

SECOND QUARTER

2011

NORSKE SKOG

NORWEGIAN PAPER TRADITION

## OUR BUSINESS

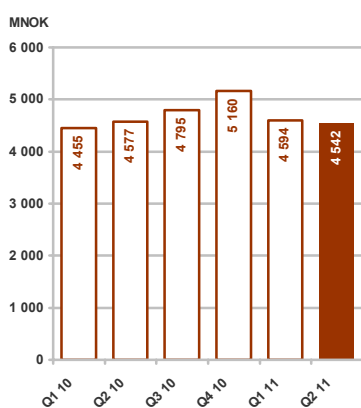
Norske Skog is a world leading producer of newsprint and magazine paper. The group has 14 fully or partly owned mills in 11 countries and an annual production capacity of 4.4 million tonnes. Through sales offices and agents, newsprint and magazine paper is sold to over 80 countries. The group has 5 300 employees.

The parent company, Norske Skogindustrier ASA is incorporated in Norway and has its head office at Lysaker outside of Oslo. The company is listed on the Oslo Stock Exchange.

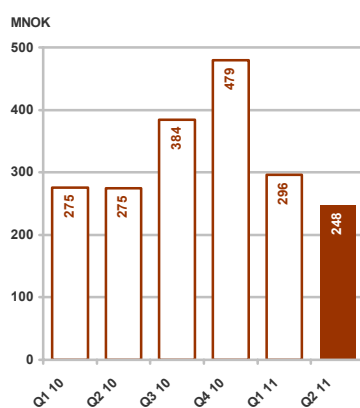
## KEY FIGURES (UNAUDITED)

	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>INCOME STATEMENT</b>					
Operating revenue	4 542	4 594	4 577	9 135	9 031
Gross operating earnings	248	296	275	544	550
Operating earnings	-202	225	-643	23	-2 007
Net profit/loss for the period	-280	169	-874	-111	-2 027
Earnings per share (NOK)	-1.47	0.89	-4.60	-0.58	-10.63
<b>CASH FLOW</b>					
Net cash flow from operating activities	-129	-239	-153	-367	-52
Net cash flow from investing activities	603	-9	-198	594	-270
Cash flow per share (NOK)	-0.68	-1.26	-0.81	-1.93	-0.27
<b>OPERATING MARGIN AND PROFITABILITY (%)</b>					
Gross operating margin	5.5	6.4	6.0	6.0	6.1
Return on capital employed	-1.1	-0.8	-1.2	-1.9	-2.5
Return on equity	-2.8	1.7	-8.1	-1.1	-18.0
Return on assets	-0.7	0.9	-2.1	0.2	-6.3
<b>PRODUCTION / DELIVERIES / CAPACITY UTILISATION</b>					
Production (1 000 tonnes)	910	951	992	1 861	1 942
Deliveries (1 000 tonnes)	922	919	983	1 841	1 934
Production / capacity (%)	82	86	89	84	87
<b>BALANCE SHEET</b>					
Non-current assets	18 054	19 150	19 271	20 023	20 873
Current assets	7 519	9 327	10 027	9 573	9 674
Total assets	25 573	28 478	29 297	29 596	30 547
Equity	9 851	9 996	10 183	10 136	10 478
Net interest-bearing debt	8 371	8 966	8 889	8 998	10 299

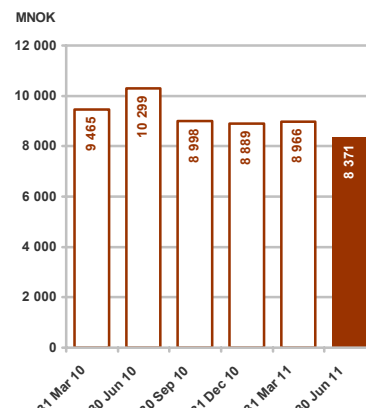
OPERATING REVENUE



GROSS OPERATING EARNINGS



NET INTEREST-BEARING DEBT



## REPORT OF THE BOARD OF DIRECTORS FOR THE SECOND QUARTER OF 2011

- // Second quarter of 2011: Gross operating earnings NOK 248 million (NOK 296 million in the first quarter of 2011). The decline in earnings is largely due to lower results in the magazine paper segment
- // Successful start-up after the fire at Norske Skog Saugbrugs
- // Refinancing is carried out, with a new credit facility and issuance of a Euro bond loan
- // Sales of forest and energy in Brazil have contributed to a reduction of net interest-bearing debt of NOK 595 million in the second quarter

### INCOME STATEMENT

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	4 542	4 594	4 577	9 135	9 031
Gross operating earnings <sup>*)</sup>	NOK mill	248	296	275	544	550
Gross operating earnings after depreciation <sup>**)</sup>	NOK mill	-184	-136	-226	-319	-479
Operating earnings	NOK mill	-202	225	-643	23	-2 007
Profit/loss before income taxes	NOK mill	-271	270	-1 176	-1	-2 782
Net profit/loss for the period	NOK mill	-280	169	-874	-111	-2 027

<sup>\*)</sup> Operating earnings before depreciation, restructuring expenses, other gains and losses and impairments.

<sup>\*\*)</sup> Operating earnings before restructuring expenses, other gains and losses and impairments.

### COMPARABILITY

As mentioned in the report for the first quarter of 2011, a new calculation of the production capacity at Norske Skog's mills was made towards the end of 2010, and this resulted in a downward adjustment of capacity at some of the units. Total production capacity in the second quarter of 2011 was 1 106 000 tonnes, compared with 1 121 000 tonnes in each of the quarters in 2010. Capacity in the second quarter of 2011 is not adjusted for the fire at Norske Skog Saugbrugs.

There were significant gross operating earnings in the energy segment in 2010, mainly due to the sale in the market of excess energy in Norway. This amounted to NOK 18 million in the second quarter of 2010 and NOK 64 million in the first half of 2010. As previously communicated, gross operating earnings in this segment are not expected to be significant in 2011, because the surplus volume in the long-term energy contract in Norway has been sold.

In the second quarter of 2011 the sale of assets have contributed to a reduction in net interest-bearing debt by NOK 595 million.

#### *Fire at Norske Skog Saugbrugs*

There was a fire at the mill on 2 February, which caused extensive damage to the raw material plant and electrical systems. There were no personal injuries. Production was re-started at one paper machine (PM 4) shortly after. The other machines (PM 5 and PM 6) were re-started at the end of the second quarter. Norske Skog Saugbrugs has an annual production capacity of 545 000 tonnes of

SC magazine paper, and production in the second quarter of 2011 was 43 000 tonnes, and 103 000 tonnes in the first half of the year.

Norske Skog has insurance coverage that includes both the lost contribution margin (business interruption insurance) and property damage. A provision for the estimated business interruption compensation was recognised in the first quarter, whereby gross operating earnings were negatively affected by NOK 13 million, which is equivalent to the deductible. When it comes to property damage, this was mainly related to assets that were largely depreciated to low values. An accrual for property damage insurance compensation of NOK 45 million has been made in the second quarter. It is emphasised that these are preliminary estimates.

### GROUP COMMENT – GROSS OPERATING EARNINGS

#### *Second quarter 2011 compared with first quarter 2011*

Gross operating earnings in the second quarter of 2011 were NOK 248 million, compared with NOK 296 million in the first quarter. The decline in gross operating earnings was mainly due to lower earnings in the magazine paper segment. For the other segments, there were small changes in gross operating earnings from the first to the second quarter. The total sales volume in the second quarter was on the same level as for the first quarter. For the individual segments, there was an increase in sales volumes for newsprint and a decline for magazine paper, the latter being due to the fire at Norske Skog Saugbrugs. Capacity utilisation was 82 per cent in the second quarter of 2011 and 86 per cent in the first quarter. Capacity utilisation would have been 90 per cent in the second quarter and 92 per cent in the first quarter, if

there had been normal operations at Norske Skog Saugbrugs. Achieved average prices in the second quarter of 2011 were higher than in the previous quarter, primarily due to a share of newsprint contracts in Europe during the first quarter still being at 2010 prices. Prices for key input factors remained at high levels through the second quarter. NOK continued to strengthen against most currencies, which had a negative effect on gross operating earnings for the group.

#### Second quarter 2011 compared with second quarter 2010

Gross operating earnings in the second quarter of 2011 were NOK 27 million lower than the second quarter of 2010. Total operating earnings for newsprint and magazine paper in the second

quarter of 2011 were the same as for the second quarter of 2010. There has been an increase in sales prices, particularly in the segment newsprint Europe, but there have also been higher direct costs, lower volumes and negative effects from currency changes. The decline in gross operating earnings for the group is due to lower earnings in the energy segment and other activities.

#### First half 2011 compared with first half 2010

Gross operating earnings for the first half of 2011 were NOK 544 million, compared with NOK 550 million for the first half of 2010. There was an improvement in earnings of NOK 80 million for newsprint, a decline in earnings of NOK 21 million for magazine paper and a decline of NOK 65 million for energy and other activities.

## SPECIAL ITEMS IN THE OPERATING EARNINGS UNDER IFRS

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Restructuring expenses	NOK mill	-23	0	-9	-23	-9
Other gains and losses	NOK mill	5	369	-412	374	-1 326
Impairments	NOK mill	0	-8	6	-8	-193

Other gains and losses in the second quarter include a gain on the sales of forest and energy in Brazil totalling NOK 139 million. In addition, sales of fixed assets, primarily property, resulted in a gain of NOK 32 million. Other gains and losses also include an accrual of

NOK 45 million for property damage insurance compensation as a result of the fire at Norske Skog Saugbrugs. The value of commodity contracts (mainly energy contracts) and embedded derivatives fell by NOK 208 million in the second quarter of 2011.

## FINANCIAL ITEMS

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Net interest expenses inclusive realised gain/loss on interest rate derivatives	NOK mill	-168	-160	-179	-328	-358
Unrealised gain/loss on interest rate derivatives	NOK mill	-13	-6	-13	-19	-15
<b>Net interest expenses</b>	<b>NOK mill</b>	<b>-181</b>	<b>-166</b>	<b>-193</b>	<b>-347</b>	<b>-373</b>
Realised currency gain/loss on cash flow hedge	NOK mill	61	18	45	79	155
Unrealised currency gain/loss on cash flow hedge	NOK mill	12	90	-119	102	-209
Other currency gains/losses	NOK mill	53	108	-255	161	-323
<b>Total currency gains/losses</b>	<b>NOK mill</b>	<b>126</b>	<b>216</b>	<b>-329</b>	<b>343</b>	<b>-377</b>
Other financial items	NOK mill	-12	-4	-2	-17	-10
<b>Total financial items</b>	<b>NOK mill</b>	<b>-67</b>	<b>46</b>	<b>-524</b>	<b>-21</b>	<b>-761</b>

<sup>1)</sup> Currency gains and losses on accounts receivable and accounts payable are reported as operating revenue and cost of materials respectively.

Net financial items in the second quarter were NOK -67 million. Currency gains in the second quarter were due to a stronger NOK

against most other currencies.

## CASH FLOW

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Gross operating earnings	NOK mill	248	296	275	544	550
Change in working capital and adjustments <sup>1)</sup>	NOK mill	113	-548	-152	-434	-390
Cash from net financial items	NOK mill	-424	24	-406	-400	-325
Taxes paid	NOK mill	-66	-11	131	-77	113
Net cash flow from operating activities	NOK mill	-129	-239	-153	-367	-52
Purchases of fixed assets	NOK mill	-138	-68	-106	-206	-189
Sales of fixed assets and shares in companies	NOK mill	741	59	10	800	21

<sup>1)</sup> Includes items with no cash effect included in gross operating earnings, and items with cash effect included in restructuring expenses and other gains and losses.

Cash flow from operating activities is negative in the second quarter, but NOK 110 million better than in the first quarter. The main reason for the negative cash flow is that over half of the annual interest costs fall due for payment during this quarter. This is offset by the fact that working capital was reduced by NOK 113 million in the quarter. Taxes paid amounted to NOK 66 million, mainly as a result of tax in

connection with the sales of forest and energy in Brazil. Investments in fixed assets amounted to NOK 138 million.

Sales of fixed assets and shares in companies amounted to NOK 741 million. This includes sales of forest and energy contracts in Brazil for a total of NOK 722 million.

## BALANCE SHEET

		30 JUN 2011	31 MAR 2011	31 DES 2010	30 JUN 2010
Non-current assets	NOK mill	18 054	19 150	19 271	20 873
Cash and cash equivalents	NOK mill	2 394	3 981	4 440	3 662
Other current assets	NOK mill	5 125	5 347	5 586	6 012
Total assets	NOK mill	25 573	28 478	29 297	30 547
Equity including minority interests	NOK mill	9 851	9 996	10 183	10 478
Non-current liabilities	NOK mill	10 594	9 822	13 875	16 815
Current liabilities	NOK mill	5 129	8 660	5 240	3 254
Net interest-bearing debt	NOK mill	8 371	8 966	8 889	10 299

Total assets decreased by NOK 2.9 billion from the previous quarter, mainly due to reduced cash holdings in connection with the repayment of debt, sales of forest and energy in Brazil, and the fact that investments in the second quarter were significantly lower than depreciation for the period. There was also a reduction in the value of energy contracts. Equity including minority interests was NOK 9 851 million at 30 June 2011, a reduction of NOK 145 million from the previous quarter. Equity per share was NOK 52. A more detailed specification of the changes in equity is provided later in this report.

Net interest-bearing debt was NOK 8 371 million at 30 June 2011.

This is a reduction of NOK 595 million from the first quarter. The gearing ratio (net interest-bearing debt to equity) was 0.85 per 30 June 2011, compared with 0.90 per 31 March 2011.

Interest-bearing current liabilities amounted to NOK 2 468 million at 30 June 2011. The main items were a USD-denominated bond loan with a remaining loan of USD 286 million maturing in the fourth quarter of 2011, and a bond loan of NOK 655 million maturing in the first quarter of 2012.

Cash and cash equivalents amount to NOK 2 394 million at 30 June 2011.

## SEGMENT INFORMATION

### NEWSPRINT TOTAL

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	3 114	2 883	2 840	5 997	5 454
Gross operating earnings	NOK mill	270	274	238	543	463
Gross operating earnings after depreciation	NOK mill	-29	-23	-126	-52	-282
Gross operating margin	%	8.7	9.5	8.4	9.1	8.5
Production	1 000 tonnes	682	698	684	1 380	1 338
Deliveries	1 000 tonnes	706	656	679	1 362	1 323
Production / capacity	%	90	92	88	91	87

The newsprint segment includes the geographic regions newsprint Europe, newsprint outside Europe and sales offices. Gross operating earnings in the second quarter of 2011 were on the same level as the first quarter, and slightly improved compared with the second quarter of 2010. Global demand for standard newsprint showed a reduction of

around two per cent in the period January to June 2011 compared with the corresponding period in 2010. There was an increase in demand in Europe of around three per cent in the first half compared with the first half of 2010.

### NEWSPRINT EUROPE

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	1 619	1 499	1 402	3 117	2 717
Gross operating earnings	NOK mill	45	56	2	101	21
Gross operating earnings after depreciation	NOK mill	-102	-87	-143	-189	-289
Gross operating margin	%	2.8	3.7	0.1	3.2	0.8
Production	1 000 tonnes	380	412	390	792	757
Deliveries	1 000 tonnes	402	379	394	780	751
Production / capacity	%	88	96	88	92	86

Gross operating earnings were still weak, but stronger than the corresponding quarter last year. There were higher sales prices in the quarter compared with the first quarter, due to the fact that some of the volume in the first quarter was sold at 2010 prices, and there were limited price increases in the second quarter. Production volume in the second quarter of 2011 was lower than in the first quarter, partly as a result of production stoppage in connection with public holidays, and partly due to production problems upon start-up after these

stoppages. This has meant that capacity utilisation was lower in the second quarter than in the first quarter of 2011. Direct costs were slightly lower in the second quarter, recovered paper prices were higher, and energy costs were lower than in the first quarter. Continued strengthening of NOK in relation to EUR, GBP and USD had a negative effect on gross operating earnings.

## NEWSPRINT OUTSIDE EUROPE

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	1 445	1 327	1 375	2 772	2 618
Gross operating earnings	NOK mill	219	214	231	433	427
Gross operating earnings after depreciation	NOK mill	67	61	12	128	-8
Gross operating margin	%	15.2	16.1	16.8	15.6	16.3
Production	1 000 tonnes	301	287	295	588	581
Deliveries	1 000 tonnes	304	278	284	582	572
Production / capacity	%	92	88	89	90	88

This region consists of Norske Skog's operations in Australasia, South America and Asia. Total annual production capacity is 1 305 000 tonnes, of which 865 000 tonnes are in Australasia. Gross operating earnings in the second quarter were on the same level as for the first quarter of 2011 and the second quarter of 2010. There was an increase in sales and production volumes compared with the first quarter of 2011, partly as a result of maintenance shutdown at

Norske Skog Boyer in the first quarter. A higher proportion of the sales volume from Australasia was export sales to Asia, which resulted in lower margins.

Gross operating earnings for the operations in South America were slightly lower than for the first quarter.

## MAGAZINE PAPER

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	1 276	1 482	1 488	2 757	2 991
Gross operating earnings	NOK mill	15	60	40	75	96
Gross operating earnings after depreciation	NOK mill	-111	-67	-85	-178	-165
Gross operating margin	%	1.2	4.1	2.7	2.7	3.2
Production	1 000 tonnes	228	252	308	481	604
Deliveries	1 000 tonnes	217	262	304	479	611
Production / capacity	%	65	72	88	69	86

Volumes, revenues and costs for 2011 are strongly affected by the fire at Norske Skog Saugbrugs. As mentioned earlier in this report, an accrual has been made for the estimated business interruption insurance compensation. Gross operating earnings were NOK 15 million in the second quarter compared with NOK 60 million in the first quarter. The reduction in gross operating earnings was mainly due to lower sales volumes than in the first quarter, and a higher proportion

of export sales in the second quarter, resulting in lower margins. Demand for SC (uncoated) magazine paper in Europe in the first half of 2011 was around four per cent lower than the corresponding period last year. Demand for LWC (coated) magazine paper was barely three per cent higher in the first half of 2011 compared with the first half of 2010.

## ENERGY

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	391	496	495	887	1 084
Gross operating earnings	NOK mill	2	1	18	3	64
Gross operating earnings after depreciation	NOK mill	2	1	18	3	64
Operating earnings	NOK mill	-102	290	-385	189	-1 293

The segment's normal activities have primarily included the purchase and resale of energy to the Norwegian mills and Norske Skog Pisa in Brazil. For accounting purposes, purchase of energy for these mills is accounted for as a cost of materials in the segment, with resale at contract price.

Due to the sale of surplus energy in Norway in 2010, gross operating earnings in the energy segment were, as expected, not significant.

In addition to the earnings from ordinary operations mentioned above, the operating earnings under IFRS include the fair value adjustments

on energy contracts and embedded derivatives. The contracts are presented in the balance sheet in accordance with IAS 39 *Financial Instruments - Recognition and Measurement*, which means that the value consists of the difference between the estimated market price and contract price over the contract period, discounted to present value. At the end of the second quarter, the group had recognised amounts in the balance sheet relating to the contracts in Norway and New Zealand. The value can fluctuate significantly from quarter to quarter due to changes in expected future energy prices, and is also affected by changes in exchange rates, price indices and the discount rate used.

## OTHER ACTIVITIES

		APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Operating revenue	NOK mill	540	607	536	1 147	1 064
Gross operating earnings	NOK mill	-39	-39	-21	-78	-73
Gross operating earnings after depreciation	NOK mill	-45	-46	-33	-92	-96

Other activities include unallocated group costs and trading activities relating to recovered paper.

## HEALTH AND SAFETY

The H-value (the number of lost-time injuries per million working hours) was 1.31 in the 12 month period from 1 July 2010 to 20 June 2011.

## EVENTS IN THE FIRST HALF OF 2011, UP TO THE PRESENTATION OF THE ACCOUNTS FOR THE SECOND QUARTER 2011

### REFINANCING

An agreement was signed in late May with four banks for a new three-year credit facility of EUR 140 million. Covenants have been changed in the new agreement, such that they now refer to the gross operating earnings / net interest expenses and debt ratio (net debt / gross operating earnings). The former bank facility of EUR 400 million has been cancelled and repaid. After the redemption of this facility, Norske Skog no longer has financial covenants related to the balance sheet debt ratio (net debt / equity) or the size of equity less intangible assets.

On 7 June 2011, Norske Skog issued a Euro-denominated bond loan of EUR 150 million with a maturity of five years. The loan was issued at 95.491% of par value and with a fixed coupon interest rate of 11.75%. Although the refinancing will improve the group's financial position, work is still underway with various measures to improve financial flexibility.

After the loan transactions were announced, the rating company Standard & Poor's revised the outlook to "stable" from the previous "negative" rating. The rating for Norske Skog's non-current debt is maintained at B-.

Net interest expenses after the issuance of the new bond loan and new bank facility will be on the same level as before the refinancing.

### SALE OF ASSETS

In January 2011, Norske Skog signed an agreement for the sale of the property Klosterøya, where there was formerly a paper mill that was shut down in 2006. Norske Skog has spent considerable resources on the clean-up and development of Klosterøya, and considers it a good solution that others will now take over further development. The sale generated a small gain that is included in the income statement line Other gains and losses.

In early May, Norske Skog signed an agreement for the sale of approximately 21 500 hectares of forest in Brazil. The sales price was USD 63.5 million (approximately NOK 335 million). Norske Skog retains a natural forest area of Atlantic rain forest of approximately 10 000 hectares after the transaction, and will continue the restoration of this area. Restoration work is discussed further in the annual report for 2010.

At the end of May, Norske Skog signed an agreement for the sale of the shares of the energy company Enerpar in Brazil to a subsidiary of SN Power Invest. The agreement includes an annual supply of 1.2 TWh of electrical power from 2015 and up to 31 December 2025. This is excess energy that Norske Skog does not need at the newsprint mill Norske Skog Pisa. The agreement has secured Norske Skog Pisa's supply of energy at competitive prices to the end of 2014. The consideration for the sale was BRL 120 million (approximately NOK 410 million).

A gain of NOK 139 million was recognised in the second quarter in connection with the sales of forest and energy in Brazil. This

amount includes the group's accumulated currency translation differences in the period of ownership and is included in the income statement line Other gains and losses.

Overall, sales of assets contributed to a reduction of interest-bearing debt in the second quarter of approximately NOK 600 million.

### CHANGED CORPORATE STRUCTURE FOR THE NORWEGIAN ENTITIES

As part of the process of standardising the corporate structure of Norske Skog, acquisitions were completed with effect from 1 June 2011 such that the group's three Norwegian mills will from now on be separate legal entities that are wholly owned by the parent company Norske Skogindustrier ASA. The mills were previously part of the parent company. Some corporate functions have also been separated and placed in separate subsidiaries.

The transactions do not affect the consolidated financial statements for Norske Skog, and the daily activities of the individual units will continue as before.

### GOVERNING BODIES

According to the company's articles of association, the general meeting shall elect the shareholder-elected members of the corporate assembly and election committee. In the following meeting, the new corporate assembly shall elect the shareholder-elected members of the board.

Following the election, the corporate assembly consists of these shareholder-elected members: Tom Ruud (chair), Tom Rathke (deputy chair), Emil Aubert, Ragnhild Borchgrevink, Maafrid Brath, Ann Kristin Brautaset, Helge Leiro Baastad, Maria Moræus Hanssen, Jens Nicolai Jenssen, Even Mengshoel, Karen Helene Ulltveit-Moe and Olav Veum. The shareholder-elected deputy members of the corporate assembly are Aud Lysenstøen, Knut Aas and Henrik A. Christensen.

The employee-elected members of the corporate assembly are Kjetil Bakkan, Harald Bjerge, Trond Bjørken, Jan Magnar Hansen, Geir Morten Knutsen and Freddy Sollibråten.

Norske Skog's election committee consists of Tom Ruud (chair), Ole H. Bakke, Helge Leiro Baastad and Kirsten Idebøen.

Following the election, the shareholder-elected members of the board are: Eivind Reiten (chair), Gisèle Marchand (deputy chair), Helge Evju, Alexandra Bech Gjørsv, Finn Johnsson and Åse Aulie Michelet. The three employee-elected members of the board are Paul Kristiansen, Inge Myrlund and Svein-Erik Veie.

## RISK MANAGEMENT

Norske Skog conducts continuous and thorough evaluations of operational and financial risk factors. The main operational risks are related to prices and sales volumes for newsprint and magazine paper, as well as prices for key input factors such as wood, recovered paper and energy.

Financial risk management includes primarily currency, interest rate and liquidity risk. The annual report for 2010 gives a comprehensive description of risk factors and risk management.

## RELATED PARTIES

Some of the company's shareholders are forest owners that supply wood to the group's mills in Norway. All transactions with related parties are conducted in accordance with general market terms and conditions. None of the board members receive remuneration for their work for the company from any source other than the company itself.

## SHARES

The foreign ownership share was 30 per cent at 30 June 2011, which is six per cent lower than at year-end. An overview of the largest shareholders at 30 June 2011 is included on page 18, and is based on information supplied by RD: IR and VPS through the Service Nominee ID.

## OUTLOOK FOR THE REST OF 2011

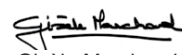
A price increase for newsprint is expected in the second half. Higher volumes are expected for magazine paper in the second half, whereby the volume increase will partly be due to full operations at Norske Skog Saugbrugs. Prices for most input factors are expected to remain high, but the prices of energy and recovered paper are expected to be somewhat lower in the second half. Underlying Gross operating earnings are expected to be somewhat better than for 2010.

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### OXENØEN BRUG, 3 AUGUST 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

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Eivind Reiten  
Chair

  
Gisèle Marchand  
Deputy chair


  
Finn Johnsson  
Board member

  
Helge Evju  
Board member


  
Alexandra Bech Gjørv  
Board member

  
Paul Kristiansen  
Board member

  
Inge Myrlund  
Board member

  
Svein-Erik Veie  
Board member

  
Åse Aulie Michelet  
Board member

  
Sven Ombudstvedt  
President and CEO



## INTERIM FINANCIAL STATEMENTS, SECOND QUARTER 2011

## INCOME STATEMENT

NOK MILLION	Note	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Operating revenue</b>	4	<b>4 542</b>	<b>4 594</b>	<b>4 577</b>	<b>9 135</b>	<b>9 031</b>
Distribution costs		-421	-431	-465	-851	-896
Cost of materials		-2 732	-2 956	-2 782	-5 688	-5 502
Change in inventories		-58	176	52	118	52
Employee benefit expenses		-702	-703	-737	-1 406	-1 407
Other operating expenses		-381	-383	-371	-765	-729
<b>Gross operating earnings</b>		<b>248</b>	<b>296</b>	<b>275</b>	<b>544</b>	<b>550</b>
Depreciation	8	-432	-431	-501	-863	-1 029
<b>Gross operating earnings after depreciation</b>		<b>-184</b>	<b>-136</b>	<b>-226</b>	<b>-319</b>	<b>-479</b>
Restructuring expenses	5	-23	0	-9	-23	-9
Other gains and losses		5	369	-412	374	-1 326
Impairments	3, 8	0	-8	6	-8	-193
<b>Operating earnings</b>		<b>-202</b>	<b>225</b>	<b>-643</b>	<b>23</b>	<b>-2 007</b>
Share of profit in associated companies		-3	-1	-10	-3	-14
Financial items		-67	46	-524	-21	-761
<b>Profit/loss before income taxes</b>		<b>-271</b>	<b>270</b>	<b>-1 176</b>	<b>-1</b>	<b>-2 782</b>
Income taxes		-9	-101	303	-110	755
<b>Net profit/loss for the period</b>		<b>-280</b>	<b>169</b>	<b>-874</b>	<b>-111</b>	<b>-2 027</b>
Majority share of net profit/loss for the period		-280	169	-872	-111	-2 017
Minority share of net profit/loss for the period		0	0	-1	0	-9
Basic/diluted earnings per share		-1.47	0.89	-4.60	-0.58	-10.63

## STATEMENT OF COMPREHENSIVE INCOME

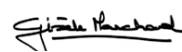
NOK MILLION	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Net profit/loss for the period</b>	<b>-280</b>	<b>169</b>	<b>-874</b>	<b>-111</b>	<b>-2 027</b>
<b>Other comprehensive income</b>					
Currency translation differences	41	-518	361	-477	503
Tax expense on translation differences	46	0	0	46	0
Hedge of net investment in foreign operations	35	131	-34	166	2
Tax expense on net investment hedge	-30	30	-21	0	-17
Reclassifications to income statement (divestment of operations)	43	0	0	43	0
Tax expense on reclassifications	0	0	0	0	0
Other items	-1	1	0	0	2
Tax expense on other items	0	0	0	0	0
<b>Other comprehensive income</b>	<b>134</b>	<b>-356</b>	<b>307</b>	<b>-222</b>	<b>490</b>
<b>Comprehensive income</b>	<b>-145</b>	<b>-187</b>	<b>-567</b>	<b>-332</b>	<b>-1 537</b>
Majority share of comprehensive income	-145	-185	-566	-330	-1 531
Minority share of comprehensive income	0	-2	-1	-2	-6

## BALANCE SHEET

NOK MILLION	NOTE	30 JUN 2011	31 MAR 2011	31 DEC 2010	30 JUN 2010
Deferred tax asset		102	104	137	122
Other intangible assets	8	155	214	160	202
Property, plant and equipment	8	14 696	15 194	15 909	16 810
Investment in associated companies		205	208	209	217
Other non-current assets	7	2 896	3 432	2 856	3 522
<b>Total non-current assets</b>		<b>18 054</b>	<b>19 150</b>	<b>19 271</b>	<b>20 873</b>
Inventories		2 208	2 233	2 013	2 106
Receivables		2 277	2 344	2 397	3 083
Cash and cash equivalents	6	2 394	3 981	4 440	3 662
Other current assets	7	640	770	1 177	822
<b>Total current assets</b>		<b>7 519</b>	<b>9 327</b>	<b>10 027</b>	<b>9 674</b>
<b>Total assets</b>		<b>25 573</b>	<b>28 478</b>	<b>29 297</b>	<b>30 547</b>
Paid-in equity		12 303	12 303	12 303	12 303
Retained earnings and other reserves		-2 472	-2 328	-2 143	-1 847
Minority interests		20	20	22	21
<b>Total equity</b>		<b>9 851</b>	<b>9 996</b>	<b>10 183</b>	<b>10 478</b>
Pension obligations		565	561	559	655
Deferred tax liability		721	950	923	1 095
Interest-bearing non-current liabilities	6	8 587	7 615	11 717	14 008
Other non-current liabilities	7	720	696	676	1 057
<b>Total non-current liabilities</b>		<b>10 594</b>	<b>9 822</b>	<b>13 875</b>	<b>16 815</b>
Interest-bearing current liabilities	6	2 468	5 641	1 954	363
Trade and other payables		2 475	2 830	3 074	2 652
Tax payable		24	26	32	43
Other current liabilities	7	163	163	180	196
<b>Total current liabilities</b>		<b>5 129</b>	<b>8 660</b>	<b>5 240</b>	<b>3 254</b>
<b>Total liabilities</b>		<b>15 722</b>	<b>18 482</b>	<b>19 115</b>	<b>20 069</b>
<b>Total equity and liabilities</b>		<b>25 573</b>	<b>28 478</b>	<b>29 297</b>	<b>30 547</b>

## OXENØEN BRUG, 3 AUGUST 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

  
Eivind Reiten  
Chair

  
Gisèle Marchand  
Deputy chair

  
Finn Johnsson  
Board member

  
Helge Evju  
Board member


  
Alexandra Bech Gjorv  
Board member

  
Paul Kristiansen  
Board member

  
Inge Myrlund  
Board member

  
Svein-Erik Veie  
Board member

  
Åse Aulie Michelet  
Board member

  
Sven Ombudstvedt  
President and CEO

## CASH FLOW STATEMENT

NOK MILLION	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
Cash generated from operations	4 585	4 636	4 598	9 221	9 164
Cash used in operations	-4 223	-4 887	-4 476	-9 111	-9 004
Cash from net financial items	-424	24	-406	-400	-325
Taxes paid	-66	-11	131	-77	113
<b>Net cash flow from operating activities <sup>1)</sup></b>	<b>-129</b>	<b>-239</b>	<b>-153</b>	<b>-367</b>	<b>-52</b>
Purchases of fixed assets	-138	-68	-106	-206	-189
Sales of fixed assets	18	59	5	77	16
Acquisition of shares in companies and other financial payments	0	0	-102	0	-102
Sales of shares in companies and other financial payments	723	0	5	723	5
<b>Net cash flow from investing activities</b>	<b>603</b>	<b>-9</b>	<b>-198</b>	<b>594</b>	<b>-270</b>
New loans raised	1 125	5	2	1 130	17
Repayments of loans	-3 218	-127	-151	-3 345	-190
Purchases/sales of treasury shares	0	0	1	0	1
<b>Net cash flow from financing activities</b>	<b>-2 093</b>	<b>-122</b>	<b>-148</b>	<b>-2 215</b>	<b>-172</b>
Foreign currency effects on cash and cash equivalents	31	-89	26	-58	-50
<b>Total change in cash and cash equivalents</b>	<b>-1 587</b>	<b>-459</b>	<b>-473</b>	<b>-2 046</b>	<b>-544</b>
<b><sup>1) Reconciliation of net cash flow from operating activities</sup></b>					
Gross operating earnings	248	296	275	544	550
Restructuring expenses	-23	0	-9	-23	-9
Change in working capital	103	-565	-151	-461	-308
Other items in operating earnings with/without cash effects	33	18	8	51	-73
Cash flow from net financial items	-424	24	-406	-400	-325
Taxes paid	-66	-11	131	-77	113
<b>Net cash flow from operating activities</b>	<b>-129</b>	<b>-239</b>	<b>-153</b>	<b>-367</b>	<b>-52</b>

## STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	PAID-IN EQUITY	RETAINED EARNINGS	HEDGE ACCOUNTING	OTHER EQUITY RESERVES	TOTAL BEFORE MINORITY INTERESTS	MINORITY INTERESTS	TOTAL EQUITY
<b>Equity 1 January 2010</b>	<b>12 302</b>	<b>-583</b>	<b>349</b>	<b>-81</b>	<b>11 987</b>	<b>28</b>	<b>12 015</b>
Comprehensive income for the period	0	-1 145	40	142	-963	-6	-970
<b>Equity 31 March 2010</b>	<b>12 302</b>	<b>-1 729</b>	<b>389</b>	<b>61</b>	<b>11 023</b>	<b>22</b>	<b>11 044</b>
Comprehensive income for the period	0	-870	-55	359	-566	-1	-567
Change in holding of treasury shares	2	0	0	0	2	0	2
Change in ownership in subsidiaries	0	0	0	-1	-1	0	-1
<b>Equity 30 June 2010</b>	<b>12 303</b>	<b>-2 599</b>	<b>334</b>	<b>419</b>	<b>10 457</b>	<b>21</b>	<b>10 478</b>
Comprehensive income for the period	0	-446	155	-6	-297	3	-294
Change in ownership in subsidiaries	0	-2	0	3	1	-2	-1
<b>Equity 31 December 2010</b>	<b>12 303</b>	<b>-3 048</b>	<b>489</b>	<b>416</b>	<b>10 161</b>	<b>22</b>	<b>10 183</b>
Comprehensive income for the period	0	169	161	-515	-185	-2	-187
<b>Equity 31 March 2011</b>	<b>12 303</b>	<b>-2 879</b>	<b>650</b>	<b>-99</b>	<b>9 976</b>	<b>20</b>	<b>9 996</b>
Comprehensive income for the period	0	-280	5	130	-145	0	-145
<b>Equity 30 June 2011</b>	<b>12 303</b>	<b>-3 158</b>	<b>655</b>	<b>31</b>	<b>9 831</b>	<b>20</b>	<b>9 851</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Norske Skogindustrier ASA ("the company") and its subsidiaries ("the group") manufacture, distribute and sell publication paper. This includes newsprint and magazine paper.

All amounts in the interim financial statements are presented in NOK million unless otherwise stated. Due to rounding, there may be

differences in the summation of columns.

The interim financial statements were authorised for issue by the board of directors in Norske Skogindustrier ASA on 3 August 2011.

## 2. ACCOUNTING POLICIES

The interim financial statements of Norske Skog have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim financial statements do not disclose all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements as at 31 December 2010. The interim financial statements are unaudited.

The accounting policies applied in the preparation of the interim financial statements are consistent with those applied in the preparation of the annual financial statements for the year ended

31 December 2010, except for the adaptation of amended standards and new interpretations which are mandatory from 1 January 2011. These changes are described in the annual financial statements for 2010. However, none of these currently have a material impact on the financial position or performance of the group.

The group has not early adopted any standard, interpretation or amendment that has been issued but is not yet mandatory.

## 3. ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Preparation of interim financial statements in accordance with IFRS implies use of estimates, which are based on judgements and assumptions that affect the application of accounting principles and the reported amounts of assets, liabilities, revenues and expenses. Actual amounts might differ from such estimates.

### *Estimated decline in value of intangible assets and tangible fixed assets*

Intangible assets which have an indefinite useful life and goodwill are not subject to amortisation, but are tested annually for impairment. Tangible fixed assets and intangible assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Since the carrying amount of the net assets in the group at the end of the second quarter of 2011 is higher than its market capitalisation, an impairment evaluation of the recoverable amount of the group's cash-generating units has been made. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. The group's cash-generating units are Europe newsprint, Europe magazine paper (light weight coated (LWC)), Australasia newsprint, South America newsprint, Saugbrugs (super calendared (SC)), Follum magazine paper and Singburi newsprint. Calculation of value in use requires use of estimates. When estimating the value in use at 30 June 2011, there was no indication that further impairments should be made in the interim financial statements for the second quarter of 2011.

The possibility of reversing impairment losses in prior periods on tangible fixed assets and intangible assets (except goodwill) has also been evaluated at 30 June 2011. There have been no reversals of previously recognised impairments during the first half of 2011.

In the first quarter of 2011, impairment losses of NOK 8 million were recognised related to Norske Skog Saugbrugs in Norway. The impairment was made as a result of damage from the fire at the mill on 2 February 2011.

For a more specific description of assumptions and sensitivities in the estimation of recoverable amount, please refer to Note 4 in the annual financial statements for 2010.

### *Commodity contracts and embedded derivatives in commodity contracts measured at fair value*

Commodity contracts that fail to meet the own-use exemption criteria in IAS 39 *Financial instruments – recognition and measurement* are recognised in the balance sheet and valued at fair value. Fair value of commodity contracts and embedded derivatives in commodity contracts which are not traded in an active market, are assessed through valuation techniques. Some of these contracts are long-term energy contracts. The electricity price for long-term electricity contracts in Norway and New Zealand is not directly observable in the market for the whole contract length. Price forecasts from acknowledged external sources are used in the estimation of fair value. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on marked conditions existing at each balance sheet date.

See Note 9 in the annual financial statements for 2010 for more information regarding the calculation of fair value of derivatives.

### *Provisions*

Provisions for environmental restoration, dismantling costs, restructuring activities 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 can be reliably estimated.

Provisions for future environmental- and dismantling liabilities are based on a number of assumptions made using management's best judgment. Changes in any of these assumptions could have an impact on the group's provisions and costs.

See Note 22 in the annual accounts for 2010 for more information regarding provisions for environmental- and dismantling liabilities.

See Note 2 in the annual accounts for 2010 for a more thorough description of important accounting estimates and assumptions impacting the preparation of financial statements.

## 4. OPERATING SEGMENTS

The group's activities are divided into three operating segments: Newsprint, Magazine paper and Energy. Activities in the group that do not fall into any of the three operating segments are presented under Other activities and encompass corporate functions, investments in non-production related properties, trading and sorting of recovered paper and purchase and sales of wood.

The revenue reported per operating segment includes both sales to

external parties and sales to other segments. Intra-segment sales are eliminated in the consolidated group accounts.

Recognition, measurement and classification applied in the segment reporting are consistent with the group's accounting principles described in Note 2 to the annual financial statements for the year ended 31 December 2010.

### OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

APR-JUN 2011	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
<b>Operating revenue</b>	<b>3 114</b>	<b>1 276</b>	<b>391</b>	<b>540</b>	<b>-779</b>	<b>4 542</b>
Distribution costs	-294	-106	0	-20	0	-421
Cost of materials	-1 770	-821	-389	-440	688	-2 732
Change in inventories	-102	41	0	3	0	-58
Employee benefit expenses	-404	-238	0	-61	0	-702
Other operating expenses	-274	-137	0	-61	92	-381
<b>Gross operating earnings</b>	<b>270</b>	<b>15</b>	<b>2</b>	<b>-39</b>	<b>0</b>	<b>248</b>
Depreciation	-299	-126	0	-6	0	-432
<b>Gross operating earnings after depreciation</b>	<b>-29</b>	<b>-111</b>	<b>2</b>	<b>-45</b>	<b>0</b>	<b>-184</b>
Restructuring expenses	-2	-2	0	-19	0	-23
Other gains and losses	15	48	-104	46	0	5
Impairments	0	0	0	0	0	0
<b>Operating earnings</b>	<b>-16</b>	<b>-66</b>	<b>-102</b>	<b>-18</b>	<b>0</b>	<b>-202</b>

JAN-JUN 2011	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
<b>Operating revenue</b>	<b>5 997</b>	<b>2 757</b>	<b>887</b>	<b>1 147</b>	<b>-1 652</b>	<b>9 135</b>
Distribution costs	-574	-236	0	-41	0	-851
Cost of materials	-3 609	-1 729	-883	-926	1 459	-5 688
Change in inventories	88	23	0	7	0	118
Employee benefit expenses	-818	-466	0	-121	0	-1 406
Other operating expenses	-540	-275	-1	-143	193	-765
<b>Gross operating earnings</b>	<b>543</b>	<b>75</b>	<b>3</b>	<b>-78</b>	<b>0</b>	<b>544</b>
Depreciation	-596	-253	0	-14	0	-863
<b>Gross operating earnings after depreciation</b>	<b>-52</b>	<b>-178</b>	<b>3</b>	<b>-92</b>	<b>0</b>	<b>-319</b>
Restructuring expenses	-2	-2	0	-19	0	-23
Other gains and losses	7	59	186	122	0	374
Impairments	0	-8	0	0	0	-8
<b>Operating earnings</b>	<b>-46</b>	<b>-130</b>	<b>189</b>	<b>11</b>	<b>0</b>	<b>23</b>

JAN-JUN 2010	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
<b>Operating revenue</b>	<b>5 454</b>	<b>2 991</b>	<b>1 084</b>	<b>1 064</b>	<b>-1 562</b>	<b>9 031</b>
Distribution costs	-533	-300	0	-63	0	-896
Cost of materials	-3 196	-1 853	-1 017	-771	1 335	-5 502
Change in inventories	40	11	0	2	0	52
Employee benefit expenses	-803	-467	0	-136	0	-1 407
Other operating expenses	-498	-286	-3	-170	227	-729
<b>Gross operating earnings</b>	<b>463</b>	<b>96</b>	<b>64</b>	<b>-73</b>	<b>0</b>	<b>550</b>
Depreciation	-745	-261	0	-23	0	-1 029
<b>Gross operating earnings after depreciation</b>	<b>-282</b>	<b>-165</b>	<b>64</b>	<b>-96</b>	<b>0</b>	<b>-479</b>
Restructuring expenses	-5	-1	0	-4	0	-9
Other gains and losses	20	0	-1 357	11	0	-1 326
Impairments	-192	0	0	0	0	-193
<b>Operating earnings</b>	<b>-459</b>	<b>-167</b>	<b>-1 293</b>	<b>-88</b>	<b>0</b>	<b>-2 007</b>

## OPERATING SEGMENT NEWSPRINT

The Newsprint segment encompasses production and sale of standard newsprint and other paper qualities used in newspapers, inserts, catalogues etc.

INCOME STATEMENT	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Operating revenue</b>	<b>3 114</b>	<b>2 883</b>	<b>2 840</b>	<b>5 997</b>	<b>5 454</b>
Distribution costs	-294	-280	-282	-574	-533
Cost of materials	-1 770	-1 839	-1 655	-3 609	-3 196
Change in inventories	-102	190	9	88	40
Employee benefit expenses	-404	-414	-416	-818	-803
Other operating expenses	-274	-265	-259	-540	-498
<b>Gross operating earnings</b>	<b>270</b>	<b>274</b>	<b>238</b>	<b>543</b>	<b>463</b>
Depreciation	-299	-296	-364	-596	-745
<b>Gross operating earnings after depreciation</b>	<b>-29</b>	<b>-23</b>	<b>-126</b>	<b>-52</b>	<b>-282</b>
Restructuring expenses	-2	0	-5	-2	-5
Other gains and losses	15	-7	-10	7	20
Impairments	0	0	6	0	-192
<b>Operating earnings</b>	<b>-16</b>	<b>-30</b>	<b>-135</b>	<b>-46</b>	<b>-459</b>
Share of operating revenue from external parties (%)	99	99	98	99	98
<b>OPERATING REVENUE PER REGION</b>					
Newsprint Europe	1 619	1 499	1 402	3 117	2 717
Newsprint outside Europe	1 445	1 327	1 375	2 772	2 618
Sales offices and other activities	1 152	1 048	1 123	2 200	2 139
Eliminations	-1 102	-991	-1 060	-2 093	-2 020
<b>Total</b>	<b>3 114</b>	<b>2 883</b>	<b>2 840</b>	<b>5 997</b>	<b>5 454</b>
<b>GROSS OPERATING EARNINGS PER REGION</b>					
Newsprint Europe	45	56	2	101	21
Newsprint outside Europe	219	214	231	433	427
Sales offices and other activities	6	4	5	10	15
Eliminations	0	0	0	0	0
<b>Total</b>	<b>270</b>	<b>274</b>	<b>238</b>	<b>543</b>	<b>463</b>

## OPERATING SEGMENT MAGAZINE PAPER

The Magazine paper segment encompasses production and sale of the paper qualities super calendered (SC), machine finished coated

(MFC) and light weight coated (LWC). Magazine paper is used for magazines, catalogues and advertising materials.

INCOME STATEMENT	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Operating revenue</b>	<b>1 276</b>	<b>1 482</b>	<b>1 488</b>	<b>2 757</b>	<b>2 991</b>
Distribution costs	-106	-130	-149	-236	-300
Cost of materials	-821	-907	-938	-1 729	-1 853
Change in inventories	41	-18	39	23	11
Employee benefit expenses	-238	-228	-254	-466	-467
Other operating expenses	-137	-138	-146	-275	-286
<b>Gross operating earnings</b>	<b>15</b>	<b>60</b>	<b>40</b>	<b>75</b>	<b>96</b>
Depreciation	-126	-127	-124	-253	-261
<b>Gross operating earnings after depreciation</b>	<b>-111</b>	<b>-67</b>	<b>-85</b>	<b>-178</b>	<b>-165</b>
Restructuring expenses	-2	0	-1	-2	-1
Other gains and losses	48	11	0	59	0
Impairments	0	-8	0	-8	0
<b>Operating earnings</b>	<b>-66</b>	<b>-64</b>	<b>-86</b>	<b>-130</b>	<b>-167</b>
Share of operating revenue from external parties (%)	92	93	95	93	95

## OPERATING SEGMENT ENERGY

The energy segment includes purchase and sale of energy to mills in the group and trading and sale of excess energy in the spot market.

Value changes on energy contracts and embedded derivatives in energy contracts carried at fair value are reported as Other gains and losses.

INCOME STATEMENT	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Operating revenue</b>	<b>391</b>	<b>496</b>	<b>495</b>	<b>887</b>	<b>1 084</b>
Distribution costs	0	0	0	0	0
Cost of materials	-389	-495	-476	-883	-1 017
Change in inventories	0	0	0	0	0
Employee benefit expenses	0	0	0	0	0
Other operating expenses	0	0	-1	-1	-3
<b>Gross operating earnings</b>	<b>2</b>	<b>1</b>	<b>18</b>	<b>3</b>	<b>64</b>
Depreciation	0	0	0	0	0
<b>Gross operating earnings after depreciation</b>	<b>2</b>	<b>1</b>	<b>18</b>	<b>3</b>	<b>64</b>
Restructuring expenses	0	0	0	0	0
Other gains and losses	-104	289	-403	186	-1 357
Impairments	0	0	0	0	0
<b>Operating earnings</b>	<b>-102</b>	<b>290</b>	<b>-385</b>	<b>189</b>	<b>-1 293</b>
Share of operating revenue from external parties (%)	38	39	42	38	49

## OTHER ACTIVITIES

Activities in the group that do not fall into any of the three operating segments are presented under Other activities. This includes

corporate functions, real estate activities, trading and sorting of recovered paper and purchase and resale of wood.

INCOME STATEMENT	APR-JUN 2011	JAN-MAR 2011	APR-JUN 2010	YTD 2011	YTD 2010
<b>Operating revenue</b>	<b>540</b>	<b>607</b>	<b>536</b>	<b>1 147</b>	<b>1 064</b>
Distribution costs	-20	-21	-34	-41	-63
Cost of materials	-440	-487	-383	-926	-771
Change in inventories	3	4	4	7	2
Employee benefit expenses	-61	-61	-67	-121	-136
Other operating expenses	-61	-81	-78	-143	-170
<b>Gross operating earnings</b>	<b>-39</b>	<b>-39</b>	<b>-21</b>	<b>-78</b>	<b>-73</b>
Depreciation	-6	-8	-12	-14	-23
<b>Gross operating earnings after depreciation</b>	<b>-45</b>	<b>-46</b>	<b>-33</b>	<b>-92</b>	<b>-96</b>
Restructuring expenses	-19	0	-4	-19	-4
Other gains and losses	46	75	0	122	11
Impairments	0	0	0	0	0
<b>Operating earnings</b>	<b>-18</b>	<b>29</b>	<b>-36</b>	<b>11</b>	<b>-88</b>
Share of operating revenue from external parties (%)	27	28	30	28	30
<b>OPERATING REVENUE</b>					
Recovered paper	236	242	208	478	406
Real estate activities	1	3	4	4	9
Bio-fuel	0	0	0	0	0
Corporate functions	58	60	68	119	134
Miscellaneous	258	315	270	573	547
Eliminations	-13	-14	-14	-27	-32
<b>Total</b>	<b>540</b>	<b>607</b>	<b>536</b>	<b>1 147</b>	<b>1 064</b>
<b>GROSS OPERATING EARNINGS</b>					
Recovered paper	3	8	6	12	15
Real estate activities	0	-11	-3	-12	-5
Bio-fuel	0	0	-4	0	-10
Corporate functions	-33	-35	-31	-68	-93
Miscellaneous	-10	0	12	-10	21
Eliminations	0	0	0	0	0
<b>Total</b>	<b>-39</b>	<b>-39</b>	<b>-21</b>	<b>-78</b>	<b>-73</b>

## 5. RESTRUCTURING EXPENSES

Restructuring expenses of NOK 23 million in the second quarter of 2011 were mainly related to provisions for redundancy costs as a result of the new operating model in Norske Skog, implemented in May. The main elements constituting the total provision were NOK 13 million at Norske Skog Logistics in Antwerp, NOK 6 million

at the head office at Lysaker and NOK 3 million relating to Norske Skog Focus employees.

There were no restructuring expenses in the first quarter of 2011.

## 6. INTEREST-BEARING DEBT

### NEW CREDIT FACILITY AND NEW BOND LOAN

In May Norske Skog signed a new three-year credit facility of EUR 140 million with DnB NOR, SEB, Nordea and Citibank. The covenants related to the credit facility are disclosed below. No amounts have been drawn on the credit facility at the end of the second quarter.

In June, Norske Skog issued a Euro-denominated bond loan of EUR 150 million with a maturity of five years. The bond is issued at 95.491% of par value and with a fixed coupon interest rate of 11.75%.

### NET INTEREST-BEARING DEBT

Norske Skog has recognised an amount in the balance sheet as a result of the termination of a large part of the fair value hedge portfolio in the first half of 2009. A hedge reserve (deferred income) amounting to NOK 290 million is included in interest-bearing debt as at 30 June 2011. The corresponding figure as at 31 December 2010 was NOK 338 million.

The hedge reserve does not constitute any payment obligation for the group, but will be amortised in the income statement over the lifetime of the debt that has been hedged.

	30 JUN 2011
Interest-bearing non-current liabilities	8 587
Interest-bearing current liabilities	2 468
- Hedge reserve	290
- Fair value hedge	1
- Cash and cash equivalents	2 394
<b>= Net interest-bearing debt</b>	<b>8 371</b>

### DEBT REPAYMENT SCHEDULE

CONTRACTUAL INSTALMENT PAYMENTS ON CURRENT AND NON-CURRENT INTEREST-BEARING DEBT	30 JUN 2011
2011 – third quarter	224
2011 – fourth quarter	1 561
2012 – first quarter	663
2012 – second quarter	21
2012 – second half	30
2013	34
2014	931
2015	956
2016	1 201
2017	3 873
2018	33
2019	92
2020	35
2021	24
2022 to 2033	1 117
<b>Total</b>	<b>10 796</b>

Total debt listed in the repayment schedule may differ from the carrying value in the balance sheet. This is due to premiums and discounts on issued bonds, hedge reserve and fair value hedging.



## LOAN COVENANTS

The loan covenants in the group's credit facility of EUR 140 million are linked to the interest coverage ratio (gross operating earnings / net interest expense) and the debt ratio (net interest-bearing debt / gross operating earnings).

The group's bond loan does not include financial covenants.

30 JUN 2011	REPORTED FIGURES	LOAN COVENANTS <sup>*)</sup>
Gross operating earnings (last 12 months)	1 407	
Adjusted gross operating earnings <sup>*)</sup> (last 12 months)	1 397	
Net interest expense (last 12 months)	742	
Net interest-bearing debt / Adjusted gross operating earnings	5.99	< 6.50
Gross operating earnings / Net interest expense	1.90	> 1.50

<sup>\*)</sup> The adjusted gross operating earnings is corrected for sales and purchases of businesses in the last 12 months  
<sup>\*\*)</sup> The loan covenants presented in the table are as at 30 June 2011

## 7. ENERGY CONTRACTS, DERIVATIVES AND FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

30 JUN 2011	ASSETS		LIABILITIES	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Energy contracts and embedded derivatives in energy contracts	349	2 550	-24	-190
Other raw material contracts	2	11	-3	-30
Other derivatives and financial instruments carried at fair value	173	3	-26	-14
<b>Total</b>	<b>524</b>	<b>2 564</b>	<b>-53</b>	<b>-234</b>

The former energy contracts in Brazil are no longer valued due to the sale of the energy company Enerpar-Energias do Paraná Ltda in the second quarter of 2011. A new contract has been entered into and the embedded derivatives in this contract are measured at fair value.

Norske Skog's portfolio of commodity contracts consists mostly of physical energy contracts. Fair value of commodity contracts is therefore especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts depends on currency and price index fluctuations.

An increase in the energy prices has a positive effect on fair value. The energy forward price in the Nordic region is down in the short-

end and somewhat up in the long-end compared to the previous quarter. In New Zealand, the energy forward price is up in the short-end and in the medium-term.

When NOK strengthens it has a positive effect on fair value. A weakened USD against BRL has a negative effect on the fair value. NOK has strengthened against EUR and USD and weakened against NZD and BRL during the second quarter. USD has weakened against BRL.

A decrease in consumer price index estimates has a positive effect on fair value. There have only been small changes in the estimates compared to the previous quarter.

## 8. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

JAN-JUN 2011	PROPERTY, PLANT AND EQUIPMENT	OTHER INTANGIBLE ASSETS	TOTAL
Carrying value at beginning of period	15 909	160	16 069
Depreciation	-851	-12	-863
Impairments	-8	0	-8
Acquisitions	206	89	295
Value change, biological assets	40	0	40
Disposals	-284	-81	-365
Currency translation difference	-316	-1	-317
<b>Carrying value at end of period</b>	<b>14 696</b>	<b>155</b>	<b>14 851</b>

## 9. EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date with significant impact on the interim financial statements for the second quarter of 2011.

## 10. NORSKE SKOG GROUP – QUARTERLY FIGURES

	APR-JUN 2011	JAN-MAR 2011	OCT-DEC 2010	JUL-SEP 2010	APR-JUN 2010	JAN-MAR 2010
<b>INCOME STATEMENT</b>						
<b>Operating revenue</b>	<b>4 542</b>	<b>4 594</b>	<b>5 160</b>	<b>4 795</b>	<b>4 577</b>	<b>4 455</b>
Distribution costs	-421	-431	-484	-476	-465	-431
Cost of materials	-2 732	-2 956	-3 127	-2 910	-2 782	-2 720
Change in inventories	-58	176	-44	-39	52	0
Employee benefit expenses	-702	-703	-590	-712	-737	-670
Other operating expenses	-381	-383	-436	-273	-371	-358
<b>Gross operating earnings</b>	<b>248</b>	<b>296</b>	<b>479</b>	<b>384</b>	<b>275</b>	<b>275</b>
Depreciation	-432	-431	-450	-513	-501	-528
<b>Gross operating earnings after depreciation</b>	<b>-184</b>	<b>-136</b>	<b>30</b>	<b>-129</b>	<b>-226</b>	<b>-252</b>
Restructuring expenses	-23	0	-25	-22	-9	0
Other gains and losses	5	369	-77	-175	-412	-913
Impairments	0	-8	27	0	6	-198
<b>Operating earnings</b>	<b>-202</b>	<b>225</b>	<b>-46</b>	<b>-326</b>	<b>-643</b>	<b>-1 364</b>
Share of profit in associated companies	-3	-1	-1	-1	-10	-4
Financial items	-67	46	-213	50	-524	-237
<b>Profit/loss before income taxes</b>	<b>-271</b>	<b>270</b>	<b>-260</b>	<b>-278</b>	<b>-1 176</b>	<b>-1 606</b>
Income taxes	-9	-101	62	34	303	453
<b>Net profit/loss for the period</b>	<b>-280</b>	<b>169</b>	<b>-198</b>	<b>-244</b>	<b>-874</b>	<b>-1 153</b>
<b>OPERATING REVENUE PER SEGMENT</b>						
Newsprint	3 114	2 883	3 138	2 944	2 840	2 613
Magazine paper	1 276	1 482	1 691	1 606	1 488	1 503
Energy	391	496	606	527	495	589
Other activities	540	607	586	504	536	528
Eliminations	-779	-873	-861	-786	-784	-778
<b>Total</b>	<b>4 542</b>	<b>4 594</b>	<b>5 160</b>	<b>4 795</b>	<b>4 577</b>	<b>4 455</b>
<b>GROSS OPERATING EARNINGS PER SEGMENT</b>						
Newsprint	270	274	244	352	238	225
Magazine paper	15	60	169	41	40	56
Energy	2	1	56	30	18	46
Other activities	-39	-39	10	-38	-21	-52
Eliminations	0	0	0	0	0	0
<b>Total</b>	<b>248</b>	<b>296</b>	<b>479</b>	<b>384</b>	<b>275</b>	<b>275</b>
<b>SHARE OF OPERATING REVENUE FROM EXTERNAL PARTIES (%)</b>						
Newsprint	99	99	98	98	98	97
Magazine paper	92	93	95	96	95	95
Energy	38	39	52	46	42	54
Other activities	27	28	26	26	30	30

## 11. THE NORSKE SKOG SHARE

	30 JUN 2011	31 MAR 2011	31 DEC 2010	30 SEP 2010	30 JUN 2010	31 MAR 2010
Share price (NOK)	8.95	17.90	13.85	11.75	7.43	8.99
Book value of equity per share (NOK)	51.77	52.53	53.50	53.25	55.06	58.10

## 12. PRINCIPAL SHAREHOLDERS

PRINCIPAL SHAREHOLDERS AT 30 JUNE 2011	NUMBER OF SHARES	OWNERSHIP %
SKAGEN Fondene	13 733 513	7.23
Viken Skog	10 897 825	5.74
Folketrygdfondet	7 924 431	4.17
Acadian Asset Management	7 530 672	3.96
J.P. Morgan Asset Management	6 997 481	3.68
AT Skog	6 671 000	3.51
Dimensional Fund Advisors	5 493 674	2.89
Allskog	5 261 414	2.77
SEB as principal	4 343 996	2.29
Astrup Fearnley AS	3 596 219	1.89
Varma	3 554 561	1.87
Uthalden AS	3 490 000	1.84
BNP Paribas as principal	2 860 026	1.51
Aviva Investors	2 819 805	1.48
Havlide AS	2 296 466	1.21
Alfred Berg	2 212 320	1.16
AS Herdebred	2 103 005	1.11
Skandia Life (ND)	2 024 237	1.07
Mjøsen Skog	1 970 560	1.04
Fiducia AS	1 900 000	1.00
Shareholders with < 1%	92 264 421	48.58
<b>Total</b>	<b>189 945 626</b>	<b>100.00</b>

The data is provided by RD:IR and VPS, through the Nominee ID service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the

Norske Skogindustrier ASA share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis.

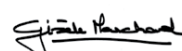
## Responsibility Statement from the Board of Directors and President/CEO

We confirm to the best of our knowledge that the condensed set of interim financial statements for the period 1 January to 30 June 2011 has been prepared in accordance with IAS 34 *Interim Financial Reporting* and gives a true and fair view of the Norske Skog group's assets, liabilities, financial position and the result taken as a whole. We also confirm to the best of our knowledge

that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related party transactions.

### OXENØEN BRUG, 3 AUGUST 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

  
Eivind Reiten  
Chair

  
Gisèle Marchand  
Deputy chair


  
Finn Johnsson  
Board member

  
Helge Evju  
Board member

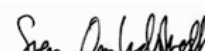
  
Alexandra Bech Gjørv  
Board member

  
Paul Kristiansen  
Board member

  
Inge Myrland  
Board member

  
Svein-Erik Veie  
Board member

  
Åse Aulie Michelet  
Board member

  
Sven Ombudstvedt  
President and CEO

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