvorsen was also replaced as a worker director by Trond Andersen.

The board's role is to establish overall targets for the company's strategy, and it accordingly assesses the company's overall vision, values, goals and strategies at regular intervals – normally every three-five years. In the intermedia years, attention is centred on updating strategic plans, their implementation and the achievement of targets. The board is also required to keep itself informed about the group's financial position, set financial goals for the business and supervise that these targets are met. Great attention was devoted by the board in 2006 to issues relating to the company's strategic development and improving its profitability.

Nomination committee 2006:

- **Idar Kreutzer**
  (chair, corporate assembly),
  CEO, Storebrand ASA
- **Helge Evju**
  chair, Viken Skog
- **Gunn Wærsted**
  CEO, SpareBank 1 group
- **Ole H. Bakke**
  CEO, Allskog

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

Remuneration relating to employment and elected office in Norske Skog´s Corporate assembly:

Remuneration is fixed annually by the general meeting. The assembly chair receives a fee of NOK 140 000 per year. The other members receive NOK 5 400 for each meeting. Committee meetings are remunerated at a rate of NOK 5 400 per meeting. These amounts are fixed. A total of NOK 700 000 was paid to members of the assembly in 2006.

- **Board of directors:**
  Remuneration is fixed annually by the corporate assembly. The chair receives NOK 490 000, the deputy chair NOK 352 000 and the other directors NOK 270 000 each. Committee meetings are remunerated at a rate of NOK 5 400 per meeting. These amounts are fixed. A total of NOK 2 800 000 was paid to directors in 2006, including NOK 5 400 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 with the involvement of the company's general meeting as specified by applicable regulations. 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. See also pages 30 and 51 for a presentation of long-term incentive and bonus programmes for the chief executive, and page 94 regarding pay and other remuneration for senior executives.

- **Corporate management team:**
  The compensation committee also reviews the principles for determining the pay and other conditions for the rest of the corporate management team. See also pages 30 and 51 for a presentation of long-term incentive and bonus programmes for senior executives of the company, and page 94 regarding pay and other remuneration for senior executives.

- **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. See also pages 30, 51 and page 94 regarding pay and other remuneration for senior executives.

- **Employee share saving scheme:**
  All employees of Norske Skog ASA and subsidiaries owned more than 90% are offered the opportunity every year to buy shares at a discount. The cost is deducted from their pay over 12 months. In 2006, 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. The scheme will be extended in 2007 to Singapore, Thailand and Korea, but not to China because of legal restrictions.

- **Shares in Norske Skog owned by elected officials and the corporate management:**
  Members of the corporate assembly owned 101 937 shares in Norske Skog at 31 December 2005. Similarly, directors owned 12 338 shares. Members of the corporate management held 25 117 shares and 570 000 options.

Weight is given to ensuring that the company has satisfactory internal controls and a sound organisation of its business. Attention was devoted to this by the board in both 2005 and 2006, and it will continue to be discussed by the board and the audit committee during 2007. 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 conducted a broad review and evaluation of these guidelines during 2006, and will continue this work in 2007. During 2007, the board will also discuss and draw up the main principles for its response to a possible takeover bid, in accordance with the prevailing code of conduct for corporate governance. The board visited the company's Asian mills in 2006, and intends to visit the mills in Europe during 2007. Regular visits to the company's business units, close contact with the local managements and important customers, a dialogue with the relevant authorities, and acquiring an understanding of local political and economic frameworks are regarded as important by the board.

Directors are encouraged to own shares in the company.

AUDIT COMMITTEE

The board established a separate audit committee in 2005 to prepare matters for final decision by the full board. This move related in part to the expansion of the board from six to nine members in 2004. The audit committee is chaired by director Marchand, and its other members are deputy board chair Lund and worker director Leira.

The committee's job is to monitor and make detailed assessments of selected areas, such as:

- 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 work of the company's internal audit
- monitoring the independence and work of the external auditor, particularly with respect to the group accounts.

The committee reports regularly through its chair to the board on its work, and thereby helps to ensure greater focus on and quality in the board's work in this field. It also supports the board in exercising its responsibility for administration and supervision of the executive management. Establishing the audit committee is accordingly regarded as a success. Among its other activities in 2006, the committee looked more closely at practice for assessing the economic life of mills, the potential costs of discontinuing operations and potential environmental expenses. A detailed assessment was also made of tangible assets and goodwill in the group. Special topics for 2006 also included accounting assessments relating to the acquisition of PanAsia and the group's improvement programme. The internal control system, which is intended in part to ensure reliable financial reporting, was strengthened through more formalised and documented routines for closing the accounts.

During 2007, the committee will devote attention to assessing the company's most important risks, systems for risk management and internal control on a broad basis. This includes a review of the company's values base and ethical guidelines.

COMPENSATION COMMITTEE

A compensation committee preparing matters for final decision by the board as a whole has been appointed since 2000 to assist in the appointment of the company's president and CEO, and the determination of this person's remuneration. The work includes submitting recommendations to the board on salary and other remuneration elements, on the basis of an instruction adopted by the board. The committee currently comprises board chair Grøholt and directors Bjørken and Wiik. It 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 compensation and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to long-term value creation for all the shareholders. Pursuant to Norwegian law, the company's guidelines and principles for determining the remuneration of senior executives must be the subject of special consideration by the company's general meeting. This includes submitting the framework for long-term incentive programmes and other forms of remuneration relating to shares or the development of the company's share price to the general meeting for approval. Again pursuant to Norwegian law, other forms of compensation must be submitted for advisory comment by the general meeting. The board and the compensation committee worked in 2007 on a proposed new long-term incentive scheme for senior executives in the company, which will be submitted to the AGM in the spring of 2007.

CHIEF EXECUTIVE AND CORPORATE MANAGEMENT

The chief executive is responsible for day-to-day management of the company's operations, and for ensuring that it is organised and run 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 statutory regulations, and that assets are managed in a sound manner. Major changes were implemented in 2006, with the appointment of a new corporate management team and a reorganisation of the company's operational management model which gave each paper mill full responsibility for costs and profit. See page 41 for a detailed presentation of the corporate management team.

INFORMATION AND COMMUNICATION

The board has not adopted special guidelines for the company's information and communication activities. However, it seeks to ensure that the information provided is relevant, correct, timely and builds on the requirement for equal treatment of shareholders and other players in the financial market. A special financial calendar specifying the dates of important events can be found on the company's website at www.norskeskog.com. This site also provides current and updated information relevant for shareholders. Between general meetings, contact with shareholders is delegated to the company's executive management, subject to the principle of equal treatment for the company's shareholders and players in the securities market. The executive management seeks to maintain an active dialogue with the investor market.

AUDITING

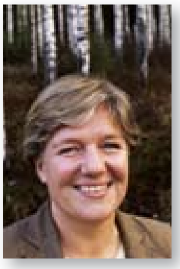
PricewaterhouseCoopers is currently Norske Skog's elected external auditor. The company's external auditor is responsible for financial auditing of the parent company and the consolidated accounts. All board meetings which consider the annual and interim reports are attended by the external auditor. The board and the audit committee also regularly conduct separate discussions with the auditor without the executive administration being present. The external auditor's plan for conducting the audit is submitted to the board's audit committee, and the auditor discusses the company's internal control routines and management systems with the board and committee on an annual basis. No special guidelines have been established for the executive management's opportunities to use the auditor for other assignments, but the board's audit committee pays particular attention to this issue. The external auditor's fees are approved by the general meeting after a briefing from the chair of the board about the work done.

Norske Skog's internal audit function is responsible for operational auditing and, in addition to assessments by the external auditor, 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 the internal and external audits.

Board of director´s of Norske Skog

Lars Wilhelm Grøholt (59)

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, 1998-2002, and Viken Skog, 1999-2002. Board member, Pan European Forest Certification (PEFC), 1999-2003.

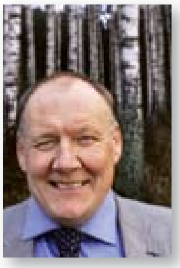


Gisèle Marchand (48)

Director since 2002. MSc in business economics. Managing director, Norwegian Public Service Pension Fund. Director, Foundation for Norwegian Leadership, Guarantee Institute for Export Credit (Giek), GK Kredittforsikring AS and Scandinavian Property Development ASA. Chair, Norwegian Pharmacists Pension Fund.

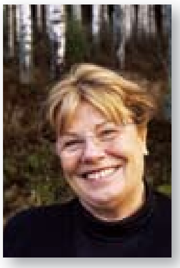
Øivind Lund (61)

Deputy chair, 2005-, director since 2000. PhD engineering and business studies graduate. CEO, ABB Norway 1998-2001. Head of the ABB group's global quality and productivity improvement programme, 2001-2003. National head for Turkey, ABB, 2003-2006. Chair, Yara ASA, 2004-.



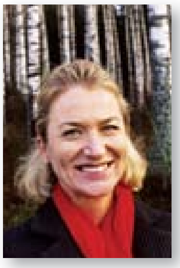
Halvor Bjørken (52)

Director since 2000. Forest owner. Chair, Allskog BA, Allskog Holding A/S and the Forest Action Fund. Deputy chair, Norwegian Forest Owners' Association, Industriflis and Din Tur AS. Director, Midt-Norsk Tømmerimport, and member, corporate assembly, Skogbrand insurance company.



Ingrid Wiik (62)

Director since 2005. Chief executive of Alpharma Inc, 2000-2006, and director, 2000-. Director of Statoil ASA, 2005-, and Coloplast, Denmark, 2003-.



Annette Brodin Rampe (45)

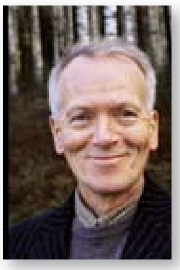
Director since 2005. MSc in industrial chemistry. Senior vice president, Eon Sverige AB, Stockholm. Director, Peab AB and Ruter Dam AB.

Kåre Leira (59)

Worker director since 1999. Chief shop steward and chair of the company's European Works Council (EWC), 1997-. Member, executive committee, Norwegian United Federation of Trade Unions, general council, Norwegian Confederation of Trade Unions (LO), and Nord-Trøndelag county council. Chair, Global Employee Forum.

Stein-Roar Eriksen (52)

Worker director since 2005. Councillor, Ringerike local authority. Member, executive committee, Norwegian United Federation of Trade Unions. Member, Norske Skog's European and Global Works Councils. Chair, Follum Works Council, and deputy chair, Norske Skog's Norwegian Works Council.



Trond Andersen (59)

Worker director since 2006, elected by the employees. Employee representative at Norske Skog Saugbrugs and member of the corporate assembly for several periods.

Corporate management of Norske Skog

Christian Rynning-Tønnesen (47)

PRESIDENT AND CEO

With Norske Skog from 1 April 2005. MSc engineering, Norwegian Institute of Technology (NTH). Researcher, Sintef, 1984-1985. Refinery analyst and product coordinator, Esso Norge, 1985-1989. Consultant and energy specialist, McKinsey, 1989-1992. Vice president, strategic planning, north European supply and market, and executive vice president strategy and finance, Statkraft, 1992-2005. Senior vice president finance and CFO, Norske Skog, 2005-2006.

Andreas Enger (44)

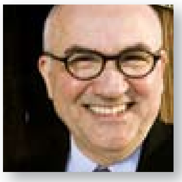
CHIEF FINANCIAL OFFICER

With Norske Skog since 2006. MSc engineering, Norwegian Institute of Technology (NTH), MBA, Insead. Partner, McKinsey, 1996-2003, executive vice president, strategy and business development, Petroleum Geo-Services (PGS), 2003-2005, president, Midelfart Holding AS 2005-2006. Senior vice president finance and CFO, Norske Skog 2006-.

Antonio Dias (43)

SENIOR VICE PRESIDENT MAGAZINE-PAPER AND 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, 1995-2000. Senior vice president marketing and sales, Norske Skog South America, 2000-2004. Executive vice president, Norske Skog South America, 2004-2006.



Vidar Lerstad (62)

SENIOR VICE PRESIDENT EAST ASIA

With Norske Skog since 1989. MSc in business economics, Norwegian School of Economics and Business Administration. With Norsk Hydro 1970-1974. Counsellor and trade attaché, Export Council of Norway, Oslo and Brussels, 1975-1980. Marketing vice president, Tandberg 1980-1984. Managing director, Scancem cement factory, Togo, 1984-1989. Managing director, Norske Skog Golbey, France, 1989-1994. Managing director, Norske Skog Sales, 1994-1996. Vice president sales and marketing, Norske Skog, 1996-1999. Managing director, international area, 1999-2000. Senior vice president, Asia region, 2000-2002. Executive vice president, Norske Skog South America, 2002-2004. Senior vice president strategy, 2004-2005, acting CFO, 2005-2006, acting chief executive and senior vice president, Norske Skog 2006.

Peter Chrisp (44)

SENIOR VICE PRESIDENT BUSINESS IMPROVEMENT/NSPS/R&D

With Norske Skog since 2000. BA and MSc social sciences, Massey University, New Zealand, post-graduate studies in business. Research bargaining, advocacy, New Engineers Union, 1987-1994. Development and training manager, 1994-1997, fibre and wood operations manager, 1997-1999, order fulfilment and supply chain manager, 1999-2002, Tasman Pulp and Paper (Fletcher Challenge). General manager, Norske Skog Tasman 2002-2006.

Eric d'Olce (43)

SENIOR VICE PRESIDENT, EUROPE STANDARD NEWSPRINT

With Norske Skog since 1990. MSc, Ecole Francaise de Papeterie de Grenoble. Science degree, Marseille University. Technical-commercial engineer, Cofpa, 1988-1990. Process engineer, assistant to PM1 superintendent, PM superintendent, Norske Skog Golbey 1990-2001. Production and mill manager, Norske Skog Albury 2001-2004. Mill manager Golbey 2004-2006.

Ketil Lyng (51)

SENIOR VICE PRESIDENT AUSTRALASIA AND THAILAND

With Norske Skog since 1985. Law degree, University of Oslo. Norwegian Consumer Council, 1983-1985. Group legal advisor, company secretary and deputy managing director, Norske Skog 1985-1989. Vice president, commercial and administrative functions, 1989-1995. Senior vice president, human resources and organisation, 1995-1996. Managing director, Norske Skog Golbey, France, 1996-2000. Vice president, strategy and business development, 2000-2002. Senior vice president, supply and logistics, 2003-2006.

Kristin Slyngstad Klitzing (42)

SENIOR VICE PRESIDENT HR AND ORGANISATION

With Norske Skog since 2007. BA in sociology (organisation and management) from the University of Oslo, as well as economics studies at the Norwegian School of Economics and Business Administration in Bergen. Trainee, international product manager and director marketing services Europe, GE Healthcare, 1988-2004. Senior company adviser for recruitment and selection at Mercuri Urval AS, 2004-07.

Members of corporate bodies

CORPORATE ASSEMBLY

Elected by shareholders:
Idar Kreutzer, Oslo, chair (0)
Helge Evju, Skollenborg, deputy chair (195)
Emil Aubert, Porsgrunn (85 826)
Ole H Bakke, Trondheim (53)
Ann Kristin Brautaset, Oslo (0)
Kirsten C Idebøen, Høvik 0)
Birgitta Rødstøl Næss, Halden (0)
Christian Ramberg, Bø i Telemark (71)
Tom Ruud, Oslo (0)
Turid Fluge Svenneby, Spydeberg (142)
Halvard Sæther, Lillehammer (4 925)
Svein Aaser, Drøbak (1 713)

ALTERNATES:

Svein Haare, Hønefoss (755)
Hege Huse, Oslo (0)
Kjersti Narum, Stange (977
Siv Fagerland Christensen, Sola (0)

Elected by employees:
Harald Bjerge, Norske Skog Saugbrugs (5 001)
Eigil Fredriksen, Norske Skog Union (510)
Roy Helgerud, Norske Skog Follum (0)
Randi Nessemo, Norske Skog Skogn (0)
Jørn Steen, Norske Skog Follum (0)
Stig A Stene, Norske Skog Skogn (0)

Alternates:
Paul Kristiansen, Norske Skog Saugbrugs (0)
Tor Killie, Norske Skog Union (0)
Jørn Kristensen, Norske Skog Follum (0)
Bjørn Olav Hanssen, Norske Skog Skogn (2)
Magne Johansen, Norske Skog Saugbrugs (0)

Observers elected by the employees:
Kjell Aspestrand, Norske Skog Saugbrugs (1 013)
Terje Andre Bråten, Norske Skog Follum (25)
Jan O Johnsen, Norske Skog Skogn (571)

Alternate observers:
Jostein Lunde, Norske Skog Saugbrugs (0)
Astrid Broch-Due, Norske Skog Follum (158)
Magne Johansen, Norske Skog Skogn (0)

BOARD OF DIRECTORS:

Lars Wilhelm Grøholt, Hov, chair (4 442)
Øivind Lund, Drammen (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 (1 475)
Stein-Roar Eriksen, Norske Skog Follum (0)
Trond Andersen, Norske Skog Saugbrugs (0)

Alternates for worker directors:
Hilde Marie Redi, Norske Skog Saugbrugs (0)
Freddy Sollibråten, Norske Skog Follum (0)
Kjetil Bakkan, Norske Skog Skogn (225)

CORPORATE MANAGEMENT TEAM:

Christian Rynning-Tønnesen, president and CEO (2 853)
Peter Chrisp, senior vice president (656)
Antonio Dias, senior vice president (4 470)
Eric d'Olce, senior vice president (2 093)
Andreas Enger, CFO (1 000)
Kristin Slyngstad Klitzing, senior vice president (0)
Vidar Lerstad, senior vice president (8 030)
Ketil Lyng, senior vice president (6 015)

Auditor:
PricewaterhouseCoopers (0)

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.

Article 2 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.

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.

20 419 000

Norske Skog total shareholder value at the end of 2006 (NOK

Board of Director´s report

Summary of 2006

A number of decisions with far-reaching consequences for Norske Skog in the years to come were taken in 2006. The company acquired a new chief executive, and a new corporate management team was appointed. All the members of this team are now based at the company's head office in Oslo.

A major reorganisation of the company was carried out with the principal aim of making the individual business units responsible for their own profitability.

Norske Skog has a goal of providing an 11% return on capital employed. The real return in recent years has lain significantly below this requirement. In 2006, the return was 3.7% when all special items are excluded.

After a detailed process in which the business units were involved, it was resolved to launch a very extensive turnaround programme with the purpose of achieving the group's required return on capital.

Five paper machines were shut down during 2006, and the board resolved towards the end of the year that one of these will be transferred to Norske Skog Pisa in Brazil.

With the exception of Australasia, demand for the company's products increased from 2005 in all the geographic regions where Norske Skog has mills.

Norske Skog's production and sales volumes in 2006 were up 10% and 12% respectively from 2005. After correcting for structural changes in the company's portfolio of mills, however, volumes were more or less unchanged.

Demand for newsprint in North America continued to decline, but Norske Skog has no mills in that part of the world following the disposal of Catalyst Paper in January 2006.

Newsprint prices rose from 2005 in Europe and South America. Averaged over the year, they were more or less unchanged in Australia. The same applied for magazine paper in Europe.

Prices declined for newsprint in China. Measured in Norwegian krone, the average price obtained for all sales was 2.2% higher than in 2005.

Energy costs rose again in 2006, but rather less than the year before. Some increase in wood prices was also experienced in certain parts of the world.

Developments in 2006 were characterised to a great extent by the paper industry's repeatedly-faced principal challenge of adjusting capacity to demand. Despite low growth in European newsprint consumption, little new capacity means that the price picture is satisfactory. On the other hand, consumption is growing very strongly in China but prices there are the lowest in the world because many new paper machines have been built over the past couple of years. Overcapacity is also the reason for the low level of prices for magazine paper in Europe.

Comments on the accounts

Comparability

When comparing 2006 with 2005, account must be taken of the fact that Norske Skog PanAsia was fully consolidation with effect from 18 November 2005. Before that date, it had been recognised in the accounts on a 50% basis. Where the Asian business is concerned, the newsprint mill in Hebei also began production in the third quarter of 2005, with ordinary depreciation calculated from September.

Account must also be taken of the closure of Norske Skog Union in the first quarter of 2006. The mill produced 30 000 tonnes during that quarter, compared with 254 000 tonnes for the whole of 2005. One paper machine (PM1) at Norske Skog Tasman was shut down on 1 August. This machine had a nominal annual capacity of 130 000 tonnes, but overall capacity in the region has been by and large maintained by upgrading other paper machines both in New Zealand and Australia. PM1 and

PM4 at Norsk Skog Jeonju, with a combined annual capacity of 180 000 tonnes, were shut down in September 2006. The former Forestia AS subsidiary, with 2005 operating revenues of NOK 571 million, was sold with effect from 1 January 2006.

Earnings and cash flow

Norske Skog's gross operating revenue in 2006 was NOK 28.8 billion (2005: NOK 25.7 billion), and net operating earnings before all special items were NOK 1 478 million (2005: NOK 934 million). The increase largely reflects full consolidation of the Asian business for the whole year, while operating revenue and earnings rose in the Europe newsprint and South America segments. The net operating loss after special items was NOK 2 527 million (2005:NOK 630 million). The net operating margin was a negative 8.8% in 2006 as against a positive 2.4% the year before.

Special items for 2006 include NOK 3 233 million in impairment charges and NOK 484 million in restructuring provisions. Most of the impairment charges derived from the rule that tangible fixed assets and goodwill must be tested for impairment at least once a year. The valuation in the autumn of 2006 applied reduced assumptions for newsprint prices in China over the next few years and higher costs for certain input factors. The total goodwill impairment came to NOK 1 739 million, of which goodwill related to the Fletcher acquisition and Norske Skog Walsum was NOK 1 564 million. The rest of the impairment charges related primarily to NOK 862 million for fixed assets in China and a residual book value of NOK 434 on two paper machines shut down in Korea. Other items regarded as special include NOK 75 million in impairment of accounts receivable in China, NOK 60 million in reduced energy costs in South America following the settlement of a dispute with a supplier, and NOK 273 million in losses on electricity contracts and energy hedging.

The remaining economic life of all Norske Skog's facilities has been re-estimated. This has resulted in some extension to deprecation periods, such that annual deprecation has been reduced by roughly NOK 330 million. The change took effect in the fourth quarter of 2006.

A total of NOK 202 million has been recognised as earnings under affiliated companies. That includes NOK 148 million in recognised translation difference related to Catalyst Paper, which was sold in the first quarter of 2006. This income has no effect on the group's equity. The item also includes a gain on the sale of the shares in Nordic Paper.

Net financial expenses for 2006 amounted to NOK 1 155 million (2005: NOK 883 million). Net interest expenses were NOK 976 million (2005: NOK 711 million), and this increase was primarily due to a rise in debt during 2006 after a further 50% of the debt in PanAsia was consolidated.

NOK 178 million (2005: NOK 97 million) was recognised as other financial expenses, an increase which relates largely to the repurchase by Norske Skog of its head office property outside Oslo. This was sold and leased back in 2001, and Norske Skog exercised an option in 2006 to buy it back.

The tax gain for 2006 was NOK 463 million (2005: NOK 156 million).

The net loss after tax and minority interests was NOK 2 809 million (2005: NOK 854 million), and earnings per share were negative at NOK 14.84 (2005: NOK 5.98).

Cash flow from operations, less financial items and tax paid, was just over NOK 2 763 million (2005: NOK 3 061 million). The reduction reflects several special conditions with a cash effect towards the end of the year. Cash flow per share amounted to NOK 14.60 (2005: NOK 21.42).

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 2006, unchanged from the year before. This is in line with the company's policy of paying a stable dividend which will average 15-25% of cash flow from operations over a business cycle and after financial expenses and tax paid.

The proposed dividend for 2006 is just over the limits specified in the company's dividend policy, but the desire for a stable payout and the prospect of improvements in 2007 justify this level.

Totalling NOK 1 041 million, the dividend will be paid on 24 April to shareholders registered at the date of the annual general meeting on 12 April 2007.

Balance sheet

Assets totalled NOK 45.2 billion at 31 December 2006, a reduction of NOK 6.8 billion from the year before. This decline primarily reflects impairment of tangible fixed assets and goodwill, the sale of the shares in Catalyst Paper and ordinary depreciation which is higher than the carrying amount of the investments.

Currency changes during the year reduced the value of assets by NOK 865 million, debt by NOK 694 million and equity by NOK 171 million.

In accordance with a decision by the board of Norske Skog, a provision of NOK 1 071 million has been made for estimated clean-up costs in the event of possible future paper machine shutdowns. An estimated residual value of NOK 1 224 million has also been calculated for the facilities. Taken together, these items have an insignificant effect on ordinary depreciation.

Net interest-bearing debt was NOK 17.3 billion at 31 December 2006, a reduction of NOK 1.7 billion from the year before. The average term to maturity for long-term debt at 31 December was 5.4 years, and disposable liquidity – including undrawn credit facilities – was NOK 6.1 billion. A new multicurrency credit facility of EUR 400 million, with a term of five years and three months, was established in the autumn of 2006 to refinance a similar facility which finally matured in 2009.

Norske Skog has been credit-rated since 2001 by the Moody's and Standard & Poor's rating agencies. This has been a requirement for raising international bond loans. Moody's announced in April 2006 that it was downgrading Norske Skog's debt from

Baa3 Negative Outlook to Ba1 Stable Outlook. Standard & Poor's downgraded Norske Skog's credit rating in November 2006 from BBB- Negative Outlook to BB+ Stable Outlook.

Total equity (excluding minority interests) was NOK 18.1 billion at 31 December (2005: NOK 22 billion). This reduction primarily reflects implemented impairment of tangible fixed assets and goodwill.

Equity per share amounted to NOK 95.60 at 31 December, while gearing (net interest-bearing debt/equity) was 0.96 as against 0.86 at the end of 2005.

Investment

Capitalised investment came to NOK 1.7 billion (2005: NOK 2.2 billion). The most important projects in 2006 were completion of the restructuring project in Australia and New Zealand, the start to transferring the thermo-mechanical pulp (TMP) plant from Norske Skog Union to Norske Skog Follum, and an extensive conversion project at Norske Skog Saugbrugs. The last of these includes a substantial expansion of the TMP plans and a rebuild to deliver wider paper reels in response to new requirements from the company's customers.

Investment in 2006 was financed by cash flow generated from operations.

Operations in the segments

Europe newsprint

This segment embraces the Norske Skog Skogn, Norske Skog Golbey, Norske Skog Parenco and Norske Skog Steti newsprint mills as well as two of the paper machines at Norske Skog Follum and one at Norske Skog Bruck. Operations at Norske Skog Union ceased in the winter of 2006, while PM2 at Norske Skog Follum resumed operation after being shut down for the second half of 2005.

Total production capacity for the Europe newsprint segment is just under 2.2 million tonnes, or roughly a third of the Norske Skog total.

Operating revenue in 2006 was NOK 9.1 billion (2005: NOK 8.6 billion), while operating earnings came to NOK 768 million (2005: NOK 274 million). This increase primarily reflects price rises for newsprint implemented in Europe at the beginning of the year as well as a reduction in fixed costs. Production and sales volumes were somewhat lower than in 2005 because of the closure of Norske Skog Union, but capacity utilisation was generally high throughout 2006.

European demand for standard and upgraded newsprint rose by 2% in 2006. The increase for the standard grade was 2.7%. As before, growth was strongest in eastern Europe, but freesheets and advertising supplements meant that volumes also remained buoyant in the more mature west European markets.

Europe magazine paper

This segment embraces the Norske Skog Saugbrugs and Norske Skog Walsum mills as well as a paper machine at Norske Skog Follum and one at Norske Skog Bruck. Total production capacity is just under 1.4 million tonnes, or roughly a fifth of the Norske Skog total.

Operating revenue in 2006 was NOK 6.7 billion (2005: NOK 6.9 billion), while operating earnings came to NOK 282 million (2005: NOK 446 million). Production and sales volumes both declined by about 4%. Results for the segment were weak, largely as a result of overcapacity which has led to relatively low prices for several years. Substantial cost increases were also experienced in 2006 for input factors, particularly energy.

Total European demand for magazine paper rose by 2.5% in 2006 compared with the year before. For most of the year, demand growth was stronger for uncoated (SC) magazine paper than for coated (CMR). Magazine paper demand in eastern Europe, which admittedly accounts for only 10% of the total European market, expanded by 20%.

Asia

This segment embraces Norske Skog Jeonju and Norske Skog Chongwon in Korea, the Hebei and Shanghai units in China and Norske Skog Singburi in Thailand. After the closure of two paper machines at Norske Skog Jeonju in late September 2006, production capacity is 1.6 million tonnes of newsprint, or roughly a quarter of the Norske Skog total.

The Asian business was consolidated 50% until 18 November 2005 and 100% thereafter. The Hebei mill became operational in July 2005. These developments are significant when comparing figures for the Asia segment in Norske Skog's group accounts.

Operating revenue in 2006 was NOK 6.1 billion (2005: NOK 3 billion), while operating earnings came to NOK 252 million (2005: NOK 149 million). The Thai business showed good earnings, and earnings were also acceptable for inland deliveries from the Korean mills. A substantial capacity expansion in China has resulted in very low prices and weak financial results.

According to preliminary figures, demand for newsprint in the whole of Asia rose by about 3.5% in 2006. Demand in Korea was unchanged, while it grew by 7% in China and roughly 13% in India. Prices were relatively stable during the year, but with substantial regional differences – from close to USD 700 per tonne in India for much of the year to USD 485 per tonne in China. A certain volume of exports from China put pressure on prices in India and other import markets towards the end of 2006.

Norske Skog acquired the remaining 50% of the shares in PanAsia during 2005. Expectations for this acquisition have been realised in Korea and Thailand. They have not been fulfilled in China because the big increase in domestic production capacity has meant substantially lower Chinese prices for newsprint than expected.

Australasia

This segment embraces the Norske Skog Albury and Norske Skog Boyer mills in Australia and Norske Skog Tasman in Australia. Production capacity is roughly 900 000 tonnes, or just under 15% of the Norske Skog total.

The oldest paper machine at Norske Skog Tasman was shut down in 2006 after an extensive upgrade of Norske Skog Albury and the two other machines at the New Zealand mill. Despite the removal of one machine, production capacity in the region has been maintained. The project has improved regional profitability for Norske Skog because fixed costs are lower and because some of the tonnage previously exported from New Zealand is now produced in Australia.

Operating revenue in 2006 was NOK 3.9 billion (2005: NOK 4 billion), while operating earnings came to NOK 68 million (2005: NOK 88 million). These reductions reflect a decline in production and sales volumes from 2005 because of the rebuild shutdown at Norske Skog Albury in the spring of 2006. Norske Skog has 10-year contracts with its biggest customers, and prices rose by 7% in Australia from 1 July 2006 in accordance with the price formula in these contracts.

Demand in 2006 declined by 3.1% for standard newsprint compared with 2005 and a combined 4.5% for standard and upgraded newsprint. The reduction primarily reflects a weak advertising market.

South America

This segment embraces the Norske Skog Pisa mill in Brazil and the Norske Skog Bio Bio mill in Chile, with a combined capacity of 310 000 tonnes. Norske Skog is the largest newsprint manufacturer in the continent.

Operating revenue in 2006 was NOK 1 399 million (2005: NOK 1 230 million), while operating earnings came to NOK 289 million (2005: NOK 66 million). Operating earnings for 2006 include NOK 60 million in reversal of a 2005 provision related to a dispute over grid cost. Even excluding this sum, the results are satisfactory and reflect low costs as well as the persistence of good market conditions. Gross operating margin excluding the reversal was 29.2% – the highest for any Norske Skog segment.

Demand developed well in South America throughout 2006, rising by 10% compared with the year before. The increase in Brazil, the largest single market, was 8%. Price increases were also implemented, but the level of prices declined somewhat at the beginning of 2007.

Cost developments for important input factors

Wood

Rising global demand for energy and a steadily growing focus on biofuel are contributing to increased demand for wood. This is particularly noticeable in Europe and has led to higher wood prices, particularly in continental Europe.

Norske Skog Pisa has good long-term supply contracts for plantation wood. Sufficient deliveries have also been secured to meet higher demand from a new paper machine at the mill from 2009.

Wood deliveries to Norske Skog in Australasia are based mainly on roundwood from plantations and sawmill chips. Demand for wood is rising in the region, as are exports of this commodity to Asia. This has led to higher wood prices in Australasia.

Recovered paper

Prices for recovered paper in 2006 increased by 3.5% from the year before. This partly reflected the growth in Chinese paper production, which is almost wholly based on recovered paper, and the fact that higher prices for wood also affect the cost of recovered paper.

Energy

Norske Skog's total energy costs were about NOK 4.5 billion in 2006. Energy costs per tonne of paper produced rose by 10% from 2005.

The strong global growth in energy demand puts pressure on prices. Norske Skog is devoting much attention to measures which can reduce energy consumption by its business units. At the same time, the company is actively engaged in dialogue with power utilities and government authorities in a number of countries to secure long-term electricity supplies.

Health and safety

Norske Skog's aim is to achieve high standards of safety and motivate its employees to adopt a healthy lifestyle. Unfortunately, the company nevertheless suffered the death of an employee at Norske Skog Golbey in France as the result of a work accident in July 2006. Following this fatality, the business unit has reviewed its internal routines and practices in order to identify areas for improvement. These have now been given priority, and a number of activities are already under way.

Most of Norske Skog's business units have surveyed mill risk. On this basis, they are defining priority areas for reducing risk and controlling residual risk. The aim is to obtain a complete picture of all potential risk factors.

Sickness absence in 2006 came to 2.7 per cent, which corresponds to 446 017 hours. The lost-time injury frequency per million working hours was 1.3 for 2006, unchanged from the year before. Six of the company's 18 mills had zero lost-time 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.

Organisation, management and employees

Corporate management

Major changes were made to Norske Skog's corporate management team during 2006. Jan Oksum resigned as chief executive in March. Christian Rynning-Tønnesen was appointed as the new president and CEO in June. He had previously been the company's chief financial officer. Vidar Lerstad acted as chief executive from March to June, while chair Lars Wilhelm

Grøholt functioned as working chair during the same period.

Rynning-Tønnesen established a new corporate management team which took office on 1 August 2006. The team was reduced from 11 to eight members. In addition to the chief executive, it comprises Andreas Enger (Chief financial officer), Kristin Slyngstad Klitzing (senior vice president HR and organisation), Peter Chrisp (senior vice president business improvement/ NSPS/R&D), Vidar Lerstad (senior vice president East Asia), Ketil Lyng (senior vice president Australasia and Thailand), Eric d'Olce (senior vice president Europe standard newsprint) and Antonio Dias (senior vice president magazinepaper and South America). Lerstad, Lyng, d'Olce and Dias are each responsible for a portfolio of business units.

Employees

Norske Skog had 8 053 employees at 31 December 2006, a reduction of 1 319 from the year before. This decline in the number of employees is almost entirely attributable to the shutdown of five paper machines, the closure of the regional offices and the sale of operations.

Further reductions in the number of employees at the business units will be made during 2007.

In connection with the turnaround of the company, motivating employees while implementing the necessary demanning represents a major challenge. The company will strive during this demanding phase to act in accordance with its core values of honesty, openness and cooperation.

The company gives great weight to developing its employees, and has several training and development programmes for managers and other personnel.

Gender balance and equal opportunities

The paper industry in general has few female employees. Women account for 10.5% of Norske Skog's workforce. The female proportion in administrative functions is 39%.

Norske Skog tries to work actively to recruit more women. It participated, for instance, in Female Future, a programme initiated by the Confederation of Norwegian Enterprise (NHO) to promote the recruitment of women directors.

In the longer term, Norske Skog wants to achieve a higher proportion of woman among its employees. The company has a special focus on recruiting more female apprentices, and also wants to secure a larger share of women in senior posts.

Norske Skog fulfils the Norwegian requirement for gender balance on company boards. At present, its shareholder-elected directors comprise three women and three men.

Diversity

As a global company, Norske Skog consciously seeks an international composition for its management and administration. Seventeen nationalities are represented at its headquarters outside Oslo, and the corporate management committee's eight members hail from four different countries.

Commitment in 2006

Major changes characterised Norske Skog in 2006. A turnaround of this kind is difficult and demanding for all employees. The board wishes to take the opportunity to express its thanks to all employees for a very good contribution in 2006.

Research and development

Much of Norske Skog's research and development work is pursued at the individual business unit. Roughly 60 people are employed in this field. Priority areas include better utilisation of raw materials, general production enhancements, environmental improvements and meeting customer requirements. Norske Skog offers technical support services to customers and cooperates closely in this way with printing works worldwide to optimise both its own products and production by its customers.

Norske Skog participates in research activities which are partly financed through government-funded programmes. R&D costs are not capitalised.

Partly-owned companies and other activities

Malaysian Newsprint Industries (MNI)

Norske Skog owns 33.65% of MNI, which is 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 2006 share amounted to NOK 35 million (2005: NOK 20 million).

Businesses sold

With accounting effect from 1 January 2006, Norske Skog sold its wholly-owned subsidiary Forestia AS, which manufactures fibreboards, and a 29.4% holding in Catalyst Paper, a Canadian manufacturer of newsprint and other publication paper. The 45% holding in Nordic Paper was also sold in January 2006 with a small book gain included in the 2006 accounts. This company produces greaseproof paper.

Biodiesel

Hydro and Norske Skog are conducting a joint feasibility study on producing biodiesel from wood. Such fuel would emit considerably less greenhouse gases than today's biodiesel produced from rapeseed and plant oils. The goal is to study the feasibility of a biodiesel production plant in south-east Norway. Such a facility could be operational in 2012 at the earliest.

Risk management

Norske Skog works systematically to manage the group's most important risk factors. These include both operational and financial conditions. An updated overview and assessment of the group's principal risks are reported to the board and management every quarter.

The group's most important exposures relate to prices and market conditions for finished products and input factors. Norske Skog operates in a cyclical industry in which financial results have historically been subject to substantial fluctuations. These swings have traditionally related to the business cycle and capacity changes in the industry. The volume of advertising, an important factor in demand for publication paper, is heavily influenced by the state of the economy.

New capacity and problems with adapting production volumes at times of declining demand have often helped to strengthen negative price effects for newsprint and magazine paper. Although newsprint is a global product, the regional capacity balance in different markets also plays a highly significant role. This was illustrated in 2006 by the fact that prices were relatively high in North America despite declining demand, while China combined the lowest prices with a strong growth in demand.

Norske Skog has little forest and fibre resources or energy production of its own. The company largely seeks to meet its requirements for such input factors through long-term contracts which ensure stable frame conditions. Contracts concluded for large parts of the business provide long-term, stable supplies of raw materials to the mills.

Risk associated with production conditions is another key area. Norske Skog seeks to manage this through the development of in-house expertise, contingency plans and extensive exchange of best practice between the various business units. Establishing the Norske Skog production system (NSPS) helps to focus great attention on these areas.

Energy is an important input factor in paper production, and Norske Skog has experienced a sharp increase in energy prices during recent years. The company primarily seeks to secure its supply of energy through long-term electricity contracts. Such agreements cover more than 80% of expected consumption in Norway, South America and Australasia. In addition, energy exposure is hedged to some extent through financial instruments, primarily forward contracts. That applies particularly to continental Europe. Long-term and hedge contracts act to some extent to hold down prices.

Financial risk management at Norske Skog primarily covers exchange rates, interest rates and energy.

Where exchange rate risk is concerned, Norske Skog hedges both its cash flow and its balance sheet. Cash flow hedging is intended to reduce the effect of exchange rate changes on the group's cash flow and net earnings. Norske Skog hedges 50-100% of expected cash flow in foreign currencies over the coming 12 months. At 31 December, the proportion hedged was just over 90%. Forward contracts and options are used for such hedging.

Since a substantial part of the group's book assets are outside Norway, exchange rate fluctuations could affect book equity and certain debt-related key figures. The balance sheet is primarily hedged financially, by matching the currency composition of the group's loan portfolio with the distribution of currencies in which its assets are denominated. In addition to borrowing in foreign currencies, use is made of such instruments as forward contracts and currency swaps. This reduces fluctuations in equity and debt-related key figures.

Having floating interest rates for 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. Interest rate swaps are among the instruments used to manage interest rate risk in Norske Skog.

After a reassessment of group's interest and exchange rate policy in 2006, the main principles remain unchanged from earlier years.

Management of liquidity and refinancing risk is regarded as an important area, particularly because Norske Skog operates in a capital intensive and cyclical industry. The main principles are that the group will have a steady and long-term repayment profile. The aim is an average maturity of at least five years for the debt portfolio. This figure was 5.4 years at 31 December 2006. In addition, the group will have liquidity reserve in the form of bank deposits and undrawn credit facilities which corresponds to at least 20% of turnover. The liquidity reserve at 31 December 2006 was NOK 6.1 billion, or just over 20%.

Credit evaluations are made by Norske Skog for all counterparties to financial transactions. These consist primarily of Nordic and international banks, and must be A-rated. Individual limits for credit exposure are set on the basis of external ratings.

Norske Skog also carries out credit evaluations of its customers. Internal credit limits are established on the basis of information derived from external sources and credit rating agencies. Norske Skog has a low level of bad debts on its accounts receivable.

The group's general insurance cover is managed centrally through a well-established insurance programme.

For further details, see the section on the group‘s risk exposures in note 29 to the group accounts.

Shares and share capital

The price of the Norske Skog share at 31 December 2006 was marginally higher than a year earlier. Roughly speaking, the price fell in the first half and rose in the second. Including dividend, the share yielded a return of 6.6% for the 2006 calendar year. The Oslo Stock Exchange made strong progress for the third year in a row, with the benchmark index rising by 32%. The return on the Norske Skog share is unsatisfactory from a long-term perspective, and reflects weak earnings plus a low return on capital.

The highest and lowest prices in 2006 were NOK 114 and NOK 86 respectively, while the average price for the year was NOK 99.92 - 3% lower than in 2005. Norske Skog‘s stock market valuation at 31 December 2006 was NOK 20.4 billion, unchanged from the year before.

The Norske Skog share has been listed on the Oslo Stock

Exchange since 1976, and has enjoyed good liquidity and high turnover since 2001. During 2006, 231 million Norske Skog shares were traded, which represented a turnover rate of 1.22.

Share capital

Norske Skog's share capital at 31 December 2006 totalled 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. No changes occurred in the company's share capital during the year, and the board holds no mandates to increase the share capital.

Norske Skog owned 631 731 of its own shares at 31 December 2006, compared with 846 531 at 1 January. The reduction reflects the sale of shares to the company's own employees and their use in partial settlement of bonus agreements. The company bought none of its own shares in 2006.

The board is mandated to buy back up to 10% of the outstanding shares. This mandate runs until the annual general meeting in 2007, and the board will propose that it be extended.

Owner structure

The foreign shareholding continued to rise in 2006 and was 67% at 31 December, compared with 56.9% a year earlier. It had increased further to 71% by 28 February 2007. 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 10% of the shares in Norske Skog at 31 December. Another investment fund, Franklin Resources, disclosed a holding of more than 5% in July 2006.

According to information from the Norwegian Central Securities Depository, Norske Skog had a total of 22 967 shareholders at 31 December 2006. Of these, 1 355 had an address outside Norway.

Share-based incentive programme for corporate management

Norske Skog has had an incentive programme in the form of synthetic options for the corporate management team. The latest allocation under this programme took place in July 2006, when the chief executive received 60 000 options and each member of the corporate management team was allocated 30 000. A total of 600 000 synthetic options had been awarded under the programme at 1 February 2007, including 150 000 to the chief executive. Subject to the approval of the AGM on 12 April 2007, the synthetic option programme will be replaced by another long-term incentive scheme for the corporate management team. Payouts under the new programme will depend on the Norske Skog share yielding a return which is among the eight best in a defined group of 16 listed companies in the paper industry, including Norske Skog. This scheme will provide a payout of 30% if Norske Skog is the eighth best company in this reference group and 100% if Norske Skog is among the four best. In addition, an absolute requirement is a positive return on the Norske Skog share for the period. Progress is measured over three-year periods, with a new period beginning each year. The first will start in 2007, with a possible payout in 2010.

The maximum annual allocation will correspond to the value of 35 000 shares before tax for the chief executive and 17 500 shares before tax for the other members of the corporate management team. A ceiling will also be set, so that the maximum allocation in any given year is limited to 1.25 times the annual salary of the recipient. At least 50% of the allocation from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to the holder's gross annual salary.

Share options already awarded in 2006 or before will remain unchanged until they fall due in accordance with existing agreements. The new programme has no dilution effect, and neither did the former scheme.

Turnaround for improved profitability

Background for the turnaround programme

Norske Skog's financial results have been relatively weak since 2002. The net loss for 2006 was NOK 2 809 million after NOK 3 717 million in depreciation and impairment charges. The target for Norske Skog's financial performance is an 11% return on capital employed. This figure was 3.7% in 2006 when all special profit and loss items are excluded.

An extensive turnaround programme was launched by Norske Skog in August 2006 with the aim of improving profitability in the company. The main features of this programme are:

- restructuring, a new business model and demanning
- reduction of production capacity
- introduction of a new standard for operating the paper mills, based on best practice in the group
- optimisation and cost reductions for sales, procurement, energy and working capital

The goal is to improve the company's gross operating earnings (EBITDA) by NOK 3 billion on an annual basis by the end of 2008, compared with the base year of 2005. This will raise the profitability of the company to a level where the goal of an 11% return on capital employed can be reached.

Restructuring, a new business model and demanning

Norske Skog previously had a regional model, with the mills consolidated at regional level. That has been changed by defining each mill as an independent business unit responsible for raw material supplies, production, sales and distribution. In this new model, the business units are measured by cash flow.

A number of central functions have been rationalised away and the regional offices closed down. Norske Skog's sales offices now report directly to the business unit with the most important position in the relevant region.

This restructuring has resulted in the loss of 64 jobs at head office and the regional offices. In addition, demanning processes are under way in the individual business units as one measure for achieving the goal of improved profitability.

Reduction of production capacity

As part of the effort to improve the company's profitability, Norske Skog has shut down newsprint production capacity corresponding to 550 000 tonnes. This provides a better balance between production capacity and demand for newsprint, while concentrating Norske Skog's output on fewer paper machines and thereby achieving more efficient production.

Norske Skog production system (NSPS)

Norske Skog launched a major drive in 2006 to improve operations at the paper mills and enhance their efficiency. This Norske Skog production system (NSPS) aims to optimise technical conditions in the mill, the management and organisation structure, and the way the company encourages individual employees to make a contribution and be motivated in their daily work.

Optimising sales, procurement, energy and working capital

A number of projects have been launched to identify and realise gains in procurement, energy and work with sales and customers. Attention is also focused on optimising working capital both at group level and at the individual business unit.

Closure of Norske Skog Union

The board and corporate assembly of Norske Skog resolved in the autumn of 2005 to terminate paper production at the Norwegian mill Norske Skog Union in Skien. This mill ceased operation on 1 March 2006. Most of the volumes previously produced at Norske Skog Union were moved to other facilities, providing the group with a better and more efficient utilisation of its total European production capacity.

This closure also made a significant contribution to improving the balance between production capacity and demand for newsprint in Europe.

Measures for own employees

A number of measures were implemented to help those employed at Norske Skog Union find new work. When the closure decision was taken, the mill had 359 employees. Only five of these were still seeking work by 31 December 2006. Of the others, 276 had secured new jobs outside Norske Skog, 27 were still working at Norske Skog Union on security and maintenance tasks and 22 had been deployed to other Norske Skog units. Some employees have also been put on social security or rehabilitation programmes in cooperation with the Employment and Welfare Service (NAV).

The board is very satisfied with the big commitment made by employees in Norske Skog to help former Norske Skog Union personnel find new jobs.

Work on new activity for Klosterøya

A special organisation has been created at Klosterøya, the island in Skien on which Norske Skog Union stands, to work on developing this property. The aim is to facilitate new activity. This represents a long-term job, but 13 new companies were already established on Klosterøya at 31 December 2006.

Norske Skog has allocated NOK 30 million to a business development fund – the Klosterøya Fund – which has its own board of directors in Skien. Its object is to help create new jobs in the town.

Utilising production equipment from Norske Skog Union

An extensive process has been pursued to ensure continued utilisation of production equipment from Norske Skog Union. The TMP unit is to be transferred to Norske Skog Follum in Norway, while the PM7 paper machine will be moved to Norske Skog Pisa in Brazil.

Energy contract

Norske Skog Union had a contract with the Statkraft power utility covering the delivery of 335 GWh per year until the end of 2010. In February 2006, the Ministry of Petroleum and Energy approved the conversion of this agreement into a group contract so that the power can be utilised by Norske Skog's other Norwegian mills.

Global restructuring

Norske Skog's size and global position provide a good basis for optimisation in relation to market development, production capacity, costs and commodity flows. The company has shut down production capacity in Europe, Asia and Australasia without reducing its total sales volume. This cuts its fixed costs.

PM2 at Norske Skog Pisa

One of the paper machines at Norske Skog Union is to be moved to Norske Skog Pisa. The Brazilian newsprint market is about 500 000 tonnes per year, with Norske Skog producing roughly a third and the rest covered by imports. Norske Skog is the leading player in South America, and this position will be reinforced by the increase in production capacity at Norske Skog Pisa. The project is costed at USD 210 million.

Norske Skog Pisa's present production capacity of 185 000 tonnes per annum will be doubled with the new paper machine.

The aim is to bring the new machine into operation in 2009. This project is conditional on the approval of the Brazilian authorities.

Successful Australasian restructuring

Norske Skog has restructured its business in Australia and New Zealand. Two paper machines at Norske Skog Tasman and one at Norske Skog Albury have been upgraded, and the least competitive machine at Norske Skog Tasman – PM1 – shut down.

Total production capacity in the region has been maintained, and output is concentrated in areas closer to the market.

This restructuring contributes to reduced payroll and distribution costs, and thereby strengthens profitability.

Restructuring at Norske Skog Tasman

The workforce at Norske Skog Tasman has been reduced by 127 people as a result of the closure of PM1 and associated activities in wood handling and mechanical pulping.

Norske Skog has given weight to taking good care of redundant personnel. Measures include establishing a resource centre with qualified personnel providing advice and information to those affected. The demanning has been accomplished almost entirely through voluntary redundancies.

Capacity reduction in Korea

Because exports from Korea had low profitability, Norske Skog resolved to reduce production capacity at Norske Skog Jeonju by a total of 180 000 tonnes through shutting down two of the mill's six paper machines.

This led to a loss 160 jobs at Norske Skog Jeonju. The demanning was accomplished through voluntary redundancies.

Norske Skog´s reputation

A number of surveys showed that Norske Skog's reputation in Norway was weakened by the way it handled the closure of Norske Skog Union. It is important for Norske Skog that the authorities have a good understanding of its business, the challenges facing the industry and necessary frame conditions. A positive and accurate impression of Norske Skog, its employees and its business among the general public is also important.

The corporate management of Norske Skog intensified its dialogue with the political authorities, the union movement and the general public during 2006. Maintaining an open and honest dialogue is fundamental to strengthening the company's reputation in Norway.

The company's social responsibility

The environment

Recovered paper

Norske Skog‘s wholly- and majority-owned mills consumed just over 3.3 million tonnes of recovered paper in 2006. This made the company one of the world‘s largest consumers of this commodity for newsprint production.

Forest operation

Norske Skog gives priority to purchasing timber and chips derived from certified forests. Its procurement policy is that all wood will hail from sustainable forestry.

All Norske Skog's business units in Europe currently have traceability (chain of custody) certificates for wood procurement. This means that they can document how much of their wood derives from certified forests. Those units which do not have traceability certificates nevertheless possess systems for tracing wood. Norske Skog's goal was that all its business units would hold traceability certificates by 31 December 2006. This target was not met, but work continues to ensure that all the company's business units have such certification.

Norske Skog's wood purchasing organisation participated actively in the revision of the Living Forest standard which ensures sustainable operation of Norwegian forests. Operating in accordance with this standard is a requirement for Norwegian suppliers who want to deliver wood to Norske Skog.

Energy, waste and emissions/discharges

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 2006. In many cases, Norske Skog sets stricter environmental standards for its own activities than national or local governments.

A total of 940 000 tonnes of dry waste were generated from operations in 2006. More than 80% of this material was exploited for bioenergy, generating over 2 700 GWh.

Inclusion of the Norske Skog PanAsia mills led to a reduction in discharges to water per tonne produced, and an increase in emissions of carbon dioxide and nitrogen oxides.

Environmental investment

Norske Skog invested a total of NOK 128 million in environmental measures during 2006. Most of this spending related to measures for reducing water consumption and discharges to water, and for energy saving.

Environmental certification

Sixteen of Norske Skog‘s 18 mills are certified to the ISO 14001 environmental management standard. The two mills currently without such certification are those at Hebei and Shanghai in China. Work on certifying these facilities is under way.

Reporting

Norske Skog supports efforts to establish a global standard for reporting sustainable development, and prepares its annual report in accordance with the Global Reporting Initiative (GRI). Developments in the company are also reported in accordance with the principles in the UN Global Compact.

ICEM

Norske Skog signed an agreement in 2002 with the International Federation of Chemical, Energy, Mine and General Workers‘ Unions (ICEM) and the Norwegian United Federation of Trade Unions. This aims to ensure rights for all the company‘s workers.

Global fora for employees

Norske Skog created a forum in December 2004 for union officials from all its mills - the Global Employee Forum (GEF). Regional works councils have also been established in Europe, Australasia and South America. One meeting of the GEF's executive committee was held in 2006, one meeting of the regional works council for South America and two meetings of the regional works council for Australasia. A meeting of the European Works Council was also held in 2006.

UN Global Compact

Norske Skog signed the UN Global Compact in 2003. Initiated by UN secretary-general Kofi Annan in 1999, this commits the company's operations worldwide and focuses on principles for human and employee rights, environmental protection and combating corruption.

Young Readers

Norske Skog initiated a collaboration with the World Association of Newspapers (WAN) in 2003 on developing the Young Readers programme worldwide. This allows the company to contribute to the teaching of reading and writing to children in large parts of the world.

The agreement with the WAN runs to 2013, with an annual financial contribution from Norske Skog of NOK 3 million to the end of 2007 and NOK 4.5 million until 2013.

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 was completed and the case dismissed in November 2006.

Class actions in the USA

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 investigations pursued in Europe. The case has still not been settled.

Tax issues at Canadian subsidiary

The Canadian tax authorities have notified Norske Skog of a possible review of tax-related issues at a 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.

Outlook for 2007

The board would emphasise that an assessment of the outlook involves considerable uncertainties.

Demand for newsprint and magazine paper is expected to continue rising in most of the markets in which Norske Skog operates.

Generally speaking, the balance between supply and demand is good, but much new capacity in China and falling prices in North America could put pressure on prices in some countries and regions. That applies primarily to South America, parts of Asia and possibly in Australia during the second half of 2007.

As a result of increased demand in China, the cost of recovered paper could increase. Some rise in wood prices is also likely, particularly in continental Europe.

Norske Skog expects better earnings before special items in 2007, primarily because its turnaround programme is intended to yield substantial results.

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. As a result of the reduced value of underlying assets, Norske Skogindustrier ASA has written down the carrying amount of certain of its subsidiaries. A total impairment charge of NOK 2 912 million has been recognised. Cash flow from operations in the parent company was negative at NOK 142 million in 2006. Norske Skogindustrier ASA had 2 087 employees at 31 December 2006, including 220 women.

Allocation of net loss

The net loss for Norske Skogindustrier ASA (the parent company) in 2006 was NOK 1 728 million, which has been charged in its entirety against equity. After this, distributable equity in Norske Skogindustrier ASA totals NOK 2 162 million.

Christian Rynning-Tønnesen
President and CEO

Lars Wilhelm Grøholt
Chair

Øivind Lund

Annette Brodin Rampe

Halvor Bjørken

Giséle Marchand

Kåre Leira

Stein-Roar Eriksen

Trond Andersen

Ingrid Wiik

PROFIT AND LOSS ACCOUNT

NOK MILLION	NOTES	2006	2005	2004
Operating revenue	**3**	**28 812**	**25 726**	**25 302**
Distribution costs		(2 521)	(2 349)	(2 294)
Cost of materials		(15 498)	(13 896)	(13 025)
Change in inventory		(102)	239	(6)
Employee benefit expenses	5, 6	(3 800)	(3 691)	(3 548)
Other operating expenses	7, 13	(2 187)	(2 072)	(2 076)
Restructuring expenses	9	(484)	(270)	(63)
Other gains and losses	27	(288)	263	(50)
Depreciation and amortisation	3, 12	(3 226)	(3 072)	(3 093)
Impairments	3, 12	(3 233)	(248)	(110)
Operating earnings	**3**	**(2 527)**	**630**	**1 037**
Share of profit in associated companies	15	202	(751)	(44)
Financial items	8	(1 155)	(883)	(783)
Profit before tax		**(3 480)**	**(1 004)**	**210**
Income tax expense	10	463	156	419
Net profit		**(3 017)**	**(848)**	**629**
Attributable to minority interests	19	(208)	6	8
Attributable to equity holders of the company		**(2 809)**	**(854)**	**621**
Earnings per share/earnings per share fully diluted	24	(14.84)	(5.98)	4.69

BALANCE SHEET

NOK MILLION	NOTES	2006	2005	2004
Assets				
Deferred tax asset	10	216	324	58
Other intangible assets	12	3 056	4 837	4 745
Property, plant and equipment	3, 12, 28	33 547	35 990	30 005
Investments in associated companies	15	333	1 415	1 858
Other non-current assets	6, 14, 16	425	1 174	391
Total non-current assets		**37 577**	**43 740**	**37 057**
Inventory	4	2 688	2 860	2 299
Receivables	16	3 999	4 253	4 050
Cash and cash equivalents	4, 17	397	452	419
Other current assets	4, 17, 18	569	728	470
Total current assets		**7 653**	**8 293**	**7 238**
Total assets		**45 230**	**52 033**	**44 295**
Shareholders' equity and liabilities				
Paid-in equity		12 309	12 309	8 460
Retained earnings	25	5 791	9 657	10 549
Minority interests	19	450	713	186
Total equity		**18 550**	**22 679**	**19 195**
Pension obligations	6	530	444	365
Deferred tax	10	1 804	2 776	2 419
Interest-bearing non-current liabilities	20, 28	14 712	17 525	17 042
Other non-current liabilities	22, 30	1 756	955	667
Total non-current liabilities		**18 802**	**21 700**	**20 493**
Interest-bearing current liabilities	21	3 114	2 587	718
Trade and other payables		3 833	4 197	3 385
Tax payable	10	123	140	31
Other current liabilities	4	808	730	473
Total current liabilities		**7 878**	**7 654**	**4 607**
Total liabilities		**26 680**	**29 354**	**25 100**
Total equity and liabilities		**45 230**	**52 033**	**44 295**

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President and CEO

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Styreleder

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Styremedlem

Trond Andersen
Styremedlem

Ingrid Wiik
Styremedlem

CASH FLOW STATEMENT

NOK MILLION	NOTES	2006	2005	2004
Cash flow from operating activities				
Cash generated from operations		28 905	25 877	25 312
Cash used in operations		(24 608)	(21 906)	(21 044)
Cash from net financial items		(1 365)	(845)	(1 067)
Tax paid		(169)	(65)	(69)
Net cash flow from operating activities	**11**	**2 763**	**3 061**	**3 132**
Cash flow from investing activities				
Investments in operational fixed assets	12	(1 722)	(2 230)	(1 981)
Sales of operational fixed assets	12	11	21	49
Net cash from sold shares in other companies[1]		1 213	100	153
Net cash used for acquisition of shares in other companies[2]		-	(3 905)	-
Tax paid		-	-	(184)
Net cash flow from investing activities		**(498)**	**(6 014)**	**(1 963)**
Cash flow from financing activities				
Net change in non-current liabilities[3]		(3 978)	(348)	(323)
Net change in current liabilities[3]		2 343	257	(33)
Dividend paid[4]		(1 046)	(807)	(817)
New equity[5]		-	3 840	10
Net cash flow from financing activities		**(2 681)**	**2 942**	**(1 163)**
Translation difference		(1)	24	(47)
Total change in liquid assets		**(417)**	**13**	**(41)**
Cash and cash equivalents at 1 January[6]	4, 17, 18	902	889	930
Cash and cash equivalents at 31 December[6]	4, 17, 18	485	902	889

[1] In 2006, the amount relates to the sale of Catalyst, Forestia and Nordic Paper. In 2005, the amount relates to the sale of forests in Australia and in 2004, the sale of the forest in mid-Norway.

[2] The amount in 2005 relates to the acquisition of the remaining 50% of Pan Asia Paper company.

[3] In 2006, repayment of debt came to NOK 5 412 million, and new debt drawn totalled NOK 3 777 million.

[4] The amounts include divivdend paid to minority interests in Pan Asia.

[5] The amount in 2005 relates to the share issue carried out to fund the acquisition of the remaining 50% of Pan Asia Paper company.

[6] Cash and cash equivalents are the sum of Cash and cash equivalents and Short-term investments items in note 4.

CHANGES IN GROUP EQUITY

NOK MILLION	SHARE CAPITAL AND SHARE PREMIUM FUND	OTHER PAID-IN EQUITY	RETAINED EARNINGS	MINORITY INTERESTS	TOTAL
Equity 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
Equity 31 December 2004	**8 460**	**(250)**	**10 799**	**186**	**19 195**
Equity 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 acquisition	-	-	-	188	188
Other items booked directly to equity[1]	-	-	(466)	-	(466)
Net earnings	-	-	(854)	6	(848)
Equity 31 December 2005	**12 309**	**824**	**8 833**	**713**	**22 679**

[1] Mainly related to tax items booked directly to equity

NOK MILLION	SHARE CAPITAL AND SHARE PREMIUM FUND	OTHER PAID-IN EQUITY	RETAINED EARNINGS	MINORITY INTERESTS	TOTAL
Equity 1 January 2006	**12 309**	**824**	**8 833**	**713**	**22 679**
Fair value gains land and buildings	-	-	-	-	-
Fair value gains financial assets	-	-	-	-	-
Net investment hedge	-	20	-	-	20
Currency translation differences	-	(59)	-	(40)	(99)
Dividend related to 2005	-	-	(1 041)	-	(1 041)
Share issue	-	-	-	-	-
Change in holding of own shares	-	-	23	-	23
Change in ownership in subsidiary	-	-	-	(15)	(15)
Write-up of excess value related to acquisitions	-	-	-	-	-
Increased minority interests related to acquisition	-	-	-	-	-
Other items booked directly to equity	-	-	-	-	-
Net earnings	-	-	(2 809)	(208)	(3 017)
Equity 31 December 2006	**12 309**	**785**	**5 006**	**450**	**18 550**

The number of shares held by the company is disclosed in a note to the parent company accounts.

1 GENERAL INFORMATION

Norske Skogindustrier ASA (the company) and its subsidiaries (together the group) produce, distribute and sell publication paper. This includes newsprint and magazine paper. The group has 19 wholly and partly owned mills in four continents.

Norske Skogindustrier ASA is incorporated in Norway and has its headquarters in Lysaker outside Oslo. The company is listed on the Oslo Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statement of Norske Skogindustrier ASA are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated.

Consolidated accounts 2006

The consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union (EU).

Consolidation

(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 activities in South America, the USD is the functional currency. The consolidated financial statements are presented in NOK, which is the company's functional and presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the entity's 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.

Group companies

The results and financial position of all group entities 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.

(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.

Balance sheet

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 acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions 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) Computer software

Computer 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 overheads.

Impairment of assets

Assets which have an indefinite useful life are not subject to amortisation, and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which cash flows are separately identifiable (cash-generating units). At each balance sheet date, the possibility of reversing impairment losses in prior periods is evaluated (except for goodwill).

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 either held for trading or 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 refined 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 valued 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 raw materials, direct labour, other direct costs and related production overheads (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

Borrowing are recognised initially at fair value, net of transaction costs incurred. Borrowing 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 that 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 include 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 straightline 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 fully vested. The value of the option is recognised in the profit and loss account over the period from when the option is awarded to expected exercise date.

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

Sale of goods

Revenue comprises the fair value of the sale of goods, net of value added tax, rebates and discounts and after eliminating sales within the group. Revenue is recognised when the significant risks and rewards of ownership of the goods has been transferred to the buyer. This will depend upon the buyer's delivery terms and will be in the range from the finalisation of production to delivery of the goods to the buyer.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest method. This is the interest rate that gives a net present value of the cash flow from the loan that is equal to its carrying value.

Leases

Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Other leases are classified as finance 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.

Finance leases are recognised in the balance sheet at the fair value of the leased property, or if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charge and reduction of the outstanding liability, giving a constant periodic rate of interest on the remaining balance of the liability. The leased property is depreciated in accordance with the same principles applied for other non-current assets. If the leasing period is shorter than the economic life of the asset and it is unlikely that the group will purchase the asset at the end of the leasing period, the asset is depreciated over the leasing period.

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.

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 fall in value of goodwill and tangible fixed assets

The group performs annual tests to assess the fall 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 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 fall 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 fall 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.

New standards and changes to existing standards and interpretations

The following standards, amendments and interpretations are mandatory for annual accounts from 1 January 2006 or later, are not considered to be relevant to the group's accounts:

- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards
- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRIC 6, Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment.

The following interpretations have been published and are mandatory for the group from 1 January 2006 or later, but have not been adopted early by the group, are as follows:

- IFRIC 8, Scope of IFRS 2 (effective from May 1st 2006 or later). According to IFRIC 8, transactions related to the issue of equity instruments – where the transaction value is lower than fair value of the issued equity instrument – must be measured in accordance with IFRS 2. The group will apply IFRIC 8 from 1 January 2007. The IFRIC is not expected to have a significant impact on the accounts.
- IFRS 7, Financial Instruments: Disclosures, and IAS 1(Amendment), Presentation of Financial Statements – Capital Disclosures . IFRS 7 introduces new disclosure requirements related to financial instruments. The standard does not have an impact on measurement and classification of financial instruments. The group will apply IFRS 7 from 1 January 2007.

The following interpretations on existing standards are mandatory for the group's annual accounts from 1 March 2006, but the group deems that the

interpretations are not relevant to the accounts: IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March or later). IFRIC 7 gives guidelines in relation to the application of IAS 29 where hyperinflation is influencing the accounts in the current period, but not in previous periods. None of the group's subsidiaries have activities in economies with hyperinflation, and IFRIC 7 is not relevant to the group's activities.

3. BUSINESS SEGMENTS

At 31 December 2006, the group was organised on a worldwide basis into the two main business segments – newsprint and magazine paper.

Other activities in Norway includes Forestia AS up to divestment in 2006. Previous years also include Norske Skog Plater AS, Scandinavian forests and hydropower up to divestment. 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. None of these activities represent separate mandatory reporting segments. Business activity and transactions between the group's segments take place on ordinary commercial conditions.

The group operates mainly in four geographical areas: Europe, South America, Australasia and Asia. The US market is included in the Europe region. Australasia includes Australia and New Zealand.

KEY FIGURES FROM THE P&L ACCOUNT BY REGION	OPERATING REVENUE			DEPRECIATION			OPERATING EARNINGS		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Europe									
Newsprint	9 058	8 589	8 319	974	1 047	1 017	768	274	222
Magazine paper	6 762	6 889	7 287	651	644	796	282	446	425
Total Europe	**15 820**	**15 478**	**15 606**	**1 625**	**1 691**	**1 813**	**1 050**	**720**	**647**
South America									
Newsprint	1 399	1 230	1 146	180	190	204	289	66	142
Australasia									
Newsprint	3 897	4 022	4 194	652	752	564	68	88	406
Asia									
Newsprint	6 096	2 962	2 603	745	373	278	252	149	165
Other activities									
Other activities in Norway	109	585	596	5	32	35	6	33	25
Other revenues	2 223	2 090	1 637	-	-	-	-	-	-
Total other activities	**2 332**	**2 675**	**2 233**	**5**	**32**	**35**	**1 665**	**33**	**25**
Staff/eliminations	(732)	(641)	(480)	20	231	199	(202)	(652)	(175)
Restructuring costs	-	-	-	-	-	-	(484)[2]	226	(63)
Gain on power trading and energy hedging	-	-	-	-	-	-	(273)	-	-
Impairments	-	-	-	-	(197)	-	(3 233)[1]	-	(110)
Total group	**28 812**	**25 726**	**25 302**	**3 226**	**3 072**	**3 093**	**(2 527)**	**630**	**1 037**

[1] Impairments in 2006 break down as follows:

Europe - magazine	
Walsum goodwill	(669)
Asia - newsprint	
Pan Asia goodwill	(53)
China fair values	(862)
Korea fixed assets	(434)
South America - newsprint	
Pisa goodwill	(122)
South America goodwill	(895)
Staff functions	
Other write-downs	(198)
Total impairments	**(3 233)**

[2] Restructuring costs charged in 2006 include (see note 9):

Union	(45)
Europe	(149)
South America	(9)
Australasia	(117)
Asia	(110)
Workforce reductions at corporate centre	(54)
Total	**(484)**

OPERATING REVENUE BY MARKET	2006	2005	2004
Norway	2 340	1 741	1 534
Europe ex Norway	14 059	12 832	12 668
North America	229	1 093	1 512
South America	1 598	1 705	1 502
Australasia	4 136	4 285	4 063
Asia	6 333	3 940	3 925
Africa	117	130	98
Total group	**28 812**	**25 726**	**25 302**

EMPLOYEES BY REGION	2006	2005	2004
Europe	4 309	4 691	4 754
South America	612	593	605
Australasia	1 191	1 241	1 223
Asia	1 671	2 327	1 131
Other activities	-	272	270
Staff	255	248	198
Total group	**8 038**	**9 372**	**8 181**

Investments include investments in operational fixed assets, see note 12.
Assets by business segments include fixed assets and non-interest-bearing current assets which comprises inventory, accounts receivable and provisions for interest.
Liability by business segments include interest-free current liabilities.

INVESTMENTS BY REGION	2006	2005	2004
Europe			
Newsprint	414	379	431
Magazine paper	335	363	340
Total Europe	**749**	**742**	**771**
South America			
Newsprint	139	170	89
Australasia			
Newsprint	526	765	325
Asia			
Newsprint	242	5 071	659
Other activities			
Other activities in Norway	199	143	137
Total group	**1 855**	**6 891**	**1 981**

KEY FIGURES FROM BALANCE SHEET BY REGION	FIXED ASSETS			NON-INTEREST-BEARING CURRENT ASSETS			NON-INTEREST-BEARING CURRENT LIABILITIES		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Europe									
Newsprint	7 873	8 388	8 019	2 182	2 038	2 091	1 262	931	917
Magazine paper	6 224	6 319	7 961	1 785	1 497	1 766	1 030	738	875
Total Europe	**14 097**	**14 707**	**15 980**	**3 967**	**3 535**	**3 857**	**2 292**	**1 669**	**1 792**
South America									
Newsprint	1 861	2 073	1 856	420	411	425	153	262	178
Australasia									
Newsprint	7 133	7 437	7 158	585	942	723	649	786	697
Asia									
Newsprint	9 328	11 296	4 423	1 827	2 160	788	885	981	362
Other activities									
Other activities in Norway	1 128	212	239	92	149	418	554	97	112
Staff/eliminations	-	265	349	-	(84)	138	-	1 013	748
Total group	**33 547**	**35 990**	**30 005**	**6 891**	**7 113**	**6 349**	**4 533**	**4 808**	**3 889**

4. SPECIFICATION OF BALANCE SHEET ITEMS

INVENTORY	31.12.06	31.12.05	31.12.04
Raw materials and other production input	1 157	1 185	1 128
Semi-manufactured materials	27	44	41
Finished goods	1 504	1 631	1 130
Total	**2 688**	**2 860**	**2 299**
Other current debt			
Derivatives	174	-	-
Accruals emission rights	34	34	-
Other non-interest-bearing debt	600	696	473
Total	**808**	**730**	**473**

CASH, CASH EQUIVALENTS AND OTHER CURRENT ASSETS

	31.12.06	31.12.05	31.12.04
Cash and cash equivalents	**397**	**452**	**419**
Prepaid expenses	114	-	-
Accrued revenue	91	-	-
Derivatives	276	278	-
Current investments	88	450	470
Other current assets	**569**	**728**	**470**

5. EMPLOYEE BENEFIT EXPENSES

	2006	2005	2004
Pay	3 106	2 947	2 885
Social security contributions	421	433	497
Pension costs (see note 6)	118	107	73
National insurance, pension and other social costs	155	204	93
Total	**3 800**	**3 691**	**3 548**

The CEO's basic salary at 1 June 2006 was NOK 3 600 000. In total, the CEO received payments of NOK 3 170 000 in 2006. 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 5 July 2006, the CEO was awarded 60 000 synthetic options with a strike price of NOK 87.50. See below for more information regarding this. The CEO's retirement age is 64 and his pension amounts to 65% of base salary at the retirement age. Total costs related to the CEO's pension plan were NOK 1 212 268 in 2006.

The mutual period of notice for the CEO and other members of the corporate management team 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 CEO and the other members of the corporate management team.

The annual bonus agreements for the CEO and other members of the corporate management team specify a maximum payment of 50% of basic salary. The basis for calculating this bonus – the targets – is set annually by the board and CEO respectively.

Remuneration for members of the corporate assembly and directors totalled NOK 557 600 and NOK 2 702 200 respectively in 2006. In addition to this, other remuneration in 2006 amounted to NOK 254 600.

Jan Oksum resigned as CEO on 20 March 2006. In 2006, he received NOK 12 603 461, including a severance payment of NOK 9 000 000 related to his resignation. Vidar Lerstad was acting CEO in the period between Jan Oksum's resignation and the appointment of Christian Rynning Tønnesen as CEO. For this period Lerstad received NOK 360 000.

The group had 8 038 employees at 31 December 2006.

For a statement on remuneration for senior executives, please see note 19 to the parent company accounts.

PAY AND CONDITIONS FOR OTHER MEMBERS OF THE CORPORATE MANAGEMENT TEAM (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 team are specified below.

	SALARY 2006	PAYMENTS IN KIND, ETC FOR 2006[1]	BONUS 2006[2]	NUMBER OF SYNTHETIC OPTIONS[3]	LOANS AT 31 DEC 06	LOAN TERMS[4]
Christian Rynning-Tønnesen	3 600 000	182 316	978 765	150 000	700 000	700 000 at 21 June 2006, non-interest-bearing
Vidar Lerstad	2 000 000	140 192	459 594	90 000	488 120	540 833 at 13 February 2004, interest-free and with 10-year term
Eric d'Olce	1 207 380 Net	118 325	153 764	30 000	-	-
Peter Chrisp	1 250 670 Net	258 956	165 097	30 000	-	-
Antonio Dias	2 764 352	-	328 674	90 000	-	-
Andreas Enger	2 200 000	49 145	343 778	30 000	491 666	500 000 at 18 October 2006, interest-free and with 10-year term
Ketil Lyng	1 900 000	194 291	351 680	90 000	1 442 125	1 782 125 og 1 March 2005, interest-free 5 years, then amortised over 10 years at current interest rate

1 Includes special benefits, company cars, interest-free loans and so forth.
2 Based on results achieved in 2006, paid in 2007.
3 Synthetic options has been awarded from 2004 to 2006, with the right to exercise in 2007, 2008 and 2009 in the period 1 September to 31 December. The strike prices are NOK 106, NOK 95 and NOK 87.50 respectively. The CEO has a contract which allows for 30 000 options (awarded in 2003) to be exercised in 2007 at a strike price of 121.50.
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

In addition to the costs related to the CEO's pension shceme, the costs related to the pension schemes for the rest of the corporate management are as follows: Eric d'Olce NOK 184 447, Peter Chrisp NOK 184 134, Andreas Enger NOK 182 562, Vidar Lerstad NOK 1 170 735 and Ketil Lyng NOK 567 712.

Share-based remuneration

The CEO and other members of the corporate management team 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 valued by using the Black and Scholes option pricing model and the value is recognised in the profit and loss accounts on a linear basis over the option period. When valuing the optons, a risk-free interest rate of 4.5%, a volatility in the Norske Skog share of 30%, and an annual dividend of 5% are assumed. The fair value is calculated on the basis of the share price at the balance sheet date, and amounted to NOK 14 million at 31 December 2006.

OUTSTANDING OPTIONS AT 31 DECEMBER 2006	NUMBER OF OPTIONS	DATE OF AWARD	PERIOD OF REALISATION	STRIKE PRICE NOK
Tranche 1	150 000	1 Oct 04	1 Jul-31 Dec 2007	106.00
Tranche 2	30 000	1 Apr 05	1 Jul-31 Dec 2007	121.50
Tranche 3	150 000	14 Oct 05	1 Jul-31 Dec 2008	95.00
Tranche 4	240 000	7 May 06	1 Jan-30 Jun 2009	87.50

The group issued 240 000 options in 2006. The fair value of these options at 31 December 2006 was NOK 8 million. Of options awarded earlier, 120 000 expired in 2006. These options had a strike price higher than the share price at the time of realisation and had no value at that time.

REMUNERATION OF DIRECTORS	SALARY	DIRECTORS' FEES	OTHER REMUNERATION
Trond Andreas Andersen (from 20 Apr)	312 654	135 000	-
Halvor Bjørken	-	265 000	10 400
Stein Roar Eriksen	365 473	265 000	-
Lars W. Grøholt	-	480 000	15 600
Kåre Leira	406 109	265 000	15 600
Øivind Lund	-	346 000	15 400
Gisèle Marchand	-	265 000	20 800
Ingrid Wiik	-	265 000	10 400
Annette Brodin Rampe	-	265 000	-
Jarle Halvorsen (until 20 Apr)	-	130 000	-

AUDITOR'S FEES: (IN NOK 1 000)	TOTAL	PARENT COMPANY	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS
Audit fee	12 232	2 487	9 532	213
Audit-related assistance[1]	314	-	314	-
Tax assistance	822	-	775	47
Other fees	1 895	428	1 443	24
Total	**15 263**	**2 915**	**12 064**	**284**

[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.

6. PENSION COSTS AND OBLIGATIONS

Norske Skog has various pension schemes. Contributions to these schemes are made in accordance with local agreements. A total of 8 074 people are covered by such schemes. Of these, 6 205 are covered by defined benefit plans and 1 869 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	450

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 management 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 ARE BASED ON THE FOLLOWING ASSUMPTIONS	2006	2005	2004
Discount rate	4.5%	4.5%	5.0%
Expected return on plan assets	5.5%	5.5%	6.0%
Pay adjustment	4.5%	2.5%	2.5%
Social security increase/inflation	4.3%	2.0%	2.0%
Pension increase	1.6%	2.0%	2.0%

Some units in the group could deviate from the above assumption if appropriate for local purposes.

NET PERIODIC PENSION COST IN THE CONSOLIDATED ACCOUNTS	2006	2005	2004
Benefits earned during the year	140	87	74
Interest cost on prior period benefits	95	161	126
Pensions cost contribution schemes	12	14	10
Expected return on plan assets	(112)	(168)	(149)
Periodic employer tax	(3)	3	5
Expensed portion of changes in AFP early retirement plan	(2)	(2)	(2)
Expensed portion of differences in estimates	(12)	12	9
Net periodic pension cost	**118**	**107**	**73**

STATUS OF THE PENSION PLANS RECONCILED TO THE CONSOLIDATED BALANCE SHEET

UNFUNDED PENSION PLANS	2006	2005	2004
Projected benefit obligations	(455)	(419)	(362)
Plan assets at fair value	-	-	-
Plan assets in excess of/(less than) obligations	**(455)**	**(419)**	**(362)**
Unamortised changes in AFP early retirement plans	-	-	-
Differences in estimates not taken to income/expense	-	-	-
Net plan assets/pension obligations	**(455)**	**(419)**	**(362)**
Accrual employer tax	-	-	-
Plan assets/(pension obligations) in the balance sheet	**(455)**	**(419)**	**(362)**

PARTLY OR FULLY FUNDED PENSION PLANS	2006	2005	2004
Projected benefit obligations	(2 006)	(2 962)	(2 478)
Plan assets at fair value	2 080	2 973	2 621
Plan assets in excess of/(less than) obligations	**74**	**11**	**143**
Unamortised changes in AFP early retirement plans	-	-	-
Differences in estimates not taken to income/expense	(20)	83	-
Net plan assets/pension obligations	**54**	**94**	**143**
Accrual employer tax	(32)	(26)	(21)
Plan assets/(pension obligations) in the balance sheet	**22**	**68**	**122**

CHANGES IN PENSION LIABILITY DURING THE YEAR	2006	2005	2004
Balance 1 January	2 962	2 478	2 786
Changes owing to entities acquired/sold	(89)	37	-
Current year’s service cost	139	87	74
Current year’s interest cost	95	156	126
Pensions paid	(43)	(103)	(100)
Actuarial gains and losses	(100)	341	3
Other changes	(951)	(57)	(362)
Currency translation effects	(7)	23	(49)
Balance 31 December	**2 006**	**2 962**	**2 478**

A return on plan assets of NOK108 million is estimated for 2006. The actual return on the plan assets for 2005 was NOK 180 million, compared with an estimated return of NOK 168 million. The difference between the booked return and the estimated return in 2003 is treated as an estimate difference.

CHANGES IN THE PLAN ASSETS DURING THE YEAR	2006	2005	2004
Balance 1 January	2 973	2 621	2 232
Return on plan assets	108	180	177
Actuarial gains and losses	-	6	7
Contributions to the plan assets	52	19	20
Other changes	(1 072)	188	185
Currency translation effects	19	(41)	-
Balance 31 December	**2 080**	**2 973**	**2 621**

7. OTHER OPERATING EXPENSES

	2006	2005	2004
Maintenance materials, servicing and spare parts	1 044	1 090	1 119
Marketing expenses	32	38	34
Administration expenses	680	634	677
Losses on bad debts[1]	86	4	(29)
Operating leases	112	92	82
Research and development	19	18	18
Miscellaneous expenses	214	196	175
Total	**2 187**	**2 072**	**2 076**

[1] LOSSES ON BAD DEBTS ARE INCLUDED AS FOLLOWS			
Receivables written off during the period	1	32	(14)
Received on previous write-offs	-	-	(5)
Changes in bad debt reserves	85	(28)	(10)
Total	**86**	**4**	**(29)**

8. FINANCIAL ITEMS

	2006	2005	2004
Dividends received	2	1	1
Interest revenue	50	70	58
Realised/unrealised gain on foreign currency	-	-	127
Other financial income	13	-	8
Total financial income	**65**	**71**	**194**
Interest cost	1 026	781	894
Realised/unrealised loss on foreign currency	16	76	-
Loss on securities	1	-	-
Other financial expenses	178	97	83
Total financial expenses	**1 220**	**954**	**977**
Net financial items	**(1 155)**	**(883)**	**(783)**

9. RESTRUCTURING EXPENSES

	2006	2005	2004
Restructuring expenses Union	45	195	-
Environmental provisions Union	-	75	-
Restructuring expenses Tasman	-	-	63
Accrual for severance payments	439	-	-
Total	**484**	**270**	**63**

The group has initiated restructuring activities in 2006 which will lead in total to a reduction in the workforce of approximately 1 000 people. The restructuring has an impact on all the mills in all the regions and on administrative operations at regional offices and at the headquarters in Oslo. The workforce reduction is estimated to give an annual saving of NOK 500 million.

10. TAX

TAX EXPENSE	2006	2005	2004
Current tax expense	321	325	40
Change in deferred tax	(784)	(481)	(459)
Total tax expense	**(463)**	**(156)**	**(419)**

INCOME TAX RECONCILIATION	2006	2005	2004
Earnings before taxation	(3 480)	(1 004)	210
Computed tax at nominal tax rate of 28%	(975)	(281)	59
Differences due to different tax rates	(37)	(21)	(19)
Associated companies	(56)	214	12
Exempted income/non deductible expenses[1]	577	(14)	(7)
Change in tax legislation[2]	(4)	(28)	(276)
Adjustment previous years	36	31	(60)
Tax losses not recognised	55	120	-
Various	(59)	(176)	(128)
Total tax expense	**(463)**	**(156)**	**(419)**

[1] Goodwill was written down in 2006, see note 12. This is not tax deductible.
[2] The tax rate was reduced in the Netherlands in 2006.

DEFERRED TAX	2006	2005	2004
Net deferred tax liability 1 Jan	2 452	2 361	2 894
Deferred tax charged in the profit and loss account	(784)	(481)	(459)
Adjustment IFRS previous periods	-	23	(108)
Tax charged in equity	(95)	(223)	61
Sale of subsidiaries	19	-	-
Acquisition PanAsia	-	570	-
Reclassification of group tax allocations	69	65	62
Translation differences	(73)	137	(90)
Net deferred tax liability 31 Dec	**1 588**	**2 452**	**2 361**

DEFERRED TAX 2004	OPENING BALANCE 2004	CHARGE BALANCE SHEET	CHARGE INCOME STATEMENT	TRANSLATION DIFFERENCES	CLOSING BALANCE 2004
Fixed assets, FVA and depreciations	3 194	14	(286)	(74)	2 848
Pensions	42	-	3	(1)	43
Contingent provisions and other liabilities	600	(103)	(104)	(10)	383
FX and financial instruments	158	43	179	(9)	371
Deferred tax current items	(63)	-	57	(2)	(7)
Tax losses and tax credit to carry forward	(1 037)	62	(309)	6	(1 277)
Net deferred tax liability	**2 894**	**16**	**(459)**	**(90)**	**2 361**

DEFERRED TAX 2005	OPENING BALANCE 2005	CHARGE BALANCE SHEET	CHARGE INCOME STATEMENT	TRANSLATION DIFFERENCES	CLOSING BALANCE 2005
Fixed assets, FVA and depreciations	2 848	591	(163)	79	3 355
Pensions	43	(7)	(10)	-	26
Contingent provisions and other liabilities	383	(5)	(219)	60	219
FX and financial instruments	371	(95)	(1)	5	280
Deferred tax current items	(7)	(10)	10	(4)	(11)
Tax losses and tax credit to carry forward	(1 277)	(38)	(98)	(3)	(1 417)
Net deferred tax liability	**2 361**	**435**	**(481)**	**137**	**2 452**

DEFERRED TAX 2006	OPENING BALANCE 2006	CHARGE BALANCE SHEET	CHARGE INCOME STATEMENT	TRANSLATION DIFFERENCES	CLOSING BALANCE 2006
Fixed assets, FVA and depreciations	3 355	18	(265)	(33)	3 075
Pensions	26	2	(107)	(1)	(80)
Contingent provisions and other liabilities	219	2	16	(27)	210
FX and financial instruments	280	(61)	11	(4)	226
Deferred tax current items	(11)	(1)	(26)	3	(35)
Tax losses and tax credit to carry forward	(1 417)	33	(413)	(11)	(1 808)
Net deferred tax liability	**2 452**	**(7)**	**(784)**	**(73)**	**1 588**

TAX LOSSES TO CARRY FORWARD	2006	2005	2004
Europe	4 567	3 990	3 088
Australasia	1 216	415	544
Asia	321	161	65
North America	-	-	8
South America	8	55	38
Total	**6 112**	**4 621**	**3 743**
Losses available indefinitely	5 791	4 460	3 678
Expire 2009, 2010 and 2011	321	161	65
	6 112	**4 621**	**3 743**

The company is in an ongoing dialogue with 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 of which 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 2000, and the company is of the opinion that the position taken by the subsidiary is correct. Consequently, no provision has been made for this issue. The company has made provisions included in deferred tax for several other issues amounting to NOK 367 million (NOK 396 million in 2005 and NOK 380 million in 2004) which reflects the maximum liability for these issues.

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 above) will be utilised. The only exceptions are losses in Germany and Korea with a value of NOK 160 million in Germany (NOK 124 million in 2005) and NOK 17 million in Korea which are not included in deferred tax. Furthermore, losses are availabe – mainly in various holding companies in various jurisdictions – which cannot be utilised, and as such these losses are not recognised in the balance sheet.

11. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN EARNINGS AND CASH FLOW FROM OPERATIONS IS SHOWN BELOW.	2006	2005	2004
Earnings before taxes	(3 480)	(1 004)	210
Ordinary depreciation/impairments	6 534	3 320	3 203
Share of profit/(loss) in associated companies	(202)	751	44
Gain/(loss) on sale of fixed assets and other items	16	(13)	-
Tax paid	(169)	(65)	(69)
Changes in receivables	93	(163)	(185)
Changes in inventory	34	(228)	21
Changes in current liabilities	(693)	708	(41)
Adjustments for non-cash working capital items and translation differences	630	(245)	(51)
Net cash flow from operating activities	**2 763**	**3 061**	**3 132**

12. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTANGIBLE NON-CURRENT ASSETS	GOODWILL	LICENCES, PATENTS AND SIMILAR RIGHTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2004	5 479	108	251	5 838
Additions in period at cost	-	1	8	9
Disposals in periods at cost	(8)	(2)	(12)	(22)
Reclassifications	-	-	20	20
Translation differences	(23)	(10)	(19)	(52)
Acquisition cost 31 December 2004	**5 448**	**97**	**248**	**5 793**
Accumulated depreciation and impairments 1 January 2004	865	82	81	1 028
Depreciation in period	-	-	17	17
Impairments in period	-	-	-	-
Depreciation and impairments on disposals in period	-	-	3	3
Reclassifications	-	-	-	-
Accumulated depreciation and impairments 31 December 2004	**865**	**82**	**101**	**1 048**
Carrying value 1 January 2004	4 614	26	170	4 810
Carrying value 31 December 2004	4 583	15	147	4 745
Acquisition cost 1 January 2005	5 448	97	248	5 793
Additions in period at cost	55	142	216	413
Disposals in period at cost	-	(22)	(16)	(38)
Reclassifications	-	-	-	-
Translation differences	(70)	(2)	(2)	(74)
Acquisition cost 31 December 2005	**5 433**	**215**	**446**	**6 094**
Accumulated depreciation and impairments 1 January 2005	865	82	101	1 048
Depreciation in period	-	86	70	156
Depreciation on acquired companies in period	-	-	23	23
Impairments in period	66	-	-	66
Depreciation and impairments on disposals in period	-	(21)	(15)	(36)
Reclassifications	-	-	-	-
Accumulated depreciation and impairments 31 December 2005	**931**	**147**	**179**	**1 257**
Carrying value 1 January 2005	4 583	15	147	4 745
Carrying value 31 December 2005	4 502	68	267	4 837
Acquisition cost 1 January 2006	5 433	215	446	6 094
Additions in period at cost	-	43	108	151
Disposals in period at cost	-	(159)	(64)	(223)
Reclassifications	-	1	-	1
Translation differences	11	2	-	13
Acquisition cost 31 December 2006	**5 444**	**102**	**490**	**6 036**

	GOODWILL	LICENCES, PATENTS AND SIMILAR RIGHTS	OTHER INTANGIBLE ASSETS	TOTAL
Accumulated depreciation and impairments 1 January 2006	931	147	179	1 257
Depreciation in period	-	7	30	37
Impairments in period	1 739	-	85	1 824
Depreciation and impairments on disposals in period	-	(79)	(59)	(138)
Reclassifications	-	-	-	-
Accumulated depreciation and impairments 31 December 2006	**2 670**	**75**	**235**	**2 980**
Carrying value 1 January 2006	4 502	68	267	4 837
Carrying value 31 December 2006	2 774	27	255	3 056
Depreciation schedule		5-20 years	5-20 years	
Goodwill is not depreciated				

GOODWILL SPECIFICATION PER ACQUISITION	YEAR	31.12.06	31.12.05	31.12.04
Golbey	1995	58	58	58
PanAsia	1999	-	55	45
Union	1999	-	-	56
Fletcher	2000	2 576	3 577	3 577
Walsum and Parenco	2001	-	672	721
Klabin	2003	140	140	126
Total		**2 774**	**4 502**	**4 583**

BIOLOGICAL ASSETS

Norske Skog owns forest in Australia and Brazil. These assets are valued at their estimated selling price. Changes in value are reported under Other gains and losses.

Operational non-current assets.

	BIOLOGICAL ASSETS	BUILDINGS AND PLANTS	MACHINERY AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2004	347	8 389	43 438	700	840	53 714
Additions in period at cost	14	118	1 284	158	407	1 981
Disposals in period at cost	(14)	(44)	(251)	-	(11)	(320)
Reclassifications	10	46	403	-	(479)	(20)
Translation differences	(16)	(245)	(383)	-	(24)	(668)
Acquisition cost 31 December 2004	**341**	**8 264**	**44 491**	**858**	**733**	**54 687**
Accumulated depreciation and impairments 1 January 2004	89	2 629	18 528	480	-	21 726
Depreciation in period	-	381	2 678	17	-	3 076
Impairment in period	-	-	110	-	-	110
Depreciation and impairments on disposals in period	-	(20)	(210)	-	-	(230)
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2004	**89**	**2 990**	**21 106**	**497**	**-**	**24 682**
Carrying value 1 January 2004	258	5 760	24 910	220	840	31 988
Carrying value 31 December 2004	252	5 274	23 385	361	733	30 005
Acquisition cost 1 January 2005	341	8 264	44 491	858	733	54 687
Additions in period at cost	77	351	9 087	243	429	10 187
Disposals in period at cost	(95)	(46)	(410)	(158)	(7)	(716)
Reclassifications	-	27	160	31	(218)	-
Translation differences	26	(367)	(343)	(158)	14	(828)
Acquisition cost 31 December 2005	**349**	**8 229**	**52 985**	**816**	**951**	**63 330**
Accumulated depreciation and impairments 1 January 2005	89	2 990	21 106	497	-	24 682
Depreciation in period	-	194	832	56	-	1 082
Depreciation on acquired companies in period	-	-	1 811	-	-	1 811
Impairments in period	69	27	84	2	-	182
Depreciation and impairments on disposals in period	-	(20)	(341)	(56)	-	(417)
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2005	**158**	**3 191**	**23 492**	**499**	**-**	**27 340**

	BIOLOGICAL ASSETS	BUILDINGS AND PLANTS	MACHINERY AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Carrying value 1 January 2005	252	5 274	23 385	361	733	30 005
Carrying value 31 December 2005	191	5 038	29 493	317	951	35 990
Acquisition cost 1 January 2006	349	8 229	52 985	816	951	63 330
Additions in period at cost	38	225	1 233	46	162	1 704
Disposals in period at cost	(19)	(148)	(761)	(18)	-	(946)
Reclassifications	-	188	-	21	(209)	-
Translation differences	1	72	981	11	(4)	1 061
Acquisition cost 31 December 2006	**369**	**8 566**	**54 438**	**876**	**900**	**65 149**
Accumulated depreciation and impairments 1 January 2006	158	3 191	23 492	499	-	27 340
Depreciation in period	-	350	2 735	104	-	3 189
Depreciation and impairments on disposals in period	(19)	(31)	(270)	(16)	-	(336)
Impairments in period	-	-	1 409	-	-	1 409
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2006	**139**	**3 510**	**27 366**	**587**	**-**	**31 602**
Carrying value 1 January 2006	191	5 038	29 493	317	951	35 990
Carrying value 31 December 2006	230	5 056	27 072	289	900	33 547
Depreciation schedule	10-33 years	10-33 years	10-25 years	3-5 years		

Land and plant under construction are not depreciated.

Changes in estimated economic life for operational fixed assets made in 2006 will reduce annual depreciation changes by NOK 330 million. The change in estimate was implemented in the fourth quarter of 2006.

Assumptions applied when estimating recoverable amounts
Operational non-current assets and intangible assets are impaired to the recoverable amount when this is lower than the carrying value of the asset.The recoverable amount is defined as the higher of net selling price and net present value of the estimated cash flow generated by continued use of the asset.

The net present value of the estimated cash flow is discounted using a weighted average cost of capital relevant to the individual asset. The cost of capital is assessed on the basis of 10-year government bonds adjusted for the operational risk relevant to Norske Skog and, in certain instances, with a country-specific risk premium relevant to the individual asset. In the net present value calculations made in 2006, the discount rate applied was in the interval from 7.4% to 11.1%.

When calculating the net present value of estimated cash flow, the group is divided into the following cash generating units: Europe newsprint, Europe LWC, Asia, Australasia, South America, Saugbrugs, Follum magazine paper, Singburi and Malaysian Newsprint Industries. Where a cash generating unit consists of more than one mill, this reflects the allocation of production capacity based on where it is most profitable for the group in total.

Cash flow is calculated individually for up to 10 years for each cash generating unit based on its estimated economic life. Cash flow is estimated on the assumption of an annual increase in productivity corresponding to a 1% increase in production volume. Sales prices and prices for input factors are based on budgeted figures in year one and on trend prices thereafter. The estimated value of operation exceeding 10 years is assessed as a terminal value based on the entity's technical state and production capacity.

Impairment charges in 2006
Lower expectations of sales prices for newsprint in Asia over the next few years, combined with higher costs for certain input factors, contributed to impairment charges in China of NOK 862 million. In Korea, an impairment charge of NOK 434 million was made in 2006. This charge related mainly to the closure of production capacity.

Goodwill related to Norske Skog's mill in Germany and its two mills in South America acquired through the acquisition of Fletcher Challenge Paper has been impaired by NOK 669 and NOK 895 million respectively. The impairment changes are caused by lower expectations of future earnings. An additional NOK 373 million has been expensed as an impairment charge related to miscellaneous investments.

Sensitivities in the impairment analysis
The impairment analysis is based on assumptions about the future development of several conditions. These include price developments for finished goods and input factors in addition to sutch macro conditions as currency and interest rates. This implies uncertainties when it comes to the outcome of the calculations. As an example, a 5% price increase for finished goods in China compared with the prices usedin the impairment analysis would lead to a situation where the impairment losses recognised in 2006 could be justified no longer.

13 OPERATING LEASES

The group expensed NOK 112 million related to operating leases in 2006. The corresponding figure for 2005 was NOK 92 million.

Contractual obligations related to operating leases due within five years amount to NOK 224 million, while NOK 71 million is due later than five years.

14. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS		CURRENCY	SHARE CAPITAL NOK 1 000	OWNERSHIP %	BOOK VALUE NOK 1 000
Shares owned by the parent company					
Sikon Øst ASA, Norway		NOK	50 000	2.0	2 000
Industrikraft Midt-Norge AS, Norway		NOK	444	10.0	8 649
Other shareholdings, each with a book value less than NOK 1 million		NOK	-	-	11 080
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	14 498 195
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
Wood and Logistics AS, Lysaker	NOK	3 000	76.0	2 295
Total				**16 513 415**

		CURRENCY	SHARE CAPITAL 1 000	OWNERSHIP %	BOOK VALUE NOK 1 000
Shares in foreign subsidiaries and joint ventures owned by the parent company					
Norske Skog Golbey, Golbey, France		EUR	253 164	100.0	2 063 850
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 Štětí, Štětí, 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, Lisbon, 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	2 797 441
Norske Skog Czech & Slovak Republic spol. s.r.o., Štětí, 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, Antwerp, Belgium		EUR	2 500	99.9	540
THP Paper company, Seattle, USA		USD	-	100.0	-
Norske Skog Chile Industrial Limitada, Concepciòn, Chile		USD	15 000	0.1	524
Norske Skog Europe Recovered Paper NV, Antwerp, Belgium		EUR	62	99.8	493
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	Preference	MYR	382 855	100.0	311 595
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	Ordinary	MYR	-	100.0	-
NSI Forsikring A/S, Hvidovre, Denmark		DKK	20 000	100.0	16 552
Norske Skog Walsum GmbH, Duisberg, Germany		EUR	150 025	100.0	1 264 197
Norske Skog Pisa Ltda, Jaguariaíva, Brazil	Preference	BRL	24 550	100.0	-
Norske Skog Pisa Ltda, Jaguariaíva, Brazil	Ordinary	BRL	113 768	100.0	1 078 513
Norske Skog Adria d.o.o, Ljubljana, Slovenia		SIT	164	100.0	-
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	2 080 323
Norske Skog Industries Australia Ltd, Sydney, Australia		AUD	-	100.0	-
Oxenøen Bruk AS		NOK	100	100.0	100
Total					**17 065 052**
Total shares owned by the parent company					**33 578 467**

	CURRENCY	SHARE CAPITAL 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	2 200	100.0
Norske Skog US Recovered Paper Inc, USA	USD	250	100.0
Norske Skog Capital (Australia) Pty Ltd, Sydney, Australia	AUD	223 000	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 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	380 956	100.0
Norske Skog Tasman Ltd, Auckland, New Zealand	NZD	600 000	100.0
Tasman Equipment Ltd, Vancouver, Canada	CAD	1	100.0
Crown Forest Industries Limited, Whitehorse, Canada	CAD	535 665	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	29 692	100.0
Norske Skog North America LLC, Seattle, USA	USD	1 000	50.0
Norske Skog Overseas Holdings AG, Zürich, Switzerland	CHF	546 234	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 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	77 715	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	100.0
Reparco Nijmegen BV, Nijmegen, The Netherlands	EUR	18	100.0
Reparco Randstad BV, Gravenhage, The Netherlands	EUR	14	100.0
Reparco Renkum BV, Renkum, The Netherlands	EUR	18	100.0
Reparco Trading BV, Nijmegen, The Netherlands	EUR	386	100.0
Reparco Zutphen BV, Zutphen, The Netherlands	EUR	1 134	100.0
Simon Daalder Winterswijk B.V, Zutphen, The 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, The 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
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	100.0
Shanghai Pan Asia Potential Paper Co. Ltd, Shanghai, China	CNY	44 000	56.1
Hebei Pan Asia Long-Teng Paper Co. Ltd, Zhaoxian, China	CNY	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
Beijing KSPA Resources Recycling Co, Ltd	RMB	-	100.0
Norske Skog PanAsia (Shanghai) Commercial Consulting Co. Ltd	CNY	-	85.4

15. INVESTMENT IN ASSOCIATED COMPANIES

COMPANY	SHARE 31 DEC 06	CARRYING VALUE 31 DEC 06	SHARE OF PROFIT 2006	DIVIDEND/ OTHER CHANGES	CARRYING VALUE 31 DEC 05	CARRYING VALUE 31 DEC 04
Malaysian Newsprint Industries SDN BHD	33.7 %	310	35	(5)	280	200
Nordic Paper AS	0.0 %	-	-	(23)	23	20
Catalyst Paper Corp	0.0 %	-	-	(1 085)	1 085	1 629
Other associated companies		23	(7)	3	27	9
Total		**333**	**28**	**(1 110)**	**1 415**	**1 858**

Shares in associated companies are accounted for in the group in accordance with the equity method. Profit and loss from sale of shares are reported in the income statement under Share of profit from associated companies. Share of profit presented in the above table is the group's percentage share of profit after tax adjusted for amortisation of surplus values at group level allocated to the investment at the time of acquisition.

Malaysian Newsprint Industries SDN BHD
The company is incorporated in Kuala Lumpur, Malaysia and is a producer of newsprint. Based on the company's statutory accounts, its turnover in 2006 amounted to MYR 601 million and profit after tax was MYR 46 million. Total assets at 31 December 2006 were MYR 1 642 million and total debt MYR 1 124 million.

Nordic Paper AS
The company is incorporated in Greåker, Norway. Norske Skog sold its share in the company in January 2006. The sale gave an insignificant gain in the consolidated accounts of the group.

Catalyst Paper Corp
The company is incorporated in Vancouver, Canada. Norske Skog sold its share in the company in January 2006. In relation to the divestment, Norske Skog expensed a loss of NOK 729 million in 2005.

16. RECEIVABLES

	2006	2005	2004
Accounts receivables	3 870	4 087	3 215
Provision for bad debt	(182)	(97)	(107)
Other receivables	271	221	844
Prepaid VAT	40	42	98
Current receivables	**3 999**	**4 253**	**4 050**
Loans to employees	37	41	38
Sundry non-current receivables	290	1 040	227
Pension plan assets	98	93	126
Non-current receivables	**425**	**1 174**	**391**

17. CASH AND CASH EQUIVALENTS

	2006	2005	2004
Cash and bank deposits	397	452	419
Commercial papers	-	-	470
Total liquid assets	**397**	**452**	**889**

The group has limited access to liquid assets in the joint ventures and in companies with large minority interests.
In 2006 and 2005, this totalled NOK 0 million as against NOK 101 million in 2004.

COMMERCIAL PAPERS	2004
Bank/insurance	75
Other financial institutions	-
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.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

COMMERCIAL PAPERS	2006	2005	2004
Floating interest rate			
Energy	-	80	-
Industry/commerce/shipping	-	45	-
Fixed interest rate			
Bank/insurance	-	112	-
Energy	-	68	-
Industry/commerce/shipping	-	112	-
Total bonds	**-**	**417**	**-**
Certificates	85	31	-
Quoted investment shares	3	2	-
Total	**88**	**450**	**-**

Commercial papers are held for trading and classified at fair value through profit or loss. All the commercial papers were sold in 2006. The net unrealised loss on the portfolio in 2005 was NOK 1.62 million and the duration of the portfolio was 2.77. These assets were clasified as cash and cash equivalents in 2004. See note 17 (IAS 39 was implemented at 1 January 2005). Average interest rate for 2005 was 4.55%.

19. MINORITY INTERESTS

	2006	2005	2004
Minority at 1 Jan	713	186	196
Changes in minority owing to sales/purchases	(11)[1]	510[2]	11
Share of net earnings/(loss)	(208)	6	8
Dividend paid	(5)	(13)	(10)
Currency translation differences	(39)	24	(19)
Minority at 31 Dec	**450**	**713**	**186**

[1] Related to a capital reduction in Thailand

[2] Related to the acquisition of Pan Asia Paper company in the fourth quarter of 2005

20. INTEREST-BEARING NON-CURRENT LIABILITIES

	2006	2005	2004
Bonds	7 830	9 187	10 224
Debt to financial institutions	6 882	8 338	6 818
Total	**14 712**	**17 525**	**17 042**
Senior non-current debt in NOK	1 421	2 647	3 970
Senior non-current debt in foreign currencies	13 291	14 878	13 072
Total	**14 712**	**17 525**	**17 042**

SENIOR NON-CURRENT DEBT BY CURRENCY, CURRENT PORTION INCLUDED AT 31 DECEMBER 2006	CURRENCY AMOUNT MILLION	CURRENCY RATE	NOK MILLION
USD	1 200	6.26	7 509
EUR	601	8.24	4 947
NZD	26	4.40	115
KRW	55 000	0.0067	369
SGD	41	4.08	167
RMB	230	0.80	184
Total debt in foreign currencies in NOK	-	-	13 291
Total senior non-current debt in NOK	-	-	1 421
Total non-current debt			**14 712**

Average interest rate at 31 December 2006 was 5.5%

Repayment of debt

THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2006 MATURES AS FOLLOWS	DEBT BANKS	BONDS	TOTAL
2007	1 345	1 769	3 114
2008	244	101	345
2009	1 383	1 011	2 395
2010	4 476	269	4 745
2011	317	3 753	4 070
2012	163	-	163
2014	-	200	200
2015	115	1 251	1 366
2033	-	1 251	1 251
Total	**8 044**	**9 605**	**17 649**

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 2006, the accounts included a discount of NOK 26 million. This amount was a discount of NOK 28 million in 2005.

The repayment schedule does not include unrealised currency effects on forward contracts. This increased debt by NOK 183 million at 31 December 2006 and NOK 41 million at 31 December 2005. In addition, the fair value hedging effect increased non-current interest-bearing debt by NOK 20 million.

Norske Skog's liquidity reserve consists mainly of two credit facilities of USD 500 million and EUR 400 million respectively. The USD 500 million matures in 2009 and the EUR 400 million matures in 2012. NOK 5.6 billion of these facilities were undrawn at 31 December 2006.

At 31 December 2006, the company's holding of its own bonds amounted to NOK 372.5 million. This is deducted from interest-bearing debt in NOK. Norske Skog can draw an additional NOK 1 450 million on existing domestic bond loans.

Norske Skog has given declarations of negative pledge when raising non-current 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 equity capital (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 these requirements.
The current outstanding bond issues do not include financial covenants.

21. INTEREST-BEARING CURRENT LIABILITIES

	2006	2005	2004
Current bank debt	1 345	1 317	718
Bonds	1 769	1 270	-
Total	**3 114**	**2 587**	**718**

The group has unused bank overdrafts of NOK 150 million. No restrictions are placed on the use of the facility.

22. ENVIRONMENT

NOK 128 million was invested in environmental measures at Norske Skog's mills during 2006. The equivalent amount for 2005 was NOK 111 million.

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 20% 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 in 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 were carried out in 2006 to identify possible pollution. Low to moderate levels of pollution of the ground was identified, with some minor exceptions. It was concluded that leakages to recipients do not represent any risk for the environment. There will be performed a recipient survey in 2007.

Norske Skog developed corporate guidelines during 2005 for identifying possible environmental obligations. 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. Based on these guidelines, unit specific plans and initiatives were developed during 2006.

At 31 December 2006, the company had a provision of NOK 274 million for future environmental obligations. This provision is the net present value of future obligations.

Based on a decision by the board of directors, a provision of NOK 1 071 million was made for estimated costs of dismantling production facilities at future closure. This provision is the net present value of the estimated future costs.

23. OTHER COMMITMENTS

In 1998, Norske Skog finalised a lease-and-buyback arrangement with American investors for PM5 and PM6 at Saugbrugsforeningen. The present value of the cost of the leaseback is about NOK 4 000 million, which is irrecoverably deposited in favour of the American investors. Although the sum has been deposited, Norske Skog is not exonerated from liability for payment. However, the credit risk is extremely low 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 agreement, it is obliged to recompense the investors for any loss. The investors' possible loss will vary over the term of the lease and will at most amount to USD 78.8 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 cancelled as the result of extraordinary circumstances in the nature of force majeure. The leasing agreement is classified as a financial lease.

During 2004, the European Commission initiated an investigation of Norske Skog and other European paper producers for alleged violations of the EU's competition rules. The background for the investigation was that one of Norske Skog's competitors, UPM-Kymmene of Finland, had 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 over alleged illegal sales cooperation among producers of newsprint in Europe. This investigation was finished in 2006 and the case dismissed.

Following the investigation initiated by the European Commission, publication paper producers both in Europe and the USA, including Norske Skog, have been sued by customers in the USA, where the customers claim compensation for losses caused by alleged breach of competition rules. The lawsuits are group class actions. This means that the plaintiff represents all potential customers in the USA following an investigation outside the USA. However, the 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 processes in the USA will be closed, or the outcome of the cases.

The share purchase agreement of 2005 with Abitibi Consolidated for the purchase of the remaining 50% of the shares in Pan Asia Paper Company included an earn-out clause. This says that Abitibi Consolidated will receive 50% of gross operating earnings exceeding USD 175 million in Pan Asia Paper Company in 2006. The maximum earn-out payment is limited to USD 30 million. Best estimate for payment under this clause at 31 December 2006 is zero.

24. EARNINGS PER SHARE

	2006	2005	2004
Earnings in NOK million	(2 809)	(854)	621
Average number of shares in 1 000	189 258	142 878	132 430
Earnings per share in NOK	**(14.84)**	**(5.98)**	**4.69**

25. DIVIDEND PER SHARE

Dividend paid for 2005 and 2004 amounted to NOK 1 041 and NOK 795 million respectively. A dividend of NOK 5.5 per share for 2006, amounting to a total dividend of NOK 1 041 million, will be proposed to the annual general meeting on 12 April 2007. The financial statements do not reflect this dividend.

26. RELATED PARTIES

Some of the company's shareholders are forests owners delivering wood to the company's production units in Norway. All transactions with related parties are conducted at arm's length basis.

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.

27. OTHER GAINS AND LOSSES

Disposal of non-current tangible assets originated a loss of NOK 15 million in 2006. Other gains and losses also include a loss of NOK 273 million related to energy contracts. The group had a gain of NOK 263 million in 2005 related to energy contracts and value changes on energy hedges.

28. MORTGAGES

THE FOLLOWING LOANS WERE SECURED BY MORTGAGES ON REAL PROPERTY AT 31 DECEMBER	2006	2005	2004
Other mortgage debt	1 623	2 175	755
Total	**1 623**	**2 175**	**755**
BOOK VALUE OF ASSETS SECURING THIS DEBT AT 31 DECEMBER	**2006**	**2005**	**2004**
Property, plant and equipment	2 915	3 304	1 034
Total	**2 915**	**3 304**	**1 034**

As a general principle, Norske Skogindustrier ASA and its subsidiaries pledge no assets above a predefined threshold.

29. 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 per cent to 100% of the company's 12-month 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 112 million in 2006. Over time, currency losses or earnings will offset increased or reduced future net operational earnings.

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 gearing. From a financial perspective, the group changed its mix of currencies in 2003 in order to move closer to an economical 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 gain from the balance sheet hedging booked against equity in 2006 was NOK 22 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 and interest cost over time. 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 interest rates are 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 2006. 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	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	-	-	20	(69)	37	(2)	57	(71)
Forward rate agreements	-	-	-	-	6	(5)	6	(5)
Currency options	-	-	-	-	2	(15)	2	(15)
Forward contracts	16	(5)	-	-	58	(89)	74	(94)
Cross-currency contracts	10	(253)	-	-	-	-	10	(253)
Financial commodity contracts	-	-	-	-	267	(111)	267	(111)
Embedded derivatives	-	-	-	-	9	(63)	9	(63)
Total	**26**	**(258)**	**20**	**(69)**	**379**	**(285)**	**425**	**(612)**
Non-current portion	22	(250)	20	(69)	33	-	75	(319)
Current portion	**4**	**(8)**	**-**	**-**	**346**	**(285)**	**350**	**(293)**

[1] The gain or loss relating to the ineffective portion is recognised in the profit and loss account.
[2] Includes: active management portfolio, non-current asset 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 underlying debt in the fair value hedge was NOK 6 866 million.

DURATION TABLE	USD	EUR	KRW	AUD	OTHER	TOTAL
Currency allocation in NOK million	6 043	8 022	1 009	2 137	638	17 825
Duration per currency	0.68	1.02	1.37	1.19	-	0.91

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 NOK 500 million. The group had unused facilities of NOK 6 billion at 31 December 2006.

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 business 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 to take advantage of short-term price drops.

Contracted volumes have rated counterparts.

30. PROVISIONS

At 31 December 2006, Norske Skog had recognised the following major provisions in the balance sheet:

A provision of NOK 1 071 million related to dismantling production material related to future close-down of production facilities. This provision was made on the basis of a decision by the board of directors in 2006. The opposite entry to this provision is capitalised as part of property, plant and equipment. The provision is the net present value of the future estimated costs. Change in net present value in future periods will be recognised in the profit and loss accounts as a financial item. Change in estimate of the future costs will be accounted for as a change in estimate. This provision will only be realised at the time of a potential future close-down of any of the Norske Skog production units.

A provision of NOK 274 million related to future environmental obligations. This provision is related to estimated future costs from cleaning up any pollution of the environment by Norske Skog production units. NOK 17 million was recognised in the profit and loss related to this provision in 2006. This provision will be realised in a future period at a potential close-down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local governments may also lead to a realisation of this provision.

The restructuring provision related to demanning initiated in 2006 amounts to NOK 484 million. This provision is expected to be realised through demanning processes in 2007, 2008 and 2009.

PROFIT AND LOSS ACCOUNT

NOK MILLION	NOTES	2006	2005	2004
Operating revenue	**2**	**7 410**	**7 301**	**7 348**
Distribution costs		(760)	(789)	(798)
Cost of materials		(3 558)	(3 536)	(3 436)
Change in inventory		(45)	67	2
Employee benefit expenses	3	(1 236)	(1 249)	(1 287)
Other operating expenses	4	(681)	(881)	(879)
Restructuring costs		(79)	(270)	-
Other gains and losses	20	(129)	-	-
Depreciation and amortisation	7	(621)	(670)	(653)
Impairments	7	(120)	(182)	-
Operating earnings		**181**	**(209)**	**297**
Financial items	14, 15, 17	(1 797)	(403)	852
Other items	21	-	(766)	-
Profit before tax		**(1 616)**	**(1 378)**	**1 149**
Income tax expense	5	(112)	873	(170)
Net profit		**(1 728)**	**(505)**	**979**

BALANCE SHEET

NOK MILLION	NOTES	2006	2005	2004
Assets				
Deferred tax asset	5	229	240	-
Other intangible assets	7	27	49	66
Property, plant and equipment	7	5 109	5 307	5 788
Shares in subsidiaries	14, 18	33 578	36 391	33 042
Other non-current assets	13	2 446	3 033	3 602
Total non-current assets		**41 389**	**45 020**	**42 498**
Inventory	11	655	686	609
Receivables	13	2 230	1 156	1 437
Cash and cash equivalents	16	57	79	873
Other current assets	16	328	544	447
Current assets		**3 270**	**2 465**	**3 366**
Total assets		**44 659**	**47 485**	**45 864**
Shareholders' equity and liabilities				
Paid-in equity		12 309	12 309	8 460
Retained earnings		2 642	5 409	6 617
Total equity	**8**	**14 951**	**17 718**	**15 077**
Pension obligations	3	118	88	83
Deferred tax	5	424	267	849
Interest-bearing non-current liabilities	10, 13	25 867	26 657	26 027
Other non-current liabilities		54	151	-
Total non-current liabilities		**26 463**	**27 163**	**26 959**
Interest-bearing current liabilities		258	-	-
Trade and other payables	13	2 676	2 334	3 828
Tax payable	5	-	17	-
Other current liabilities		311	253	-
Total current liabilities		**3 245**	**2 604**	**3 828**
Total liabilities		**29 708**	**29 767**	**30 787**
Total equity and liabilities		**44 659**	**47 485**	**45 864**

Christian Rynning-Tønnesen
President and CEO

Lars Wilhelm Grøholt
Styreleder

Øivind Lund
Styrets nestleder

Annette Brodin Rampe
Styremedlem

Halvor Bjørken
Styremedlem

Giséle Marchand
Styremedlem

Kåre Leira
Styremedlem

Stein-Roar Eriksen
Styremedlem

Trond Andersen
Styremedlem

Ingrid Wiik
Styremedlem

CASH FLOW STATEMENT

NOK MILLION	NOTES	2006	2005	2004
Cash flow from operating activities				
Cash generated from operations		7 448	7 401	7 410
Cash used in operations		(6 411)	(6 648)	(6 265)
Cash from net financial items		(1 147)	(682)	(961)
Tax paid		(32)	3	2
Net cash flow from operating activities	**6**	**(142)**	**74**	**186**
Cash flow from investing activities				
Investments in operational fixed assets	7	(493)	(339)	(446)
Sales of operational fixed assets	7	4	16	17
Net change in intercompany receivables and payables		1 011	676	3 342
Net financial investments		(238)	(4 195)	(962)
Net cash from sold shares in other companies[1]		1 213	-	-
Tax paid		-	-	(184)
Net cash flow from investing activities		**1 497**	**(3 842)**	**1 767**
Cash flow from financing activities				
Net change in non-current liabilities[2]		(2 253)	205	(409)
Net change in current liabilities[2]		1 500	(302)	-
Dividend paid		(1 041)	(795)	(795)
Share issues		-	3 840	-
Net cash flow from financing activities		**(1 794)**	**2 948**	**(1 204)**
Total change in liquid assets		**(439)**	**(820)**	**749**
Cash and cash equivalents at 1 January[3]	16	500	1 320	571
Cash and cash equivalents at 31 December[3]	16	61	500	1 320

[1] The amount in 2006 relates to the sale of Catalyst, Forestia and Nordic Paper.
[2] Repaid debt in 2006 was NOK 3 834 million while new debt drawn was NOK 3 081 million.
[3] Cash and cash equivalents are the sum of Cash and cash equivalents and Short-term investments items in note 16.

1. ACCOUNTING PRINCIPLES

The accounts of Norske Skogindustrier ASA are prepared in accordance with International Financial Reporting Standards (IFRS) in respect of recognition and measurement. Disclosures to the accounts are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP), if the Norwegian Accounting Act paragraph 3-9.

Requirements related to recognition and measurement applied to the company accounts of Norske Skogindustrier ASA are identical to the ones described in note 2 to the consolidated accounts, with the exception of shares in subsidiaries which are carried at cost in the company accounts.

All amounts are presented in NOK million unless otherwise stated.

2. OPERATING REVENUE BY MARKET

At 31 December 2006, the parent company included sales to four geographic areas in the main: Europe, South America, Australasia and Asia. Sales to the USA are included in Europe. Australasia comprises Australia and New Zealand. Revenue based on sales of goods and services to group companies amounted to NOK 1 239 million in 2006, compared to NOK 1 235 million in 2005 and NOK 1 255 million in 2004.

OPERATING REVENUE BY MARKET	2006	2005	2004
Norway	1 322	828	959
Europe ex Norway	5 596	5 024	4 392
North America	-	708	1 118
South America	169	215	226
Australasia	65	127	111
Asia	253	378	525
Africa	5	21	17
Total operating revenue	**7 410**	**7 301**	**7 348**

3. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

PAYROLL COSTS	2006	2005	2004
Pay	853	931	960
Social security contributions	205	266	262
Pension costs	63	54	50
National insurance, pension and other social costs	115	73	15
Total	**1 236**	**1 324**	**1 287**

The company is required by law to have a pension scheme for all employees. The company's pension scheme complies with the requirements in the Norwegian Act on Employee's Pension Schemes.

Note 5 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 the auditor's fee.

NUMBER OF EMPLOYEES	2006	2005	2004
Norske Skogindustrier ASA	1 960	2 415	2 377

NET PERIODIC PENSION COST	2006	2005	2004
Benefit earned during the year	61	51	49
Interest costs on prior period benefit	65	62	58
Expected return on plan assets	(72)	(72)	(69)
Periodic payroll tax	4	3	5
Expensed portion of changes in AFP early retirement scheme	(2)	(2)	(2)
Expensed portion of differences in estimates	7	12	9
Net periodic pension cost	**63**	**54**	**50**

STATUS OF PENSION PLANS RECONCILED WITH THE BALANCE SHEET	2006	2005	2004
Projected benefit obligations	(1 480)	(1 445)	(1 234)
Plan assets at fair value	1 319	1 296	1 186
Plan assets in excess of/(less than) obligations	**(161)**	**(149)**	**(48)**
Differences in estimates not taken to income/expenses	70	107	46
Net plan assets/pension obligations	**(91)**	**(42)**	**(2)**
Accrual payroll tax	(27)	(24)	(21)
Plan assets/(pension obligations)	**(118)**	**(66)**	**(23)**
Pension obligation	(118)	(88)	(83)
Pension assets	**-**	**22**	**60**

See note 6 to the consolidated accounts for assumptions and further information.

4. OTHER OPERATING EXPENSES

NOK 3 million has been recognised as revenue under Other operating expenses owing to a change in provision for bad debt.

In 2005 the company recognised NOK 32 million in final losses related to receivables. Change in provision for bad debt was NOK 27 million and net expenses on receivables became NOK 5 million.

5. TAX

TAX EXPENSE	2006	2005	2004
Current tax expense	13	(5)	12
Change in deferred tax	99	(868)	158
Total tax expense	**112**	**(873)**	**170**

INCOME TAX RECONCILIATION	2006	2005	2004
Earnings before taxation	(1 616)	(1 378)	1 149
Computed tax at nominal tax rate of 28%	(453)	(386)	322
Exempted income/non-deductible expenses	(400)	(57)	(133)
Write-down of shares in subsidiaries	815	214	-
Change in tax legislation	-	(22)	-
Adjustment previous years	(9)	(176)	39
Recognition of (tax assets)/tax losses not recognised	-	(417)	156
Various	158	(30)	(214)
Total tax expense	**112**	**(873)**	**170**

DEFERRED TAX	2006	2005	2004
Net deferred tax liability 1 Jan	27	849	691
Deferred tax charged in the profit and loss account	99	(868)	158
Adjustment opening balance IAS 39	-	46	-
Tax charged to equity	-	(32)	-
Reclassification of group tax allocations	69	32	-
Net deferred tax liability 31 Dec	**195**	**27**	**849**

DEFERRED TAX 2004	OPENING BALANCE 2004	CHARGED TO BALANCE SHEET	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE 2004
Fixed assets, FVA and depreciations	683	-	(46)	637
Pensions	(6)	-	-	(6)
Contingent provisions and other liabilities	190	-	(77)	113
FX and financial instruments	117	-	194	311
Deferred tax current items	(13)	-	34	21
Tax losses and tax credit to carry forward	(278)	-	53	(225)
Net deferred tax liability	**691**	**-**	**158**	**849**

DEFERRED TAX 2005	OPENING BALANCE 2005	CHARGED TO BALANCE SHEET	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE 2005
Fixed assets, FVA and depreciations	637	-	(92)	544
Pensions	(6)	-	(12)	(18)
Contingent provisions and other liabilities	113	-	(100)	13
FX and financial instruments	311	46	(199)	158
Deferred tax current items	21	-	5	25
Tax losses and tax credit to carry forward	(225)	-	(469)	(694)
Net deferred tax liability	**849**	**46**	**(868)**	**27**

DEFERRED TAX 2006	OPENING BALANCE 2006	CHARGED TO BALANCE SHEET	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE 2006
Fixed assets, FVA and depreciations	544	-	(97)	448
Pensions	(18)	-	(15)	(33)
Contingent provisions and other liabilities	13	-	(38)	(25)
FX and financial instruments	158	-	417	575
Deferred tax current items	25	-	(9)	16
Tax losses and tax credit to carry forward	(694)	69	(159)	(785)
Net deferred tax liability	**27**	**69**	**99**	**195**

6. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN EARNINGS BEFORE TAX AND CASH FLOW FROM OPERATIONS IS SHOWN BELOW	2006	2005	2004
Earnings before tax	(1 616)	(1 378)	1 149
Ordinary depreciation/impairments	741	852	653
Taxes paid	(32)	3	2
Gain/(loss) on sale of fixed assets and other items	2	-	-
Group contribution	(121)	(142)	(975)
Change in receivables	38	(260)	(36)
Change in stocks	31	(77)	(51)
Change in liabilities	(181)	163	(37)
Financial items without cash effect	650	(280)	838
Other items[1]	-	766	-
Adjustments for changes in working capital without cash effect	346	427	(1 357)
Net cash flow from operating activities	**(142)**	**74**	**186**

[1] Other items see note 21.

7. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

	GOODWILL, LICENCES AND SIMILAR RIGHTS	BUILDINGS AND PLANTS	MACHINERY AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2004	98	3 195	11 152	330	229	15 004
Additions in period at cost	-	24	271	151	-	446
Disposal in period at cost	(1)	-	-	(147)	-	(148)
Reclassifications	-	-	6	-	(6)	-
Acquisition cost 31 December 2004	**97**	**3 219**	**11 429**	**334**	**223**	**15 302**
Accumulated depreciation and impairments 1 January 2004	31	1 389	7 231	291	-	8 942
Depreciation in period	-	99	506	48	-	653
Impairments in period	-	-	-	-	-	-
Depreciation and impairments on disposals in period	-	-	-	(147)	-	(147)
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2004	**31**	**1 488**	**7 737**	**192**	**-**	**9 448**
Carrying value 1 January 2004	67	1 806	3 921	39	229	6 062
Carrying value 31 December 2004	66	1 731	3 692	142	223	5 854
Acquisition cost 1 January 2005	97	3 219	11 429	334	223	15 302
Additions in period at cost	60	27	258	83	(29)	399
Disposal in period at cost	-	(51)	(109)	(106)	-	(266)
Reclassifications	-	-	-	-	-	-
Acquisition cost 31 December 2005	**157**	**3 195**	**11 578**	**311**	**194**	**15 435**

	GOODWILL, LICENCES AND SIMILAR RIGHTS	BUILDINGS AND PLANTS	MACHINERY AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Accumulated depreciation and impairments 1 January 2005	31	1 488	7 737	192	-	9 448
Depreciation in period	16	88	500	66	-	670
Impairments in period	61	28	60	6	-	155
Depreciation and impairments on disposals in period	-	(24)	(102)	(68)	-	(194)
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2005	**108**	**1 580**	**8 195**	**196**	**-**	**10 079**
Carrying value 1 January 2005	66	1 731	3 692	142	223	5 854
Carrying value 31 December 2005	49	1 615	3 383	115	194	5 356
Acquisition cost 1 January 2006	157	3 195	11 578	311	194	15 435
Additions in period at cost	135	172	209	32	139	687
Disposal in period at cost	(127)	(128)	(201)	-	-	(456)
Reclassifications	-	-	-	-	-	-
Acquisition cost 31 December 2006	**165**	**3 239**	**11 586**	**343**	**333**	**15 666**
Accumulated depreciation and impairments 1 January 2006	108	1 580	8 195	196	-	10 079
Depreciation in period	13	84	472	52	-	621
Impairments in period	85	-	33	2	-	120
Depreciation and impairments on disposals in period	(68)	(26)	(196)	-	-	(290)
Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairments 31 December 2006	**138**	**1 638**	**8 504**	**250**	**-**	**10 530**
Carrying value 1 January 2006	49	1 615	3 383	115	194	5 356
Carrying value 31 December 2006	27	1 601	3 082	93	333	5 136
Depreciation schedule	5-20 years	10-33 years	10-25 years	3-5 years		

Goodwill, land and plant under constructions are not depreciated.
Changes in estimated economic life for the company's non-current assets made in 2006 reduce annual depreciated charges on an annual basis by NOK 175 million.
The change in estimate was made in fourth quarter 2006.
Impairment charges in 2006 of NOK 120 million are related to IT systems and a technical pre-study.

8. EQUITY

	PAID IN EQUITY	RETAINED EARNINGS	TOTAL
Equity at 31 December 2005	12 309	5 409	17 718
Change in own share holding	-	23	23
Profit/(loss) for the year	-	(1 728)	(1 728)
Dividend	-	(1 041)	(1 041)
Other adjustments	-	(21)	(21)
Equity at 31 December 2006	**12 309**	**2 642**	**14 951**

At 31 December 2006, the share capital of the company included 189 945 626 shares, each with a nominal value of NOK 10. The number of own shares held was 631 731.
In 2006, 212 875 own shares was sold as part of the share savings progamme for the employees. The shares were sold at NOK 88.00 each.

PRINCIPAL SHAREHOLDERS	OWNERSHIP IN %
JPMorgan Chase Bank, GBR (NOM)	11.62
Viken Skog BA	8.21
State Street Bank, USA (NOM)	5.90
Capital World fund c/o JPMorgan Chase Bank	2.68
Folketrygdfondet	2.19
AT Skog BA	2.17
State of New Jersey pension fund c/o Bank of New York	2.10
Equity tri-party c/o Bank of New York	2.09
Mjøsen Skog BA	2.08
Mellon Bank AS, USA (NOM)	2.03
Allskog BA	1.82
Natexis Banques Populaires c/o Bank of New York	1.44
Skagen Vekst	1.42

PRINCIPAL SHAREHOLDERS	OWNERSHIP IN %
The Northern Trust co., GBR (NOM)	1.40
Bank of New York, BEL (NOM)	1.30
The Northern Trust co., GBR (NOM)	1.20
Credit Suisse Securities (USA) LLC, USA (NOM)	1.19
Rederiaktieselskapet Henneseid	1.13
Franklin Templeton Lending c/o JPMorgan Chase Bank	1.10
Credit Agricole investor services, FRA (NOM)	1.08
A/S Havlide	0.99
Bank of New York, BEL (NOM)	0.99

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the shareholders	
Helge Evju, Skollenborg	195
Emil Aubert, Porsgrunn	85 826
Ole H Bakke, Trondheim	53
Turid Fluge Svenneby, Spydeberg	142
Halvard Sæther, Lillehammer	4 925
Svein Aaser, Drøbak	1 713
Christian Ramberg, Bø i Telemark	71
Elected by the employees	
Harald Bjerge, Norske Skog Saugbrugs	5 001
Eigil Fredriksen, Norske Skog Union	510
Observers from the employees	
Kjell Aspestrand, Norske Skog Saugbrugs	1 013
Terje Andre Bråten, Norske Skog Follum	25
Jan O. Johnsen, Norske Skog Skogn	571

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
Gisèle Marchand, Oslo	428
Ingrid Wiik, Lysaker	250
Elected by the employees	
Kåre Leira, Skogn	1 457

SHAREHOLDERS AMONG SENIOR EXECUTIVES	NUMBER OF SHARES
Christian Rynning-Tønnesen	2 853
Peter Chrisp	656
Antonio Dias	4 470
Eric d'Olce	2 093
Andreas Enger	1 000
Vidar Lerstad	8 030

9. GUARANTEES

The company has guaranteed debt totalling NOK 326 million on behalf of its subsidiaries.
Other guarantees amount to NOK 293 million.

10. REPAYMENT PLAN INTEREST-BEARING DEBT

THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2006 MATURES AS FOLLOWS:	DEBT BANKS	BONDS	TOTAL
2007	570	1 133	1 703
2008	64	-	64
2009	1 107	844	1 951
2010	4 187	-	4 187
2011	32	3 753	3 785
2014	-	200	200
2015	-	1 251	1 251
2033	-	1 251	1 251
Total	**5 960**	**8 432**	**14 392**

Debt in foreign currencies is entered at the current rate in the installment profile.
See note 20 to the group accounts for further information.

11. INVENTORY

	31.12.06	31.12.05	31.12.04
Raw material and other production input	264	250	240
Finished goods	391	436	369
Total	**655**	**686**	**609**

12. DERIVATIVES

NOK MILLION	NET INVESTMET HEDGE		FAIR VALUE HEDGE		HELD FOR TRADING[1]		TOTAL VALUE	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest-rate swaps	-	-	20	(69)	37	(2)	57	(71)
Forward rate agreement	-	-	-	-	6	(5)	6	(5)
Currency option	-	-	-	-	2	(15)	2	(15)
Forward contracts	16	(5)	-	-	58	(89)	74	(94)
Cross-currency contracts	10	(253)	-	-	-	-	10	(253)
Financial commodity contracts	-	-	-	-	252	(33)	252	(33)
Embedded derivatives	-	-	-	-	-	(50)	-	(50)
Total	**26**	**(258)**	**20**	**(69)**	**355**	**(194)**	**401**	**(521)**
Non-current portion	22	(250)	20	(69)	33	-	75	(319
Current portion	**4**	**(8)**	**-**	**-**	**322**	**(194)**	**326**	**(202)**

[1] Include: 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 the profit or loss. Refer to note 29 in the group accounts for financial risk and accounting treatment of derivatives.

13. INTERCOMPANY RECEIVABLES/LIABILITIES

INTERCOMPANY RECEIVABLES	2006	2005	2004
Norske Skog Holdings B.V.	1 268	1 229	1 889
Norske Skog Walsum GmbH	1 086	1 259	1 379
Other intercompany receivables	33	(17)	165
Total intercompany receivables	**2 387**	**2 471**	**3 433**

CURRENT INTERCOMPANY RECEIVABLES	2006	2005	2004
Nornews AS	290	-	-
Pension Group	27	-	-
4246799 Canada Inc	28	-	-
Norske Skog Golbey S.A	41	59	3
Pisa Papel de imprensa SA	13	13	67
Norske Skog Industries Australia Ltd	-	39	-
Norske Skog (Australasia) Pty Ltd	-	14	17
Norske Skog PanAsia	574	17	17
Norske Skog Holdings B.V.	285	177	131
Norske Skog Walsum GmbH	113	23	37
Norske Skog USA Inc	105	123	82
Other current intercompany receivables	59	48	131
Total current intercompany receivables	**1 535**	**513**	**485**

NON-CURRENT INTERCOMPANY LIABILITIES	2006	2005	2004
Norske Skog Paper Holding (Schweiz) AG	371	-	-
4246799 Canada Inc	902	-	-
Norske Skog Štětí	60	-	-
Lysaker Invest AS	50	300	376
Norske Treindustrier AS	5 500	5 860	5 703
Nornews AS	340	340	356
Norske Skog Bruck GmbH	708	551	315
Norske Skog Golbey S.A	684	646	329
FC Industries Ltd	2 940	2 638	2 475
Norske Skog Tasman Ltd	-	55	52
Norske Skog Holding AS	35	249	226
Norske Skog Asia Pacific	-	30	-
Norske Skog Insurance AS	-	10	-
Other non-current intercompany liabilities	18	90	221
Total non-current intercompany liabilities	**11 608**	**10 769**	**10 053**

All non-current intercompany debt matures more than five years after the end of the fiscal year.

CURRENT INTERCOMPANY LIABILITIES	2006	2005	2004
Pension funds	16	-	-
Norske Skog Industries Australia Ltd	38	-	-
N.v. Norske Skog Belgium BV	10	-	-
Norske Skog Holland BV	15	-	-
Norske Skog Holding AS	13	322	355
Lysaker Invest AS	221	109	-
Norske Treindustrier AS	366	46	176
Norske Skog Bruck GmbH	54	30	85
Norske Skog Golbey S.A	211	41	51
WoodLog Norge AS	73	73	45
Norske Skog Deutschland GmbH	42	37	27
Norske Skog UK Ltd	76	55	43
Nornews AS	-	17	-
Norske Skog Tasman Ltd	98	63	9
Norske Skog Parenco BV	42	31	-
FC Industries Ltd	-	-	24
Norske Skog Asia Pacific	27	-	26
Norske Skog Insurance AS	-	-	11
Other current intercompany liabilities	22	53	1 335
Total current intercompany liabilities	**1 324**	**877**	**2 187**

14. WRITE-DOWN OF SHARES

AS A RESULT OF IMPAIRED VALUES OF UNDERLYING ASSETS, NORSKE SKOGINDUSTRIER ASA HAS RECOGNISED AN IMPAIRMENT LOSS ON SHARES IN THE FOLLOWING SUBSIDIARIES:

Norske Skog Holdings BV	765
Norske Skog Walsum	1 505
Norske Skog Pisa	59
Norske Skog Papers Malaysia	583
Total	**2 912**

15. TERMINATION OF HEDGE ACCOUNTING

Norske Skogindustrier ASA has terminated the use of hedge accounting in the parent company's accounts. This results in a recognition in the profit and loss account of accumulated exchange rate gains and losses which have not been recognised previously owing to the use of hedge accounting. A total gain of NOK 994 million has been recognised in the profit and loss accounts in 2006.

16. CASH AND CASH EQUIVALENTS AND OTHER CURRENT ASSETS

	31.12.06	31.12.05	31.12.04
Cash and cash equivalents	**57**	**79**	**873**
Prepaid expenses	6	-	-
Accrued income	65	-	-
Derivatives	253	123	-
Short-term investments	4	421	447
Total other current assets	**328**	**544**	**447**

17. SPECIFICATION OF FINANCIAL ITEMS

	2006	2005	2004
Received dividend	1 470	319	561
Interest income	182	226	285
Interest costs	(1 112)	(972)	(1 244)
Exchange rate gains and losses	820	124	(203)
Write-down of shares in subsidiaries	(2 912)	-	-
Other financial items	(245)	(100)	1 453
Total	**(1 797)**	**(403)**	**852**

18. SHARES IN SUBSIDIARIES

See note 14 to the group accounts for specification of shares in subsidiaries and other shares.

19. PAY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

Pursuant to the new provision in section 6-16a of the Norwegian Act on Public Limited Companies, cf. section 5-6, paragraph 3, the annual general meeting must consider the board's declaration concerning the determination of pay and other remuneration for senior executives in the coming fiscal year. The board will propose the following declaration at the AGM for consideration and a vote:"The board of Norske Skog has had a special compensation committee since 2000, which considers issues relating to the compensation of the chief executive and the corporate management team. When the methods for assessing pay and possible bonuses, options and other incentive schemes are to be determined, the committee will ensure that the size and scope of compensation and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to non-current value creation for all the shareholders. Since another object is to ensure that Norske Skog's corporate management team has a composition which provides international breadth, experience and diversity, Norske Skog must have a remuneration policy which makes the company attractive and allows it to recruit personnel in an international market.

Fixed salary

Beyond the general principles outlined above, the board has not established any upper and/or lower limits to the amounts which can be paid to senior executives in the company as fixed salary in the coming fiscal year. See note 3 to the annual accounts.

Variable elements

In addition to fixed salary, the company has a three-pronged bonus and incentive programme designed to help harmonise the priorities of the corporate management with the strategies and goals for the business established by the board:

i) Annual bonus agreements

The company has implemented bonus schemes for executives and employees for a number of years to ensure that important commercial goals receive adequate priority. These annual bonus agreements provide a maximum payout corresponding to six months pay. The performance figures are partly financial and partly operational, including health and safety.

ii) Long-term incentive programme

The purpose of this programme is to secure a continued strong focus on the development of shareholder value. The board has adopted new principles for the non-current incentive programme in 2007, where the criteria for awarding synthetic shares to the corporate management team is tied to total shareholder return (TSR – development of the share price including dividend payments), such that this must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 40% payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the chief executive and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50% of the allocation from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. This scheme involves no dilution effect.

iii) Turnaround

As a special motivational measure to ensure the best possible execution of the turnaround programme for profit improvement, the board has resolved that all employees will be offered an additional bonus scheme. This includes the corporate management. The bonus will be calculated against a measured real improvement in earnings of NOK 3 billion compared with the base year of 2005. Certain senior vice presidents will also be measured on the performance of specified business units. The maximum payout will be seven months pay for the chief executive and four months for the other members of the corporate management team. In the event that two-thirds of the target is reached, which is an absolute pre-condition for an award, the scheme will pay 40% of the maximum sum. Should 80% be reached, 60% of the amount will be paid. Payment will be made in the first half of 2009. Further variable elements include a company car or an alternative arrangement with a fixed mileage allowance and non-interest-bearing car loan, an interest-free mortgage, newspapers, mobile phone and coverage of the costs of broadband communication in accordance with established standards.

Pension plans

In addition to Norske Skog's general pension schemes in Norway, payable from the age of 67 and providing about 65% of pay at retirement, the corporate management team has a supplementary plan for that part of their salary which exceeds 12 times the Norwegian national insurance base amount (G), and a scheme for early retirement from the age of 64 which provides a pension until the age of 67. In addition to the general group life and accident insurance policies, the corporate management team is covered by a special group life insurance policy with payments limited to three times annual salary and a maximum of 80G.

Pay guarantee schemes

The mutual period of notice agreed with the chief executive and other members of the corporate management team is six months. In the event that the employer gives notice and/or mutual agreement on departure is reached, a pay guarantee corresponding to fixed salary less other income will be paid for 18 months after the expiry of the period of notice.

20. OTHER GAINS AND LOSSES

Other gains and losses of a negative NOK 129 million are related to gain and loss on the sale of non-current tangible assets and loss on trading with energy contracts.

21. OTHER ITEMS

The amount in 2005 is related to a write-down of the shares in Norske Treindustrier AS as a result of the loss on the sale of the shares in Catalyst Paper.

AUDITOR'S REPORT FOR 2006

We have audited the annual financial statements of Norske Skogindustrier ASA as of December 31, 2006, showing a loss of NOK 1 728 millions for the parent company and a loss of NOK 3 017 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 comprises the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statement of the group comprises the balance sheet, the statement of income and cash flows, the statement of changes in equity 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. International Financial Reporting Standards 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 The Norwegian Institute of Public Accountants. 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, 2006, and the results of its operations and its cash flows and the changes in equity 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, 2006, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards 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 are consistent with the financial statements and comply with the law and regulations

Oslo, March 01, 2007
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:

1. The corporate assembly recommends that the annual general meeting approves the profit and loss accounts and the balance sheet for 2006 for Norske Skogindustrier ASA and the group as proposed by the board, and agrees with the board's proposal for covering the loss for the year.
2. The corporate assembly took note of the declaration concerning guidelines for determining the remuneration of senior executives.

Oxenøen, 1 March 2007

Idar Kreutzer
Leder

Note:
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ANNUAL GENERAL MEETING
The annual general meeting will be held at 13.00 on Thursday 12 April 2007 at Norske Skog´s headquarters at Oksenøyveien 80, NO-1326 Lysaker, Norway.

DIVIDEND PAYMENT
Shares will be listed ex-dividend on 13 April. Dividend will be paid on 24 April to shareholders listed in the company´s register of shareholders at 17 April.

PUBLICATION OF INTERIM RESULTS IN 2006
First quarter: 4 May
Second quarter: 3 August
Third quarter: 2 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.

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