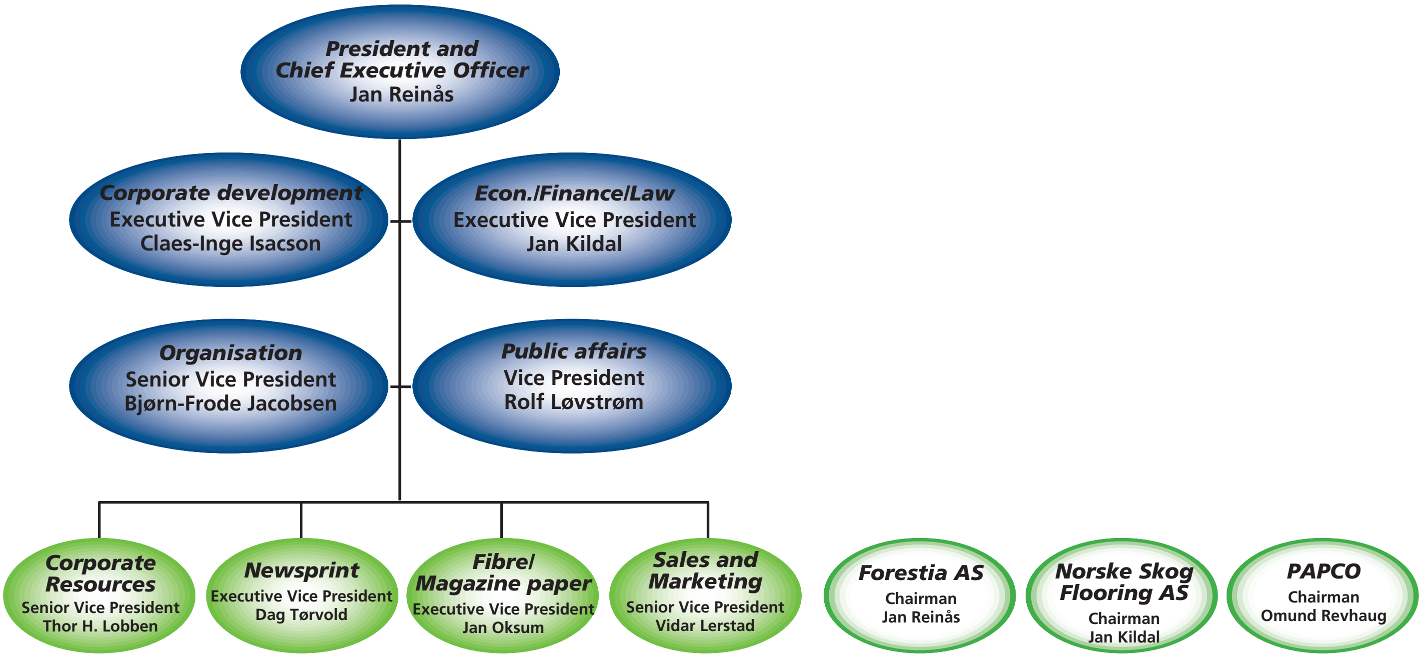
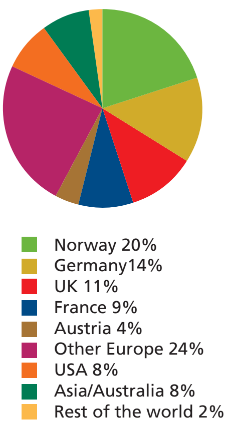
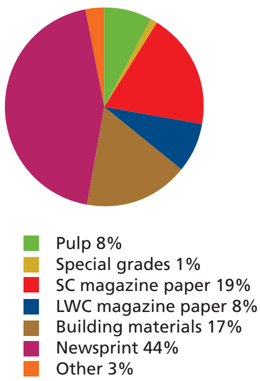
Organisation structure January 1, 1999



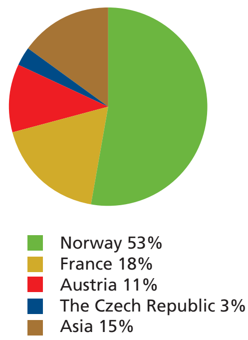
Corporate operating revenue by market



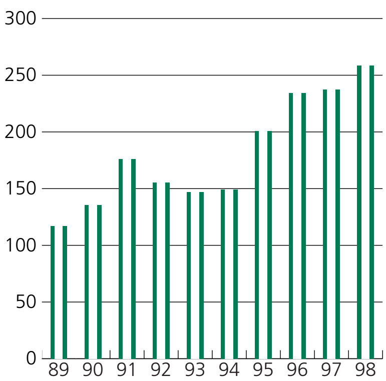
Corporate operating revenue by product



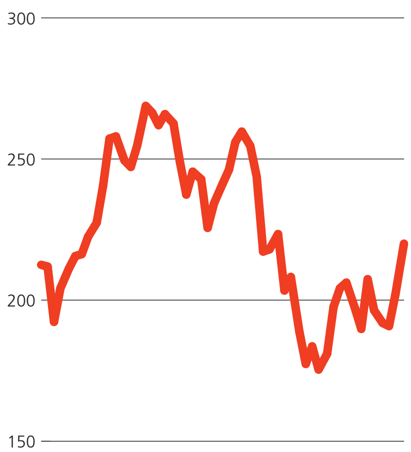
Capacity printing paper by country



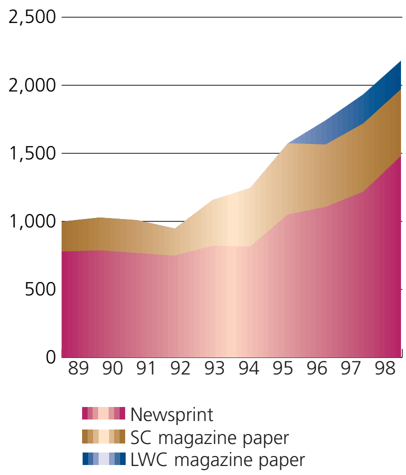
Equity per share
NOK



Share price development 1998
NOK



Publication paper production 1989-98*
1,000 tonnes



*) Excl. A/S Union

1998 Highlights

Strong profit rise
Good demand for publication paper in western Europe and the US led to price increases and high output, for both newsprint and magazine paper. Operating profit rose from NOK 1,083 million in 1997 to NOK 1,780 million in 1998.

Major investments
1998 was a very active year for Norske Skog, with strong growth. Total investments in capacity and quality enhancing projects, through new plant and acquisitions, amounted to around NOK 4.3 billion. The Group increased its newsprint capacity during the year by about 800,000 tonnes or 50%.

Continued internationalisation
During August/September Norske Skog took over two newsprint mills in Thailand and Korea. The mills date from 1994 and 1996, respectively, with 300,000 tonnes of cost-efficient capacity in a long-term growth market. From February 1999 these mills have become part of the joint venture Pan-Asia Paper Company (PAPCO). About 50% of the Group's newsprint capacity - including partly-owned activities - is now outside Norway.

Increased capacity in France
Norske Skog Golbey's paper machine number two, with a capacity of 330,000 tonnes/year, started up in December 1998. With a total capacity of nearly 600,000 tonnes, provided by two machines dating from the 1990's, Norske Skog Golbey is one of the world's most efficient newsprint mills.

Satisfactory development in eastern Europe
Norske Skog Steti, in the Czech Republic, has won satisfactory market shares in eastern Europe, in accordance with Norske Skog's strategy.

Long-term power supply agreement
In November, Norske Skog and Statkraft signed a long-term electricity supply agreement. The agreement is of great importance to the further development of Norske Skog's paper and pulp activities in Norway. It will meet most of the power requirements of the Group's present activities in Norway, on competitive terms, until the year 2020.

New corporate centre
In January 1999 the Group began using its newly-built corporate centre at Oxenøen, near the old Fornebu airport. The move brings all Norske Skog's activities in the Oslo area together under one roof, making for increased efficiency and improving amenities for our employees.

Aims and tasks in 1999

Corporate development
Norske Skog continues to work on business opportunities which will increase value creation, strengthen market positions and develop the Group internationally. Norske Skog will play an active role in the consolidation now taking place within the international pulp and paper industry.

Internationalisation
Norske Skog holds one third of the ownership stakes in Pan-Asia Paper Company. With a capacity of 1.4 million tonnes, the company will be the largest newsprint supplier in Asia outside Japan. The Group will contribute actively to making PAPCO a leading player in the Asian publication paper market. The challenge now will be to operate this activity efficiently.

Streamlining
The Norske Skog 2000 improvement programme will be carried further in 1999. The programme has two equally important main goals: 13 % return on assets and a working environment which reduces the number of injuries causing absence to less than five per million hours worked. This will make great demands on the organisation, which will have to adapt to changes in many areas.

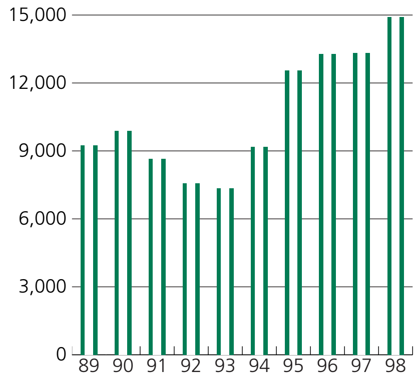
Norske Skog's strategy is to further develop and strengthen the company's position as one of the world's leading suppliers of wood-containing publication paper. In this connection, the search for business opportunities will continue, and it is primarily outside Norway that there is scope for further growth.

The Board of Directors' Report for 1998

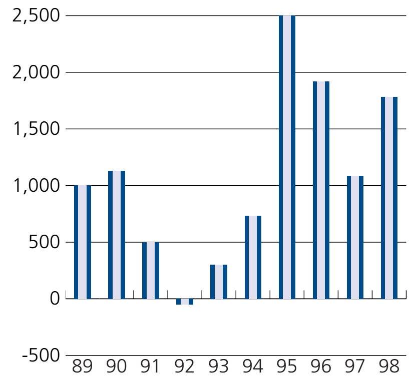
- *The Group's pre-tax profit more than doubled, compared with 1997.*
- *Norske Skog increased its newsprint capacity by 50%, in 1998, to nearly 2.5 million tonnes.*
- *Several new plants, and acquisitions, gave a high investment level in 1998. Investments in capacity-boosting new plant and acquisitions totalled NOK 4.3 billion.*
- *Norske Skog has a sound financial position and financial freedom of action. This provides a good basis for further value creation for its owners through profitable operation and further growth.*

The Board of Directors' Report for 1998

Consolidated operating revenue
NOK mill.



Consolidated operating profit
NOK mill.



Continued internationalisation led to strong growth

A good year

For Norske Skog 1998 was a good year. Favourable trends in the market for publication paper led to strong profit growth. The Group took a long step forward in implementing its strategy and achieving its goals. Through purchases in Asia and expansion in France, internationalisation was carried further, and concentration on the core area, publication paper, was strengthened.

The year's profit before tax was NOK 1,407 million, against NOK 652 million in 1997. Operating revenue rose by 12%.

With the completion of the second paper machine at Norske Skog Golbey, and the stake in Pan-Asia Paper Company (PAPCO), Norske Skog increased its newsprint capacity by 50% in 1998, from over 1.6 million tonnes to nearly 2.5 million tonnes.

Norske Skog is now one of the world's leading suppliers of publication paper. In the first quarter of 1999 total capacity for publication paper is 3.2 million tonnes, including stakes in partly-owned activities. This is 36% more than at the same time in 1998. Total investments in capacity boosting new plant, and acquisitions of companies in the publication paper sector amounted, in 1998, to about NOK 4.3 billion. Norske Skog has a sound financial position and financial freedom of action. This provides a good basis on which to continue creating value for its owners through profitable operation and further growth.

Norske Skog's strategy is to further develop and strengthen the company's position as one of the world's leading companies in wood-containing publication paper. In this context, it will continue to seek business opportunities, and it is primarily outside Norway that opportunities are arising.

Norske Skog is considering various strategic options for those parts of the Group which do not naturally fit with its publication paper activities - that is, among others, Forestia AS and Norske Skog Flooring AS.

Strong profit rise and increased dividend

Publication paper accounted, in 1998, for about 74% of Norske Skog's operating revenue. Price rises and high capacity utilisation for newsprint and magazine paper led to a doubling of profit, compared with 1997. The pulp and building materials businesses achieved weak results. The Group's pre-tax profit was NOK 1,407 million, against NOK 652 million in 1997.

The Group's operating revenue reached NOK 14,908 million (NOK 13,312 million). The increase reflects acquisition of new activities, increased prices for publication paper, and high output. The sum of operating revenue outside Norway accounted for 81% of total operating revenue. New activities which were added during the year - the two newsprint mills in Korea and Thailand - were consolidated in the accounts on 01.07 and 01.09, respectively, and contributed a total of NOK 485 million in operating revenue.

Operating profit was NOK 1,780 million (NOK 1,083 million), a rise of 64% from 1997. The improvement can be attributed almost entirely to the trend in publication paper. The result has been debited with a NOK 50 million write-down of assets at Norske Skog Hurum, which makes special paper. The Norske

Skog 2000 improvement programme had an impact on profits amounting to around NOK 200 million in 1998.

Net operating margin was 11.9% (8.1%). Cash flow from operations was NOK 2,859 million (NOK 1,615 million). The Group's return on total assets reached 9.4% (7.8%), while return on equity was 10.8% (7.1%).

The net financial items figure of minus NOK 491 million (minus NOK 455 million) was particularly affected by leasing agreements for Norske Skog Saugbrug's PM 5 and PM 6. These provided Norske Skog with a one-off sum of NOK 241 million, which has been booked as income under financial items. A change in accounting principles relating to the evaluation of currency portfolios as of 01.01.1998 resulted in an extraordinary income of NOK 62 million.

Norske Skog hedges 70-80% of its operating revenue over 12 months. A weak Norwegian krone puts a burden of NOK 391 million on financial items, owing to currency hedging - an effect which is more than offset by higher operating revenue in 1999.

Tax costs for the year were NOK 387 million, corresponding to 27.5% of pre-tax profit.

The annual result was NOK 1,020 million (NOK 590 million). Earnings per share rose to NOK 26.68 (NOK 16.40).

The Board proposes a dividend of NOK 8.50, compared with NOK 7 for 1997.

High level of investment, strong financial position

Norske Skog invested NOK 3,983 million in new plant and equipment during 1998. The largest projects, apart from Norske Skog Golbey's PM 2, were the rebuild of Norske Skog Saugbrug's PM 5 and a new wood handling plant at Norske Skog Follum.

The large investments at Norske Skog Golbey's PM 2, and the purchase of two newsprint mills in Asia, affected Norske Skog's cash flow and balance sheet in 1998. Total assets increased from NOK 17,293 million as of 31.12.1997 to NOK 24,249 million as of 31.12.1998.

Norske Skog's equity capital increased, during the same period, from NOK 9,064 million to NOK 9,849 million. Even so, major investments, without injections of fresh equity capital, led to a fall in equity capital ratio from 52.4% to 40.6%. This figure is affected by high liquidity held at the end of 1998, ahead of payments relating to Golbey's PM 2 and the final settlement in connection with the PAPCO agreement in the first quarter of 1999. The Group's target figure is 40% or higher.

Expenditure on new plant and equipment and acquisitions resulted in a high level of investment in 1998. Investments during the next few years, apart from strategic projects, are expected to be considerably lower and below annual depreciations.

As part of its long-term financing Norske Skog signed a USD 450 million loan agreement in December. A number of Norwegian and international banks are participating in the loan, which is a seven-year, multi-currency drawing rights facility.

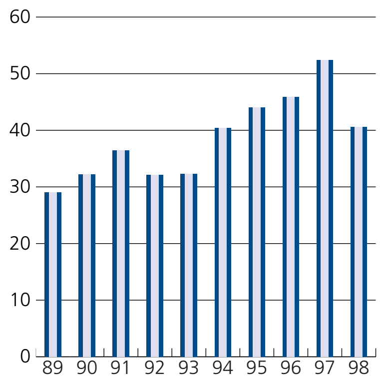
The Group's net interest-bearing debt increased from NOK 4,145 million as of 31.12.1997 to NOK 7,082 million at the end of 1998, owing to large investments, among other things at Golbey and in Asia. The increase came at the end of the third quarter, and has a limited effect on 1998 interest costs. Of net interest-bearing debt, 37% was in NOK and the rest in foreign currency, primarily USD and EUR. The ratio of net interest-bearing debt to equity was 0.72 (0.46). The Group's target figure is 1.0 or less.

At the end of 1998 liquid assets stood at NOK 2,312 million (NOK 853 million). Unutilised drawing rights totalled NOK 5,396 million at the year's end.

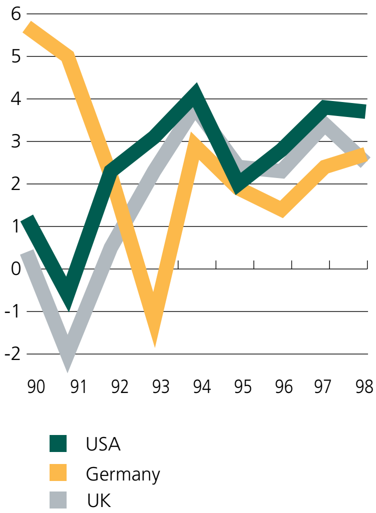
The new newsprint machine (PM 2) at Norske Skog Golbey was given a test run on December 21, 1998, and according to the supplier it reached the highest speed ever attained by a newsprint machine during a test run. Total investment is NOK 2.8 billion. The machine has a capacity of 330,000 tonnes/year, and up to 85% of the raw material basis will be recycled paper. With a total capacity of nearly 600,000 tonnes provided by two machines from the 1990's, Norske Skog Golbey is one of the world's most cost-efficient newsprint mills.

Norske Skogindustrier ASA and A/S Union (Union Co) have started merger negotiations. Norske Skog today has an ownership share of 48.1% of vote-entitled capital and 57.6% of total share capital. The two companies cooperate extensively in sales, procurement and logistics, and a merger will provide further possibilties for coordination in the production of wood containing publication paper. The merger proposal will be tabled for consideration at Norske Skog's General Meeting on May 5, 1999.

Equity to assets ratio
%



Growth per year in gross domestic product (GDP)
%



The markets for forest industry products are affected by economic developments in the major industrial countries.
(Source: OECD)

Continued internationalisation
Norske Skog has for many years exported both newsprint and SC magazine paper from Norway to Asia. The newsprint market in Asia is, in volume terms, of about the same size as that in western Europe - about 9 million tonnes. In a longer-term perspective, Asia is probably the part of the world offering the greatest growth potential for paper. During the past two years Norske Skog has been working actively to establish its own activity in Asia.

The economic crisis made it possible for Norske Skog to purchase two newsprint mills in Thailand and Korea, dating from 1994 and 1996, respectively. The mills were acquired for a price which was lower than NOK 7,500/tonne, on a debt-free basis, about 25% below the corresponding price of new capacity.

In July 1998 Norske Skog concluded a letter of intent with Abitibi Consolidated, Canada, and Hansol Paper, Korea, to establish a jointly controlled newsprint business in Asia, in which each of the partners would own a third stake. The company, which for the present is being called Pan-Asia Paper Company (PAPCO), was formally established on February 1-2 1999. The concept envisages that the three owners' production and sale of publi-cation paper in Asia will come under the new company.

PAPCO has bought Norske Skog's two mills in Thailand and Korea, and Hansol Paper's two mills Chonju, in Korea, and Shanghai Hansol Potential, in China. PAPCO's total capacity is over 1.4 million tonnes of newsprint and other publication paper. The average age of its newsprint machines is five years. Norske Skog's and Abitibi Consolidated's sale of newsprint to the region will be channelled through PAPCO. Total tonnage for sale will consequently reach around 1.8 million tonnes, which will give PAPCO a market share of 30% in the Asia Pacific region (excluding Japan).

PAPCO will have an opening balance of over NOK 10 billion, which amounts to USD 950 per tonne of capacity. To finance the company's equity capital, each of the owners is contributing assets worth NOK 1,500 million. Loan finance is being partly covered by existing debt relating to the four mills, and partly by a loan from Hansol Paper.

PAPCO's head office has been sited in Singapore. Norske Skog has three of seven board members. The company has about 2,100 employees.

The acquisitions in Asia and the establishment of PAPCO have given Norske Skog valuable know-how which will be important to the company's further development. All of PAPCO's mills are modern and efficient units which will contribute to Norske Skog's profitability.

Following the establishment of PAPCO and the installation of PM 2 at Norske Skog Golbey, Norske Skog - including its stakes in partly-owned activities - has about 50% of its newsprint capacity outside Norway.

In 1999 Norske Skog will also strengthen its presence in Latin America, and establish a separate organisation in Brazil to seek out business opportunities.

Norske Skog 2000 for improved profitability and work environment
The Norske Skog 2000 improvement programme was started in 1998. The programme functions as an umbrella for all relevant improvement activities, locally, at each unit, and joint projects at Group level.

The project has two equally important main goals: 13% return on total assets and an H-value (representing the number of injuries at work, leading to absence, per million hours worked) lower than 5 by the end of the year 2000. The results of the project in 1998 are positive. The challenges are significant, and comprehensive action plans shall help to achieve goals in 1999.

Thorough preparations for the year 2000

Norske Skog has been working for the past two years to define and to find solutions to the challenges connected with computer-based functions and the millenial change. At all Norske Skog's units, equipment and systems for process control and information technology are being reviewed and checked. Necessary upgrades are being carried out.

Group staffs and joint Group functions for sales, distribution and supply are working to ready system solutions and infrastructure for 2000. External suppliers are being required to explain how they plan to handle the transition.

At the same time Norske Skog is drawing up contingency plans which are intended to neutralise or limit the residual risk of unforeseen disruptions in day-to-day activity.

Euro simplifies things

More than 50% of Norske Skog's sales of pulp and paper go to the 11 European countries which introduced the common currency, euro, from 01.01.1999. Norske Skog is prepared for trade in the new currency. With two mills and a number of sales offices inside the euro area, Norske Skog will benefit from the simplification which a common currency provides. In the longer term, the Norwegian krone's relationship with the euro will be of great significance to the Group's activity in Norway.

Stable shareholder structure

While share values on several of the world's leading stock exchanges rose in 1998, the total index for the Oslo Stock Exchange fell by 28%. Where Norske Skog was concerned, its A-share rose by 4%, from NOK 214 to NOK 222, while its B-share fell by 4.5%, from NOK 200 to NOK 191.

Norske Skog's ownership structure is marked by large, long-term shareholders, but there are also many small shareholders. The Forest Owners' Associations in Norway own a total of 36.6% of A-shares. The National Insurance Fund owns 4.8%, and Storebrand Liv og Skade (Norway's largest insurance company) owns 3.9%, of total shares. The proportion held by foreign investors rose in 1998 from 21.6% to 22.3%.

The dividend proposed for 1998 corresponds to a pay-out ratio of 31.9%, and makes the average pay-out ratio 21.6% over the past five years. Norske Skog believes it is important to pay a competitive dividend.

The so-called "RISK" figure as of 01.01.1998 was set at NOK 0.35 per share, while the RISK figure as of 01.01.1999 has been calculated at around NOK 8.50. "RISK" is a Norwegian acronym for "Regulering av Inngangsverdi med Skattlagt Kapital", and is connected with assessment of liability for tax on gains from share sales.

During the annual sale of shares to Norske Skog's employees, in March 1998, 1,246 employees bought 23,304 shares at a price of NOK 205 per share. This is a considerably larger total than in 1997. In 1999 the share offer will also apply to employees outside Norway.

The company's general meeting on 06.05.1998 authorised the re- purchase by the company of up to 10% of the share capital. The plan is to purchase these shares in the market. The authorisation will be used, among other things, to buy shares for re-sale to employees.

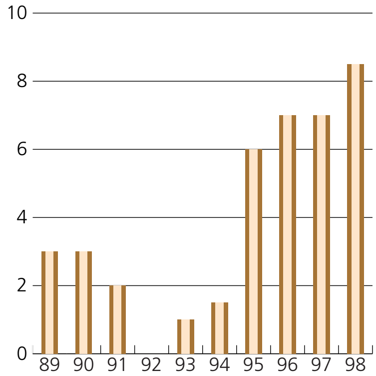
As of 31.12.1998 the company's share capital was NOK 764.2 million, comprising 28.8 million A-shares and 9.4 million B-shares without voting rights. During 1998 a total of 23.8 million shares were traded, corresponding to 62% of the total number of shares. As of 31.12.1998 the company's stock exchange value was NOK 8,191 million, which is 82% of booked equity capital. Booked equity capital per share stood at NOK 257.75 as of 31.12.1998.

Strong improvement for newsprint

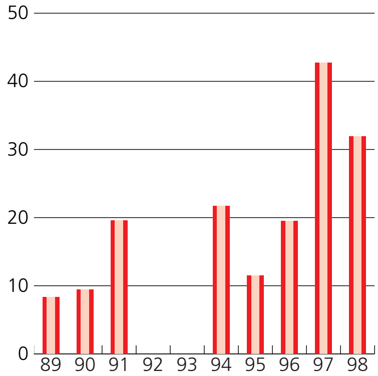
There was generally a good balance between supply and demand on the world's newsprint markets during 1998. Norske Skog's newsprint mills had a good year, achieving an operating profit of NOK 1,192 million (NOK 761 million). The profit has been debited with NOK 27 million, representing costs connected with the adjustment between PM 1 and the new PM 2 at Norske Skog Golbey. Total operating revenue reached NOK 6,414 million (NOK 5,672 million).

The satisfactory earnings are strongly influenced by a weak Norwegian krone, but also reflect continued rising demand on the main western markets. Total deliveries to western Europe rose by 4% in 1998, and in the US consumption increased by 2%. That offset the effect of lower exports to Asia. Prices rose during the first quarter, and production at the mills has been high. At the end of 1998 the average price was about 9% higher than in 1997. Market balance in Europe and north America is expected to remain good.

Dividend 1989-1998
NOK



Pay-out ratio 1989-1998
%



The consolidation of the world's newsprint industry continues. Since 1994, the five largest producers in north America have increased their share of this market from 40% to 60%. In 1998 Norske Skog strengthened its position as one of the world's leading suppliers through increased capacity in Europe and acquisitions in Asia.

Satisfactory trend for magazine paper

Norske Skog's magazine paper mills also did significantly better in 1998 than in 1997. Operating profit was NOK 754 million (NOK 373 million). Total operating revenue reached NOK 4,125 million (NOK 3,612 million).

The markets for uncoated (SC) and coated (LWC) magazine paper were steadily satisfactory throughout the whole of 1998, but the inflow of orders for LWC turned somewhat weaker towards the end of the year. Price increases were implemented during the first quarter, and it was also possible to make further price adjustments in some markets during the year. The average price for magazine paper for 1998 was consequently about 17% higher than in 1997.

The market situation for magazine paper has on the whole developed on the same lines as for newsprint, with good demand on the main western markets. Total demand for magazine paper in western Europe rose by over 3% in 1998. In north America, too, the market was in good balance, even after a new, large magazine paper machine began operating.

Establishment in Asia

Norske Skog's publication paper activity in Asia consisted in 1998 of the newsprint mills Norske Skog Singburi, Thailand, and Norske Skog Chongwon, Korea. In the period that the mills were consolidated, the operating profit was NOK 61 million and operating revenue NOK 485 million. The two mills have had stable and efficient production.

The newsprint market in Asia weakened in 1998 owing to the general economic downturn in the area. Volumes were maintained, however, in several large markets such as China and Japan. Lower demand weakened market balance and led to price declines. At the start of 1999 prices were on the way up again, in certain markets. Both Thailand and Korea have implemented measures which could stimulate an economic upturn quite soon.

Low prices for market pulp

Record low prices led to very weak results in 1998 for the mills producing market pulp. Operating profit was minus NOK 28 million (NOK 49 million). Operating revenue reached NOK 1,425 million (NOK 1,376 million).

Throughout the whole of 1998 the pulp market was affected by over-capacity. NORSCAN stocks averaged 1.5-2.0 million tonnes, even after extensive production cutbacks by leading producers. This level of stocks is well above the level which provides reasonable market balance. Norske Skog Tofte reduced its production during the fourth quarter, in order to avoid inventory build up.

The market situation created continuous pressure on prices. Bleached, long-fibre sulphate pulp fell from USD 580/tonne at the beginning of 1998 to USD 460-470 in the fourth quarter. CTMP, too, did poorly.

Weaker for sawn timber and board
Forestia AS achieved an operating profit of NOK 4 million (NOK 19 million), and operating revenue of NOK 1,944 million (NOK 1,964 million).

Activity in the building materials market in Norway was good early in 1998, but weakened during the second half-year. This led to lower demand for sawn timber and board. Export markets for sawn timber were marked, through much of the year, by supply/demand imbalance and low prices, but they improved somewhat during the second half-year.

During 1998 Forestia AS completed the running-in of its new particle board line at Braskereidfoss, as well as implementing measures for restructuring and specialisation in both the sawn timber and board sectors. During the coming period, too, other significant steps will be taken to improve performance.

Pressure on flooring product prices
Norske Skog Flooring AS had an operating profit of minus NOK 67 million in 1998 (minus NOK 35 million) and operating revenue of NOK 668 million (NOK 703 million).

The markets for flooring products are showing continued growth, but capacity increases and weakening markets in eastern Europe have led to pressure on prices. The market situation made it necessary to curb output in 1998.

The result is not satisfactory. Norske Skog is working on structural measures which could improve the profitability of this activity.

Wood imports continued high in 1998
Supplies of Norske Skog's most important input goods were satisfactory in 1998.

Purchases of fibre raw materials, excluding activities in Asia, totalled 7.7 million cubic metres of wood and sawmill chips and 399,000 tonnes of recycled paper. Recycled paper accounts for a steadily rising proportion of the fibre used in newsprint production. In 1999 about 50% of the Group's capacity in this sector is wholly or partly based on recycled fibre.

Purchases of wood for the Group's units in Norway amounted to 7.1 million cubic metres. Harvesting in Norwegian forests is still well below the industry's raw material requirements, and wood imports in 1998 accounted for 35% of total purchases. It is important to ensure continuity as regards the most important supplier areas, both inside and outside Norway.

The industry's project "Living Forest" was completed in 1998. There now exist standards for sustainable forestry in Norway, and a basis for forestry certification.

Following the installation of PM 2, Norske Skog Golbey requires 500,000 tonnes of recycled paper annually. In co-operation with local authorities and reputable waste paper companies in France, the mill has established collection systems which ensure a significant proportion of this requirement on long-term contracts.

Norske Skog is negotiating about deliveries of recycled paper to the new facility at Norske Skog Skogn. In December Norske Skog Supply AS concluded a ten-year agreement with Rekom AS which covers more than half of the mill's raw material requirement of 170,000 tonnes per year. The de-inking plant reduces the mill's imports of wood from distant areas by over 300,000 cubic metres annually.

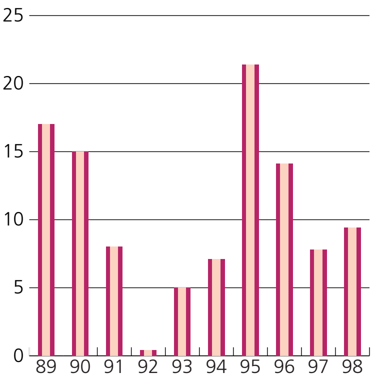
Energy use by Norske Skog's mills in Norway totalled 4,667 GWh (4,504 GWh). The Group has a strategy which provides for high contract cover of electric power supplies. This limited the scope for short-term gains by purchases in the market at the low prices ruling in Norway during some periods of 1998.

In November, Norske Skog and Statkraft signed an agreement on long-term electricity supplies. The agreement covers the greater part of Norske Skog's power needs for its present activities in Norway, up to and including 2020. Deliveries will be stepped up gradually as the Group's existing contracts expire. The agreement with Statkraft puts in place one of the most important conditions for profitable production of paper and pulp in Norway.

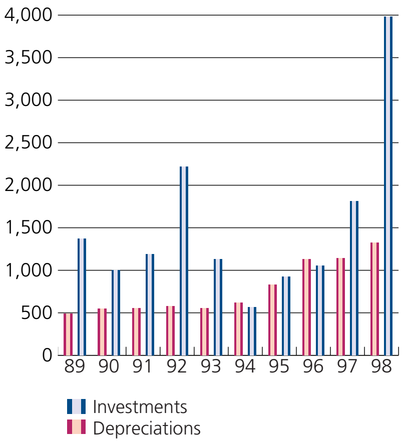
Industrikraft Midt-Norge DA, owned by Norske Skog (40%), Elkem (40%) and Statoil (20%) is continuing to work on plans to build a cogeneration plant at Skogn. An application for permission to build will be filed during the spring of 1999. Plans envisage a facility able to produce about 6 TWh of electricity per year. It is intended to use the plant's 1 TWh/year heat output as process heat in the newsprint mill.

The Group began using its new corporate centre at Oxenøen, near the old Fornebu airport, during the first week of January 1999, bringing all its activities in the Oslo area together under one roof.

Return on total assets 1989 - 1998
%



Operational investments and depreciation 1989-1998
NOK mill.



Continued focus on the environment
During 1998 considerable efforts were made to achieve the best possible operation of the biological waste treatment plants which have been installed at the Group's publication paper mills during recent years. The latest major investment in such plants was at Norske Skog Golbey's PM 2. Norske Skog Golbey has the lowest discharges per produced tonne yet achieved in the manufacture of this type of paper.

Efforts to further reduce the amount of organic waste going to waste tips was given high priority in 1998, and yielded good results. The goal is that all organic waste from Norske Skog's mills shall be utilised for energy recovery at its plants.

In 1998 several of the Group's mills started - or continued - working to introduce the environmental management systems EMAS and/or ISO 14001. One mill introduced the systems in 1998, and two others expect to do so during 1999. The goal is that all the Group's pulp and paper mills in Europe shall have introduced environmental management systems by the end of 2000.

Environmental investments at Norske Skog's mills totalled NOK 426 million in 1998.

For more detailed information, we refer to Norske Skog's Environmental Report 1998.

Personnel and the working environment
At the end of 1998 Norske Skog had 6,823 people on its payroll (5,986). Of these, 2,138 were employed in activities outside Norway. Wages and social expenses in 1998 totalled NOK 2,203 million (NOK 1,961 million).

Norske Skog stepped up its efforts to improve the working environment in 1998, in order to achieve results which here, too, would match the best in the industry. The need to increase such efforts is demonstrated by the fact that the number of injuries resulting in time off work at the Group's companies, per million hours worked - the so-called "H value" - was 16 in 1998 (19). Absence due to illness was 5.2% of time worked (6.3%). It is the Group's goal that all its units should achieve an H-value of less than 5 during 2000. This requires the support of all employees, and this campaign therefore concerns the entire organisation, but in particular the mills.

At a meeting of the company's Corporate Assembly on 06.05.1998 all the members of the Board were re-elected. Details of the shareholdings of the company's elected officers and the administration are given on page 72 and 73.

The salary paid to the President and CEO amounted to NOK 1,902,571 and perquisites such as company car, housing etc. totalled NOK 292,485. The President and CEO has an agreement entitling him to up to three years' salary on leaving the company.

From and including 1998 a bonus system has been introduced which applies to the Group's executive staff and to mill managers at its paper and pulp mills. The system will be linked to the Group's return on total assets.

Remuneration of the Corporate Assembly and Board members amounted to NOK 699,000 and NOK 829,750, respectively.

The audit fee for Norske Skogindustrier ASA amounted to NOK 1,650,000. Other audit fees amounted to NOK 182,000.

1998 was another demanding year for Norske Skog. The Board thanks all employees for their valuable contributions to Norske Skog's development in 1998, as in previous years.

Future prospects
At the start of 1999 publication paper prices fell, but market balance remains satisfactory. Developments during the present year will depend on general economic activity in western industrial countries. In 1999, too, capacity growth in the world's publication paper industry will be limited. There is still over-capacity for market pulp and building materials remain weak.

Given - among other things - the uncertainty about economic developments in the relevant regions in 1999, it will consequently be a challenge to achieve the level of results attained in 1998.

Application of profit
Norske Skogindustrier ASA made a profit for the year of NOK 895 million.

It is proposed to apply the profit as follows:

Group contribution	NOK 151 million
To distributable reserve	NOK 419 million
Dividend to shareholders	NOK 325 million
Total applied	NOK 895 million

Lysaker, February 10, 1999

Lage Westerbø
Chairman

Jon R. Gundersen
Vice Chairman

Roy Eilertsen

John Frøseth

Kjell Hansen

Gisle Hegstad

Eivind Reiten

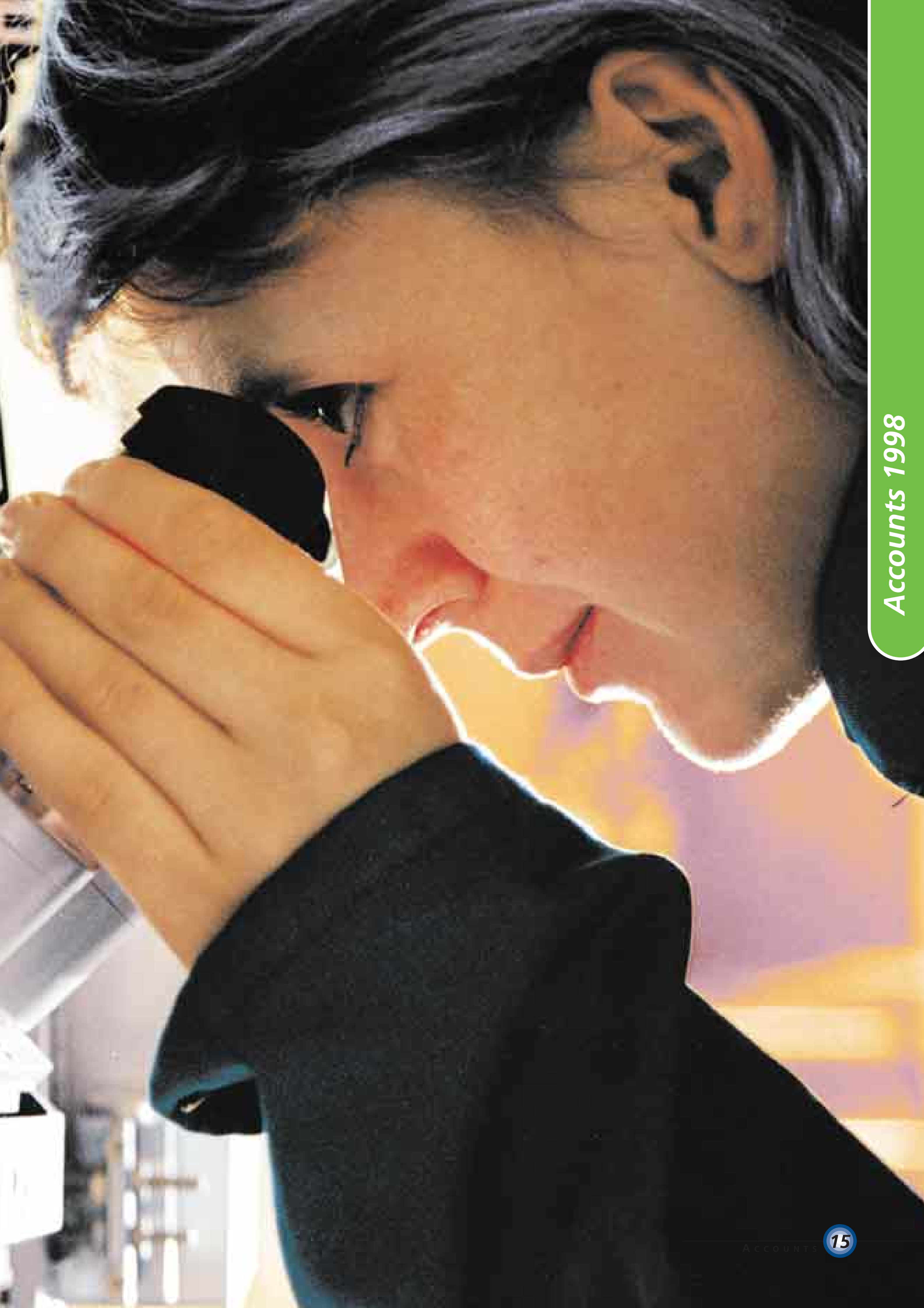
Halvard Sæther

Jan Reinås

1998 was a good year for Norsk Skog. Favourable developments on the publication paper market led to a strong profit rise.

Accounts 1998

- *Norske Skog increased its operating revenue to NOK 14.9 billion in 1998.*
- *Operating profit was NOK 1.8 billion, an increase of 64% from 1997.*
- *The Group's return on total assets reached 9.4% in 1998.*



Accounts 1998 Consolidated

Profit and Loss Account

NOK million	Notes	1998	1997	1996
Operating revenue	1	**14,908**	13,312	13,265
Cost of materials	2	**6,061**	6,121	5,564
Wages, salaries and personnel expenses	3,4	**2,203**	1,961	1,859
Other operating expenses	5	**3,541**	3,007	2,706
Ordinary depreciation	18	**1,323**	1,140	1,132
Restructuring expenses		**0**	0	88
Operating expenses		**13,128**	12,229	11,349
Operating profit		**1,780**	1,083	1,916
Share of profit in affiliated companies	14	**66**	22	74
Net financial expenses	6	**-491**	-455	-262
Operating profit before taxes *		**1,355**	650	1,728
Tax on ordinary result	7	**-370**	-62	-415
Ordinary result		**985**	588	1,313
Extraordinary items	8	**62**	0	0
Tax on extraordinary items	7	**-17**	0	0
Profit before minority interests		**1,030**	588	1,313
Minority interests		**-10**	2	4
Profit for the year		**1,020**	590	1,317
Earnings per share before extraordinary items		**25.78**	16.40	40.38
Earnings per share fully diluted before extraordinary items		**25.78**	16.40	35.89
Earnings per share after extraordinary items		**26.68**	16.40	40.38
Earnings per share fully diluted after extraordinary items		**26.68**	16.40	35.89
* Profit before taxes [1]		**1,407**	652	1,732

1) Operating profit before taxes, after extraordinary items and minority interests

Statement of Cash Flow

Cash flow from operating activities				
Cash generated from operations		**14,506**	13,169	13,885
Cash used in operations		**-11,325**	-10,920	-10,514
Financial revenue received		**311**	130	133
Financial expenses paid		**-533**	-454	-366
Taxes paid		**-100**	-310	-522
Net cash flow from operating activities	9	**2,859**	1,615	2,616
Cash flow from investment activities				
Investments in operational fixed assets		**-3,983**	-1,814	-1,053
Adjustment for investments with deferred cash - effect		**487**	219	0
Sales of operational fixed assets		**64**	44	21
Long term investments		**-583**	-90	-309
Net financial investments		**-36**	20	-27
Net cash flow from investment activities		**-4,051**	-1,621	-1,368
Cash flow from financial activities				
Net change in long-term debt		**3,442**	-1,606	-1,165
Net change in short-term debt		**-690**	485	171
Dividend paid		**-267**	-228	-196
Converted bonds [1]		**0**	1,106	0
Share issues		**0**	0	4
Net cash flow from financial activities		**2,485**	-243	-1,186
Total change in liquid assets [2]		**1,293**	-249	62
Liquid assets as at January 1 [3]		**1,019**	1,102	1,026
Liquid assets as at December 31		**2,312**	853	1,088

1) Converted bonds has no cash-effect. The same amount is included in repayment of debt.
2) Liquid assets consists of cash, bank deposits and short-term placements.
3) Liquid assets at January 1 are adjusted for liquid assets in companies aquired during the year.

Balance Sheet at 31.12.

NOK million	Notes	1998	1997	1996
Assets				
Cash and bank deposits	10	**1,368**	302	351
Short-term investments	11	**944**	551	737
Accounts receivable	12	**2,010**	1,840	1,842
Other short-term receivables		**561**	315	164
Stocks	13	**1,780**	1,507	1,498
Current assets		**6,663**	4,515	4,592
Shares in affiliated companies	14	**451**	394	383
Shares in other companies and partnerships	15,16	**80**	79	107
Other long-term receivables	17	**279**	226	302
Securities and long-term financial assets		**810**	699	792
Operational fixed assets	18	**16,776**	12,079	11,239
Fixed assets		**17,586**	12,778	12,031
Total assets		**24,249**	17,293	16,623

Liabilities and shareholders' equity

Short-term liabilities	19	**3,853**	2,481	2,466
Other short-term liabilities	20	**803**	742	203
Current liabilities		**4,656**	3,223	2,669
Pension obligations	4	**136**	98	101
Subordinated convertible bonds	21	**0**	0	1,206
Senior interest bearing long-term debt	22	**8,591**	4,256	4,507
Other long term debt		**447**	243	39
Deferred tax	7	**425**	350	411
Long-term liabilities		**9,599**	4,947	6,264
Minority interests		**145**	59	56
Share capital		**764**	764	653
Other consolidated equity	24	**9,085**	8,300	6,982
Shareholders' equity	24	**9,849**	9,064	7,635
Total liabilities and shareholders' equity		**24,249**	17,293	16,623
Mortgages	25	**440**	67	692
Contract obligations	27	**60**	602	386

Accounting principles

Essentially the consolidated accounts for Norske Skog for 1998 are presented according to the same principles as for 1997 and 1996. As from 1998 inclusive the accounting principles for long-term receivables and debts in foreign currencies have been changed from assessing each currency separately, to assessing all currencies under one as a portfolio.

Classification of the first year repayment instalments on long-term debt has been changed from short-term to long-term debt. Figures for 1996 and 1997 are adjusted.

As from and including 1998, the earlier Business Area Paper has been divided into Newsprint and Magazine Paper and the earlier Business Area Building Materials has been divided into Forestia and Flooring. Such division better reflects the Group's activities. Historical figures have been adjusted accordingly.

Consolidated accounts
The consolidated accounts show the activities of the parent company, Norske Skogindustrier ASA, and its subsidiaries as one financial unit. Inter-company sales and accounts are eliminated in the consolidated accounts. Gains arising from transactions between group companies are eliminated.

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

The equity method is used for affiliates. Affiliates are those companies in which Norske Skog has a substantial, but not a controlling interest. The equity method means that the Group's share of the affiliate's profit or loss is shown on a separate line in the profit & loss account, while its share of the affiliate's equity, adjusted for excess/lesser values, is classified as a fixed asset in the balance sheet.

For consolidation of foreign subsidiaries that are regarded as an integral part of the parent company's activities, monetary items are translated at the year-end exchange rate. Non-monetary items are translated at the rate on the transaction date. Profit & loss account items are translated at the average exchange rate for the year, except for cost of materials and depreciation, which are translated at the rate on the transaction date. The translation difference is shown in the profit & loss account as a financial item. For independent foreign subsidiaries balance sheet items are translated at the year-end exchange rate. Profit & loss items are translated at the average exchange rate for the year. The translation difference is entered direct against consolidated equity.

Operating revenues
All sales are recognised as revenues from the time of delivery. Operating revenues are gross operating revenues less commissions, rebates and other direct reductions in price.

Classifications in balance sheet
Assets and liabilities linked with the flow of goods are classified as current assets and liabilities. Other assets are entered under fixed assets whenever they are intended for permanent use or ownership by the company. Debts that fall due for payment later than one year after the balance sheet date, are entered as "other liabilities". Other assets and liabilities are classified as current assets and current liabilities.

Assets and liabilities in foreign currencies
Unhedged current assets and liabilities in foreign currencies are translated into NOK at the year-end exchange rate. Unhedged long-term receivables and loans in foreign currencies are valued as a portfolio, so that unrealised exchange losses are set off against unrealised exchange gains. Net unrealised exchange losses on the portfolio are expensed under financial items. Net unrealised exchange gains are entered as financial revenue within the limits of unrealised losses expensed earlier.

Balance sheet items in foreign currencies that are hedged by financial instruments are entered at the hedging exchange rate. Balance sheet items in foreign currencies that hedge against each other are entered at the year-end exchange rate.

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

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

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

Premiums paid or received that relate to options maturing after the year-end closing date, are accrued over the life of the options.

Shares, bonds, certificates, bills etc.
Shares, bonds and certificates classified as current assets are managed as a uniform whole and are assessed jointly as a portfolio. Unrealised losses are set off against unrealised gains. Net unrealised losses on the portfolio are entered as expenses under financial items. Net unrealised gains are entered as financial revenue within the limits of unrealised losses expensed earlier.

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

Stocks
Raw materials and other purchased goods are valued at purchase cost according to the FIFO principle. Finished goods are valued at production cost, which includes raw materials,

energy, direct wages and a share of indirect costs, including maintenance and ordinary depreciation. Future net realisable value is used where this is lower than production cost.

Operational fixed assets and depreciation
Acquisition cost of tangible assets having a permanent value are capitalised as assets in the balance sheet. Spare parts are capitalised with the asset to which they pertain. For major investments with a long production time, interest is capitalised as part of the acquisition cost. Expenditure to increase capacity or improve quality that represent a future increase in earnings, is capitalised in the balance sheet. Maintenance costs are expensed as an operating cost. Expenditure to prepare computer systems for the turn of the millennium are expensed or capitalised according to similar principles.

Ordinary depreciation is calculated from the time use of the tangible asset commences and is calculated on the basis of the economic life of the asset according to the following system: computer equipment 3 - 5 years; means of transport 5 - 10 years; fixtures and fittings 10 years; machinery 10 - 20 years; buildings 10 - 25 years, factory buildings 25 - 33 years; goodwill and other intangible assets 5 - 20 years. No depreciation is charged for plant under construction.

Research & Development
Research and development costs are expensed as operating costs.

Leasing
Leasing contracts are assessed as financial or operational leasing after a specific assessment is made of each contract. Fixed assets in leasing contracts that are regarded as financial leasing, are capitalised in the balance sheet and depreciation is charged as for ordinary tangible assets. The amortisation part of the leasing obligation is entered as long-term debt. The amount of debt is reduced by the rental paid after deduction of the calculated interest cost.

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

Net pension costs for the period are included in "wages and other personnel costs" and consist of the present value of pension earned in the year, interest cost on the pension obligation, anticipated returns on pension scheme funds, the effect entered in the P&L account for changes in estimates and pension plans, the change entered in the P&L account for difference between actual and anticipated returns, and accrued payroll tax.
The effect of changes in estimates and pension plans and the difference between actual and anticipated returns are accrued over the remaining pension-earning period or expected life when the cumulated effect exceeds 10% of whichever is highest of the pension scheme funds or the pension obligations.

Bond loans
This liability item is reduced by holdings of the company's own bonds. Values above/below par on buying back are accrued over the remaining term of the loan.

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

Deferred tax in the balance sheet is calculated on the basis of temporary differences between timing for corporate and tax accounting and losses that can be carried forward at the end of the financial year. Tax-reducing temporary differences and losses to be carried forward are set off against tax-increasing temporary differences reversed during the same period. Full provision is made according to the debt method without discounting to present value.

Comparability
1998
Norske Skog Singburi in Thailand is included in consolidated accounts as from September1. Norske Skog Chongwon in Korea is included as from July 1. These companies are incorporated in the Business Area Asia with 485 million in operating revenues and 2,800 million in total assets.

1997
Sande Paper Mill AS, which in 1996 was included in the Business Area Magazine paper with NOK 183 million in operating revenues and NOK 156 million in total assets, was transferred to new owners with effect from January 3, 1997. Acquisition of Hedalm Trelast was implemented with effect for the accounts as from July 1, 1997 and is incorporated in the Business Area Forestia with NOK 118 million in operating revenues and NOK 214 million in total assets. Norske Skog Steti is included in the consolidated accounts as from November 1, 1997 and is incorporated in the Business Area Newsprint with NOK 55 million in operating revenues and NOK 342 million in total assets.
The first-year repayments are reclassified from current to long-term debt of 140 million compared with the accounts presented for 1997.

1996
Consolidated accounts for 1996 include two additional companies compared with 1995. Operating revenues for these companies in the same period in 1995 amount to NOK 1,936 million and total assets as of 31.12.1995 were NOK 2,132 million. For the greater part this refers to the Bruck paper factory acquired with effect from January 1, 1996. In addition Forestia acquired 66% of the sawmill Telemarksbruket KS with effect from January 1, 1996.
The first-year repayments are reclassified from current to long-term debt of 1,085 million compared with the accounts presented for 1996.

Notes to the Consolidated Accounts

All figures shown as NOK million unless otherwise stated.

1. Business areas

1998	Newsprint	Magazine paper	Asia	Fibre	Forestia	Flooring	Staff/elim.	Consoli-dated
Operating revenue:								
Norway	602	137	0	440	1,299	275	58	2,811
Rest of Europe	4,696	2,694	0	967	634	323	94	9,408
Rest of World	1,115	1,294	485	18	11	70	-304	2,689
Total operating revenue	6,414	4,125	485	1,425	1,944	668	-153	14,908
Operating expenses	4,687	2,932	393	1,346	1,816	680	-48	11,805
Ordinary depreciation	535	439	31	107	124	54	32	1,323
Operating profit	1 192	754	61	-28	4	-67	-136	1,780
Current assets	2,079	771	206	369	501	276	149	4,351
Operational fixed assets	7,589	4,437	2,085	1,063	858	331	413	16,776
Non-interest bearing debt	1,948	278	101	118	215	105	1,088	3,853
Investments	2,841	594	2	276	78	38	154	3,983
Employees	2,352	1,278	680	449	1,276	574	214	6,823
Export share (%)	91	97	100	69	33	59	-	81
1997								
Operating revenue:								
Norway	637	205	-	498	1,358	308	89	3,095
Rest of Europe	3,859	1,952	-	863	592	294	275	7,835
Rest of World	1,176	1,455	-	15	14	101	-379	2,382
Total operating revenue	5,672	3,612	-	1,376	1,964	703	-15	13,312
Operating expenses	4,463	2,830	-	1,227	1,831	689	49	11,089
Ordinary depreciation	448	409	-	100	114	49	20	1,140
Operating profit	761	373	-	49	19	-35	-84	1,083
Current assets	1,248	1,215	-	336	505	215	143	3,662
Operational fixed assets	5,298	4,291	-	895	903	403	289	12,079
Non-interest bearing debt	892	419	-	88	227	101	754	2,481
Investments	1,133	201	-	111	126	191	52	1,814
Employees	2,177	1,259	-	468	1,342	476	264	5,986
Export share (%)	89	94	-	64	31	56	-	77
1996								
Operating revenue:								
Norway	666	181	-	403	1,438	291	-21	2,958
Rest of Europe	4,077	2,574	-	814	551	237	151	8,404
Rest of World	702	1,293	-	5	12	49	-158	1,903
Total operating revenue	5,445	4,048	-	1,222	2,001	577	-28	13,265
Operating expenses	3,616	2,947	-	1,218	1,894	526	-72	10,129
Ordinary depreciation	458	394	-	121	104	27	28	1,132
Restructuring expenses	0	0	-	10	0	0	78	88
Operating profit	1,371	707	-	-127	3	24	-62	1,916
Current assets	1,211	975	-	350	452	180	336	3,504
Operational fixed assets	4,089	4,776	-	890	832	281	371	11,239
Non-interest bearing debt	620	406	-	83	165	88	1,104	2,466
Investments	242	269	-	81	316	127	18	1,053
Employees	2,016	1,370	-	521	1,278	584	196	5,965
Export share (%)	88	96	-	67	28	50	-	78

2. Consumption of raw materials

	1998	1997	1996
Raw materials and purchased goods	**6,124**	6,073	5,645
Change in stock of finished goods	**-63**	48	-81
Total	**6,061**	6,121	5,564

3. Wages, salaries and personnel expenses

	1998	1997	1996
Wages/salaries incl. holiday allowance	**1,703**	1,575	1,546
National insurance and pensions	**500**	386	313
Total	**2,203**	1,961	1,859

4. Pension costs and pension obligations

Norske Norske Skogindustrier ASA, with subsidiaries, has collective benefit retirement plans for its employees with a life insurance company. The retirement plans for the Group are uniform. The main conditions are 30 years' service, a pension amounting to 65% of pensionable earnings on January 1 of the year the employee reaches 67 years, plus disablement, spouse and childrens' pension. All plan benefits are coordinated with expected social security benefits. The pension level is reduced to 60 % from the pensioner's 75th birthday. As of December 31, 1995 the pension arrangements covered 6,599 members, of whom 4,357 were working and 2,242 were pensioners. In case of disablement the obligations extend to the disabled both as an active employee and as a pensioner. In these cases the person will be included in both aforementioned categories.

In addition to the benefit obligations covered through insurance arrangements, the Group has uninsured benefit obligations. These include obligations concerning former owners of subsidiaries, and pensions of top management and Board members, totalling 84 persons. The uninsured benefit obligations also include estimated future obligations connected with the AFP- arrangement (involving a possible future reduction of the pension age), and obligations concerning foreign subsidiaries. Obligations relating to top management pensions are partly insured through a supplementary retirement plan with life insurance company.

In evaluating plan assets their estimated value at year end is used. This estimated value is corrected every year in accordance with the figures provided by the life insurance company regarding the market value of the assets.

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

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

%	**1998**	1997	1996
Discount rate	**5.5**	5.5	5.5
Expected return on plan assets	**6.5**	6.5	6.5
Salary adjustment	**3.0**	3.0	3.0
Social security increase/inflation	**2.0**	2.0	2.0
Pension increase	**1.6**	1.6	1.6

Net periodic pension cost

	1998	1997	1996
Benefits earned during the year	**55**	51	40
Interest cost on prior period benefit	**53**	49	44
Expected return on plan assets	**-60**	-56	-53
Periodic employer tax	**6**	2	-1
Expensed portion of changes AFP-plan	**3**	3	0
Expensed portion of differences in estimates	**4**	3	2
Net periodic pension cost	**61**	52	32

Status of the pension plans reconciled to the consolidated balance sheet

	Plan assets exceed PBO			PBO exceed plan assets		
	31.12.98	31.12.97	31.12.96	**31.12.98**	31.12.97	31.12.96
Projected Benefit Obligations (PBO)	**-718**	-637	-780	**-398**	-384	-143
Plan assets at fair value	**837**	746	887	**153**	181	31
Plan assets in excess of / less than (-) PBO	**119**	109	107	**-245**	-203	-112
Unamortized changes in AFP-plans	**0**	0	0	**54**	57	0
Differences in estimates not taken into income/expense	**-15**	25	72	**61**	51	14
Net plan assets / pension obligations	**104**	134	179	**-130**	-95	-98
Accrual employer tax	**4**	7	9	**-6**	-3	-3
Plan assets/pension obligations (-) in the balance sheet	**108**	141	188	**-136**	-98	-101

The plan assets are managed by the life insurance companies and invested in accordance with the general guidelines governing investments by life insurance companies in Norway.
The actual return on plan assets in 1997 was NOK 65 million. For 1998 return on plan assets of NOK 58 million is estimated, which is included in the estimated plan assets as at December 31, 1998. The differense of NOK 11 million between the booked return and the estimated return in 1997 is treated as an estimate difference.
The effect of changes in estimates and deviations between projected and actual returns is booked during the average remaining earning period, only when the accumulated effect exceeds 10 % of plan assets or pension obligations, whichever is the larger. This entails booking according to the straight line method over 15 years.

5. Other operating expenses

	1998	1997	1996
Distribution costs	**1,167**	1,101	1,015
Packaging	**178**	166	165
Maintenance materiells	**509**	494	488
Contract services	**229**	194	155
Marketing costs	**72**	64	41
Administration costs	**681**	587	553
Losses on bad debt *)	**12**	20	20
Other	**693**	381	269
Total	**3,541**	3,007	2,706

*) Losses on bad debts are included as follows.

	1998	1997	1996
Amounts written off during the year	**19**	10	14
Received amounts previously written off	**-1**	-2	-2
Changes in bad debt reserves	**-6**	12	8
Total	**12**	20	20

6. Net financial expenses

	1998	1997	1996
Dividends received	**3**	2	2
Interest revenue	**102**	89	86
Profit on securities	**0**	2	11
Realised net profit on foreign currency debt and related foreign exchange contracts	**0**	0	45
Net profit realised on foreign exchange contracts related to cash flows	**0**	0	0
Other financial revenue	**232**	121	91
Total financial revenue	**337**	214	235
Interest expenses	**357**	285	371
Loss on shares	**42**	0	0
Realised and unrealised net loss on foreign currency debt and related foreign exchange contracts	**112**	132	0
Realised net loss on foreign exchange contracts related to cash flow	**252**	230	104
Other financial expenses	**65**	22	22
Total financial expenses	**828**	669	497
Net financial expenses	**-491**	-455	-262

In 1998 Norske Skog concluded a leasing transaction with American investors. Through this transaction Norske Skog leases out PM 5 and PM 6 at Norske Skog Saugbrugs and then leases them back. The term of the transaction is 36 years. After about 17 years, Norske Skog may buy back the investors' leasing right and terminate the contract. Provision has been made to cover the costs if this purchase option is exercised.

All leasing revenues and costs have been paid and/or deposited in advance. The net profit, which amounts to NOK 241 million is entered as financial revenue in 1998. (See note 28)

7. Taxes

Due to introduction of new rules for taxation of power plants in 1997 fiscal value on power plants was increased and deferred tax reduced with NOK 65 million.

Tax expenses	1998	1997	1996
Taxes payable			
Norway	**-257**	-108	-312
Foreign countries	**-71**	-16	-33
Total	**-328**	-124	-345
Change in deferred tax			
Norway	**-38**	46	8
Effect of changed taxation rules	**0**	65	0
Foreign countries	**-21**	-49	-78
Total	**-59**	62	-70
Total tax expenses	**-387**	-62	-415

Deferred tax/deferred tax advantage

A specification of temporary differences, losses to be brought forward and deferred tax at the end of the year is shown below:

Deferred tax	1998	1997	1996
Total short-term items	**2**	-23	37
Total long-term items	**3,115**	2,557	2,790
Taxable losses to be brought forward *)	**-1,250**	-1,053	-1,063
Total temporary differences and losses to be brought forward	**1,867**	1,481	1,764
Deferred tax	**425**	350	411

*) Taxable deficit to be brought forward is mainly related to our companies in France and Austria. The deficits have no time limit.

Deferred tax advantage			
Unsecured pension obligations	**0**	55	94
Deferred tax advantage (see note 17)	**0**	15	27

8. Extraordinary items

As from 1 January 1998 the portfolio assessment for long-term receivables and loans in foreign currencies is extended so that all currencies are viewed as a whole. Adjusting the balance sheet to the new accounting principle has resulted in NOK 62 million in extraordinary revenue. This effect would have been plus NOK 66 million if the accounting principle had been changed in 1996, and would have been negligible in 1997.

9. Net cash flow from operations

The connection between profit before minority interests and cash flow from operations is shown below.

	1998	1997	1996
Profit before minority interests and taxes	**1,355**	650	1,728
Ordinary depreciation	**1,323**	1,140	1,132
Share of profit in affiliated companies	**-66**	-22	-74
Taxes paid	**-100**	-310	-522
Changes in receivables *)	**-338**	-118	620
Changes in stocks *)	**-203**	52	7
Changes in current liabilities *)	**1,261**	223	-275
Adjustments for changes in working capital without cash-effect	**-373**	0	0
Net cash flow from operating activities	**2,859**	1,615	2,616

*) Changes in balance sheet items are not directly compareable to changes in the consolidated balance sheet page 17, due to acquisitions and sales og companies during the year.

10. Cash and bank deposits

Restricted deposits covering employer taxes and sundry guarantees amount to NOK 21 million in 1998, compared to NOK 14 million in 1997. In 1996 the figure was NOK 25 million.

11. Short-term investments

	1998	1997	1996
Government bonds	**106**	90	66
Bank/Insurance	**441**	105	201
Other Financial institutions	**247**	258	221
Industry/Commerce/Shipping	**0**	0	29
Total bonds	**794**	453	517
Commercial papers	**150**	98	20
Short-term investments in foreign currencies	**0**	0	200
Total	**944**	551	737

Securities defined as current assets are valued as a portfolio.

At year-end, unrealised loss in the portfolio amounted to NOK 30 million. Corresponding figures for year-end 1997 were unrealised losses in the portfolio of NOK 5 million.

Norske Skogindustrier ASA bonds held in treasury have been deducted from the bond portfolio.

12. Accounts receivable

	1998	1997	1996
Accounts receivable	**2,092**	1,931	1,922
Provisions for bad debts	**-82**	-91	-80
Total	**2,010**	1,840	1,842

13. Stocks

	1998	1997	1996
Raw materials	**805**	640	629
Work in progress	**58**	60	66
Finished goods	**917**	807	803
Total	**1,780**	1,507	1,498

14. Affiliated companies

In the consolidated accounts, shares in affiliated companies are included according to the equity method. Norske Skog owns 48,1% of the voting shares in Union. Norske Skog`s total ownership in Union of 57,6% has been used when applying the equity method. Share of profit is reported after correction of dividend from affiliated companies and the Group`s share of the dividends payable by Norske Skog to Union.

Company	Ownership	Book value 31.12.97	Bought shares	Share of profit for the year	Dividend/ other equity corrections	Book value 31.12.98
Union	57.6%	375	0	54	-9	420
Norsk Gjenvinning	31.4%	19	0	12	0	31
Total		394	0	66	-9	451

Accounts 1998

15. Shares

Shares included as financial assets Shares owned by the company	Currency	Share capital (1,000)	Number of shares	Total nom-inal value	Book value
Bio-Varme AS	NOK	15.0	30	3.0	3.0
Adresseavisen AS	NOK	31.3	37,015	0.6	4.7
Norsk Avfallshandtering AS	NOK	131.4	300	3.0	3.0
Union *)	NOK	10.0	289,057	2.9	15.0
Norsk Gjenvinning *)	NOK	19.3	1,212,820	6.0	33.5
Stangeskovene	NOK	20.3	726	3.6	13.4
Sikon Øst ASA	NOK	50.0	10,000	1.0	2.0
Camfore AB	SEK	3.2	179,700	0.4	13.0
Other shares, each with book value less than NOK 1 million					4.8
Total					92.4
Shares owned by subsidiaries					
Union *)		10.0	287,094	2.8	12.8
Other shares					12.1
Total					117.3
*) Included as affiliated companies					-61.3
Partnerships (see note 16)					24.1
Total amount shares and partnerships					80.1

Shares in subsidiaries Shares in foreign subsidiaries owned by the parent company	Currency	Share capital (1,000)	Number of shares	Total nom-inal value (1,000)	Owner-ship %	Book value (1,000)
Norske Skog Golbey	FRF	3,087,370	3,087,370	3,087,370	100.0	3,376,242
Norske Skog Bruck GmbH	ATS	25,000	25	25,000	100.0	165,917
Norske Skog Steti	CZK	883,100	8,600	100	100.0	190,359
Norske Skog Østerreich GmbH	ATS	2,000	1	2,000	100.0	1,254
Markproject Ltd.	GBP	300	50,000	300	100.0	3,105
Norske Skog Deutschland GmbH	DEM	1,450	1,450	1,450	100.0	6,275
Norske Skog (UK) Ltd.	GBP	100	10,000	100	100.0	2
Norske Skog Holland B.V.	NLG	100	200	100	100.0	400
Norske Skog Belgium S.A.	BEC	19,375	19,375	19,375	100.0	3,234
Nornews Produtos Florestais, LDA	PTE	400	400	400	100.0	17
Norske Skog Espana S.A.	ESP	15,000	150	15,000	100.0	3,606
Norske Skog (Irland) Ltd.	IEP	2	20	2	100.0	22
Norske Skog (Schweiz) AG	CHF	25	25	25	100.0	193
Norske Skog Danmark ApS	DKK	30	30	30	100.0	25
Norske Skog Italia s.r.l.	ITL	20,000	19	19,000	95.0	84
Norske Skog France S.A.R.L.	FRF	50	500	50	100.0	7,939
Norske Skog Japan Co. Ltd.	JPY	2,000	20	2,000	100.0	94
Norske Skog (USA) Inc.	USD	2	200	2	100.0	8
Norske Skog AB	SEK	50	500	50	100.0	58
Norske Skog (Cypros) Ltd.	CYP	1	1,000	1	100.0	2
Norske Skog South East Asia Pte Ltd.	SGD	20	20,000	20	100.0	69
Norske Skog Asia Pacific Pte Ltd.	SGD	100	100,000	100	100.0	441
AB Lee Bruk	SEK	150	1,500	150	100.0	11,089
Norske Skog Hong Kong Ltd.	HKD	10	10,000	10	100.0	8
Norske Skog Czech Republic & Slovakia, S.r.o.	CZK	400	1	400	100.0	112
Norske Skog Polska Sp, Z.o.o.	PLS	50	1	50	100.0	110
Norske Skog Hungary	HUF	3,000	1	3,000	100.0	110
Norske Skog Logistics	BEF	2,500	2,500	1,000	100.0	540
Munkedalen Mezs Sia	SEK	1,000	10,000	1,000	100.0	12,610
Total						3,783,925

Shares in Norwegian subsidiaries	Currency	Share capital (1,000)	Number of shares	Total nominal value (1,000)	Ownership %	Book value (1,000)
Nornews AS	NOK	50	1,000	50	100.0	50
Norske Treindustrier AS	NOK	50	50	50	100.0	50
Lysaker Invest AS	NOK	29,140	291,400	29,140	100.0	29,140
Forestia AS	NOK	300,000	300,000	595	100.0	300,000
Norske Skog Sales AS	NOK	50	455	46	91.0	46
Norske Skog Bygg AS	NOK	5,000	50,000	50	100.0	5,000
Norsk Skog Supply AS	NOK	4,000	364	3,640	91.0	3,640
Folla CTMP AS	NOK	10,000	100,000	10,000	100.0	0
Norske Skog Flooring Holding AS	NOK	100	1,000	100	100.0	100
Service- og Utmarksenteret AS	NOK	605	500	500	82.6	500
AWA AS	NOK	1,000	600	600	60.0	600
Total						339,126
Total shares owned by the parent company						4,123,051

Shares in Norwegian subsidiaries owned by consolidated companies		Share capital (1,000)	Number of shares	Total nominal value (1,000)	Ownership
Telemarksbruket AS	NOK	2,240	14,784	1,478	66.0
Norske Skog Flooring AS	NOK	32,000	32,000	32,000	100.0
Norske Skog Flooring (USA) AS	NOK	50	500	50	100.0
Fibo Trespo AS	NOK	4,000	4,000	4,000	100.0
Shares in foreign subsidiaries owned by consolidated companies					
Polak & van Berg B.V.	NLG	120	240	120	100.0
Amstelpoort B.V.	NLG	10	20	10	100.0
Respatex International Ltd.	GBP	10	10,000	10	100.0
Norske Skog Italia s.r.l.	ITL	20,000	1	1,000	5.0
Norske Skog Flooring AB	SEK	200	2,000	100	100.0
Norske Skog Flooring GmbH	DEM	800	8	100	100.0
Norske Skog Flooring (UK) Ltd	GBP	15	15,000	15	100.0
Norske Skog Flooring (USA) Inc.	USD	1	1,000	1	100.0
Norske Skog Flooring (USA) Real Property	USD	1	1,000	1	100.0
Norske Skog Flooring (USA) AS	NOK	50	500	100	100.0
Wallmann Gulv AS	DKK	500	5,000	500	50.0
Fjellman Press i Mariestad AB	SEK	2,500	1,000	2,500	89.0
Norske Skog Publicationspapier GmbH	ATS	380,000	1	380,000	100.0
Paper Back Buro-Altpapier GmbH	ATS	500	1	500	100.0
Germain Saulxures	FRF	4,977	8,917	3,566	71.7
Norske Skog Singburi	THB	2,167,500	43,350,000	2,167,500	75.3
Norske Skog Chongwon	KRW	82,080,200	23,800,000	238,000,000	100.0

16. Shares in partnerships

NOK1,000	Ownership	Partnership capital paid	Partnership capital not paid	Share of profit/loss	Book value
Shares in foreign partnerships owned by the parent company					
Industrikraft Midt-Norge DA	40 %	10,702	0	-7,591	3,111
Total owned by the parent company		10,702	0	-7,591	3,111
Shares in partnerships owned by consolidated companies					
Telemarksbruket KS	66 %	10,900	0	0	0
Nornews Express ANS	55 %	936	0	5,087	21,032
Total		11,836	0	5,087	21,032

17. Other long-term receivables

	1998	1997	1996
Loans to employees	**21**	11	8
Sundry long-term receivables	**150**	59	79
Pension plan assets	**108**	141	188
Deferred tax advantage	**0**	15	27
Total	**279**	226	302

Loans to associated parties under the Joint Stock Companies' Act § 12-10 represent NOK 9.2 million.

18. Operational fixed assets

	Goodwill and other exclusive rights	Ships	Machinery, equipment, etc.	Buildings and plants	Real state	Plant under construction	Total
Acquisition cost							
Acquisition cost 31.12.1997	269	21	15,939	4,279	362	1,023	21,893
Addition, new companies	221	0	1,612	326	113	173	2,445
Addition 1998 at cost	10	0	631	247	18	3,077	3,983
Sales 1998 at cost	-3	0	-102	-44	-51	0	-200
Transferred from plant under construction	0	0	811	132	1	-944	0
Acquisition cost 31.12.1998	497	21	18,891	4,940	443	3,329	28,121
Revaluation							
Revaluation 31.12.1997	0	0	0	31	103	0	134
Addition/Sales in 1998 at cost	0	0	24	4	-10	0	18
Revaluation 31.12.1998	0	0	24	35	93	0	152
Depreciation							
Accumulated ordinary depreciation 31.12.1997	82	20	8,264	1,514	68	0	9,948
Accumulated depreciation new companies	57	0	233	30	0	0	320
Ordinary depreciation 1998	22	1	1,086	197	6	11	1,323
Depreciation on fixed assets sold in 1998	-12	0	-31	-4	-47	0	-94
Accumulated ordinary depreciation 31.12.1998	149	21	9,552	1,737	27	11	11,497
Book value							
Book value 31.12.1997	187	1	7,675	2,796	397	1,023	12,079
Book value 31.12.1998	348	0	9,363	3,238	509	3,318	16,776

Operating fixed assets - acquisition and disposals over the last 5 years

1994	Acquisition	4	0	314	53	9	185	565
	Disposal	0	0	20	2	19	0	41
1995	Acquisition	23	0	618	89	8	188	926
	Disposal	0	0	7	0	13	0	20
1996	Acquisition	10	0	467	102	19	455	1,053
	Disposal	0	0	14	0	7	0	21
1997	Acquisition	76	0	516	130	30	1,062	1,814
	Disposal	0	0	10	72	10	0	92
1998	Acquisition	10	0	631	247	18	3,077	3,983
	Disposal	0	0	12	35	17	0	64
Total 5 years	Acquisition	123	0	2,546	621	84	4,967	8,341
	Disposal	0	0	63	109	66	0	238

19. Short-term liabilities

	1998	1997	1996
Public dues and holiday allowances	**300**	244	226
Accounts payable	**2,010**	1,144	1,028
Sundry interest-free short debt	**351**	362	259
Provisions for dividend	**325**	267	228
Accrued expenses	**529**	326	287
Taxes payable	**338**	138	438
Total	**3,853**	2,481	2,466

20. Other short-term liabilities

	1998	1997	1996
Short term bank debt	**803**	742	203

21. Subordinated convertible bonds

	1998	1997	1996
Remaining debt as at December 31	**0**	0	1,206

22. Senior long term debt

	1998	1997	1996
Senior long term debt in NOK	**3,486**	1,486	1,483
Senior long term debt in foreign currencies	**5,105**	2,770	3,024
Total	**8,591**	4,256	4,507

Bonds

Holdings of the company's own bonds at year-end amount to NOK 75 million nominal. These are deducted from interest-bearing debt in NOK.

In the course of 1998 Norske Skogindustrier ASA has drawn a further NOK 260 million of the bonds issued in 1996. The frame of the loan was extended to NOK 1,500 million in 1998, of which NOK 990 million has been drawn.

Senior long term debt by currency

Senior long term debt by currencies, current portion included:

	Amounted in foreign currency (million) 31.12.98	Book exchange rates 31.12.98	NOK million 31.12.98	Average interest 31.12.98
ATS	1,199	0.6444	773	2.74 %
KRW	54,027	0.0063	342	10.00 %
DEM	220	4.5335	997	4.64 %
FRF	133	1.3518	180	3.86 %
GBP	9	12.6140	114	8.05 %
USD	347	7.6000	2,637	5.90 %
Set-off			62	
Total debt in foreign currencies in NOK			5,105	7.80 %
Total senior long term debt in NOK			3,486	
Total long term debt			8,591	

Unrealised exchange loss relative to rates as at December 31, 1998 amounts to NOK 329 million. The corresponding figure as at December 31, 1997 was NOK 172 million. The change, NOK 157 million, is included in the profit & loss account under net financial costs, loans.

Repayment of debt

The company's total debt as at December 31, 1998 matures as follows.

	Debt banks	Bonds	Total
1999	1,071	0	1,071
2000	1,251	0	1,251
2001	544	944	1,488
2002	638	0	638
2003	210	0	210
2004	1,430	53	1,483
2005	693	0	693
After 2005	1,570	990	2,560
Total	7,407	1,987	9,394

In December 1998 Norske Skogindustrier ASA signed a 7-year committed multicurrency revolving credit facility of USD 450 million. Withdrawals from this facility can be made in various currencies and at floating interest rates. Lenders are Norwegian and international banks. In addition Norske Skogindustrier ASA has an existing committed multicurrency revolving credit facility of USD 470 million that comes to maturity in 2004 and is partly unused. At year-end Norske Skogindustrier ASA had altogether USD 710 million in unused drawing rights.

The market value of the Group's long-term fixed-interest debt as at December 31 1998 was NOK 24 million higher than the book value. Negative mortgage pledges were given when raising some long-term, unsecured loans. Furthermore some of the loan contracts contain requirements to certain financial ratios relating to solvency and liquidity. These requirements are satisfied.

23. Foreign exchange and interest off-balance instruments

Foreign exchange risk
Bank deposits, receivables, long-term placements and cash flows in foreign currencies are protected partly by borrowing in foreign currencies and partly by various financial instruments outside the balance sheet. For the most part the Group uses forward contracts and options for hedging purposes.

Interest risks
To achieve effective management of the interest structure the Group aims to maintain a good balance between its interest-bearing assets and liabilities. Off balance instruments are also used

Foreign exchange contracts

Currency	Purchase contracts equivalent to NOK million	Sales contracts equivalent to NOK million
ATS	736	0
BEC	0	187
CHF	0	270
DEM	29	0
DKK	0	177
ESP	0	368
FIM	66	0
FRF	0	518
GBP	0	908
ITL	0	490
JPY	0	102
NLG	0	389
NOK	3,426	0
PTE	0	44
SEK	108	0
USD	0	724
XEU	0	98
Total	4,365	4,275

Total of principal in foreign currencies are translated into NOK at spot rates at December 31 1998.

All forward contracts related to operations mature in 1999. Hedging transactions related to investment in the new paper machine at Golbey mature according to the project's direct cash flow.

Currency options
Net premium on unmatured options amounted to NOK 3 million at year-end. For options with duration of more than one year premiums are accrued after the maturity date for the option.

Forward rate agreements (FRA)

Currency	Net purchase sales (-) in million	Period
FRF	140	3 months
DEM	-40	3 months
NOK	200	6 months
NOK	150	3 months

On sale of interest futures, the Group will profit from a lower interest rate.

As at December 31 1998 there is an unrealised gain of NOK 0.2 million in the FRA portfolio. The corresponding figure for 1997 was NOK 0.6 million.

Long-term interest rate futures

Commercial paper	Net purchase/sales(-)
Futures Norwegian government bonds	50

On buying interest futures, the Group will profit from a lower interest rate.

Interest rate swaps

Currency	Million	Receives	Pays	Maturity
NOK	50	Fixed	Floating	2001
FRF	50	Floating	Fixed	1999

If the interest rate is reduced, the Group will profit from receiving fixed interest and paying floating interest.

As at December 31 1998 there is an unrealised loss of NOK 3 million in the portfolio. The corresponding figure for 1997 was an unrealised gain of NOK 17 million.

24. Shareholders' equity

Other consolidated equity

	1998	1997	1996
Legal reserve	**2,946**	2,946	1,869
Distributable reserve	**4,898**	4,479	4,420
Other consolidated equity	**1,241**	875	693
Total consolidated equity	**9,085**	8,300	6,982

Shareholders' equity

Shareholders' equity 01.01.	**9,064**	7,635	6,545
Profit for the year	**1,020**	590	1,317
Share issues	**0**	0	4
Converted bonds	**0**	1,106	0
Provisions for dividend	**-325**	-267	-228
Corrected equity capital in affiliated company	**0**	0	-3
Translation difference	**90**	0	0
Shareholders' equity 31.12.	**9,849**	9,064	7,635

25. Mortgages

The following loans are secured by real estate mortgages 31.12.	**1998**	1997	1996
Outstanding balance, bond	**0**	0	5
Outstanding balance, other mortgage debt	**440**	67	687
Total	**440**	67	692

Book value of assets securing this debt as at 31.12.	**1998**	1997	1996
Ships	**0**	0	3
Machinery	**563**	64	1.856
Buildings	**275**	29	629
Forest, land and other real estate	**0**	0	3
Plant under construction	**0**	0	1
Operating fixed assets	**838**	93	2.492
Stocks/receivables	**0**	88	12
Total	**838**	181	2.504

26. Environment

Capitalised environmental investments

	1998	1997	1996
Norske Skog Skogn	**35**	243	16
Norske Skog Bruck	**32**	3	6
Norske Skog Golbey	**279**	10	0
Norske Skog Follum	**29**	40	1
Norske Skog Saugbrugs	**21**	16	108
Sande Paper Mill	**-**	-	8
Norske Skog Tofte	**23**	9	1
Norske Skog Folla	**5**	3	3
Norske Skog Hurum	**0**	0	4
Area Buliding Materials	**2**	20	25
Total	**426**	344	172

These investments are included in addition at cost in note 18.

Norske Skog Skogn
In 1998 this company finished building new biological plant for treatment of waste water and a new biofuel boiler. The water treatment plant was necessary in order to satisfy the new emission limits effective from 1998. In part the biofuel boiler was needed for handling the higher quantities of sludge from the new water treatment plant.

Norske Skog Bruck
In 1998 this company installed a new press for removing water from sludge from the de-inking process and from the water treatment plant. With the new presses the dry matter from the sludge is increased from 50 to 60%. This gives greater capacity and better combustion in the furnace, thereby reducing the need to use fossil fuels.

Norske Skog Golbey
In connection with building a new paper machine at Golbey, the water treatment capacity was doubled. The company also invested in new sludge presses and a new boiler furnace, which was needed to handle the higher quantities of sludge. A sum totalling nearly NOK 280 million was invested in environment-related measures in 1998.

Norske Skog Follum
The most important environmental investments were related to noise-reduction, particularly in connection with building the new log cleaning plant.

Norske Skog Saugbrugs
The largest investments here were connected with the company's bio-fuel boiler and new plant for sorting purchased biofuel and increasing utilisation of heat. Investments were also made in plant for neutralising SO_2 and in noise-reducing measures.

Norske Skog Tofte
Investments were made in measures to reduce emissions to the atmosphere and water and to reduce noise.

Norske Skog Folla
In 1998 this company installed a new press for removing water from sludge from the water treatment plant. This new press gives dry matter from the sludge that can be burned in the boiler furnace. It is no longer necessary to deposit such waste matter.

Other units
Norske Skog Hurum, Norske Skog Flooring and Forestia have invested in minor environmental measures during the year, but no environmental investments were made by the factories in the Czech Republic, Korea or Thailand.

27. Contractual obligations

The company has entered into contractual obligations for the purchase of operational fixed assets amounting to NOK 60 million in addition to the expenses included in the accounts as at December 31, 1998. The same amount for 1997 was NOK 602 million and for 1996 NOK 386 million. Additionally, decisions have been made to invest a total of NOK 890 million. The same figure for 1997 was NOK 3,301 million and for 1996 NOK 726 million.

28. Other commitments
In 1998 Norske Skog concluded a leasing transaction with American investors whereby Norske Skog leases out PM 5 and PM 6 at Saugbrug and then leases them back. The present value of the cost of leasing back amounts to approximately NOK 4,000 million and is irrevocably deposited in favour of the American investor. Although this sum has been deposited, Norske Skog is not exonerated from liability for payment. On the other hand the credit risk is extremely small because the money is deposited in a bank that has AA rating. Should its rating drop below A at any future time, Norske Skog is entitled to move the deposit to another bank. Deposited rental costs and prepaid rental earnings are entered net in the balance sheet. If Norske Skog is unable to perform the leasing agreement it is under obligation to recompense investor for any losses. Investor's loss will vary over the term of the lease and will at most amount to NOK 700 million. The possibility of Norske Skog being unable to perform the contract is extremely unlikely. The contract could only be broken off as the result of extraordinary circumstances in the nature of force majeure.

Accounts 1998 Norske Skogindustrier ASA

Profit and Loss Account

NOK million	Notes	**1998**	1997	1996
Operating revenue	2	**7,971**	7,262	7,685
Cost of materials		**3,038**	3,048	2,946
Wages, salaries and personnel expenses	5	**1,037**	958	911
Other operating expenses	3	**1,899**	1,843	1,682
Ordinary depreciation	7	**673**	563	563
Operating expenses		**6,647**	6,412	6,102
Operating profit		**1,324**	850	1,583
Financial revenue		**460**	220	199
Financial expenses		**-617**	-499	-358
Financial items, net		**-157**	-279	-159
Profit before taxes		**1,167**	571	1,424
Taxes	6	**-272**	-39	-301
Profit for the year		**895**	532	1,123
Application of profit for the year:				
Group contribution		**-151**	-171	-122
Allocated to legal reserve		**0**	-68	-112
Transferred from temporary restricted reserve		**0**	0	79
Transferred to distributable reserve		**-419**	-26	-740
Dividend to shareholders		**-325**	-267	-228
Total		**-895**	-532	-1,123

Statement of Cash Flow

NOK million	Notes	**1998**	1997	1996
Cash flow from operating activities				
Cash generated from operations		**8,855**	7,120	8,042
Cash used in operations		**-6,454**	-5,631	-6,013
Financial revenue received		**460**	220	202
Financial expenses paid		**-617**	-499	-384
Taxes paid		**-79**	-290	-483
Net cash flow from operating activities	4	**2,165**	920	1,364
Cash flow from investment activities				
Investments in operational fixed assets		**-1,315**	-717	-470
Sales of operational fixed assets		**45**	74	13
New intercompany receivables		**-1,462**	-760	-711
Net financial investments		**-1,540**	-76	-43
Net cash flow from investment activities		**-4,272**	-1,479	-1,211
Cash flow from financial activities				
Net change in long-term debt		**1,382**	-1,013	264
Net change in short-term debt		**1,898**	505	-215
Dividend paid		**-267**	-228	-196
Converted bonds		**0**	1,106	0
Share issues		**0**	0	4
Net cash flow from financial activities		**3,013**	370	-143
Total change in liquid assets		**906**	-189	10
Liquid assets as at January 1		**608**	797	787
Liquid assets as at December 31		**1,514**	608	797

Balance Sheet at 31.12.

NOK million	Notes	**1998**	1997	1996
Assets				
Cash and bank deposits		**694**	64	80
Bonds		**795**	454	517
Commercial papers		**25**	90	0
Other short-term investments		**0**	0	200
Liquid assets		**1,514**	608	797
Accounts receivable		**865**	868	1,013
Provision for bad debts		**-19**	-45	-51
Other receivables		**217**	235	99
Intercompany receivables		**9**	1,100	989
Receivables		**1,072**	2,158	2,050
Raw materials and work in progress		**340**	288	307
Finished goods		**467**	413	437
Stocks		**807**	701	744
Current assets		**3,393**	3,467	3,591
Shares in subsidiaries		**4,123**	2,624	2,384
Shares in other companies		**93**	91	91
Partnerships		**3**	28	42
Pension plan assets	5	**95**	111	139
Other long-term assets		**113**	49	44
Deferred tax advantage	6	**0**	8	10
Intercompany receivables		**2,963**	1,501	946
Securities and long-term financial assets		**7,390**	4,412	3,656
Operational fixed assets	7	**6,585**	5,951	5,816
Fixed assets		**13,975**	10,363	9,472
Total assets		**17,368**	13,830	13,063
Liabilities and shareholders' equity				
Taxes payable		**263**	118	371
Provisions for dividend		**325**	267	228
Public dues and holiday allowances		**184**	129	128
Accounts payable		**353**	312	358
Other short-term liabilities		**614**	1,066	259
Current liabilities		**1,739**	1,892	1,344
Pension obligations	5	**36**	29	35
Senior long-term debt		**6,422**	3,139	3,371
Mortgage loans		**0**	3	27
Subordinated convertible bonds		**0**	0	707
Deferred tax	6	**559**	574	637
Long-term liabilities		**7,017**	3,745	4,777
Share capital		**764**	764	653
Legal reserve		**2,946**	2,946	1,869
Revaluation reserve		**4**	4	0
Distributable reserve		**4,898**	4,479	4,420
Shareholders' equity	9	**8,612**	8,193	6,942
Total liabilities and shareholders` equity		**17,368**	13,830	13,063
Mortgages		**0**	3	27
Guarantees	8	**1,224**	1,330	1,238

Notes
Norske Skogindustrier ASA

1. Accounting principles

The company's accounting principles are the same as those of the consolidated accounts, which are described on page 18 and 19. The company's notes are similar to the consolidated notes. Only those notes which are different, are shown below.

2. Operating revenue

The figures include ordinary revenue from sale of goods to companies within the Group amounting to NOK 969 million. Additionally, administration fee and income from rent to the subsidiaries amounted to NOK 79 million. All intercompany deliveries, intercompany profits and intercompany debts are eliminated in the consolidated accounts.

3. Other operating expenses

Losses on bad debts amounting to NOK 4 million are included in the figures.

4. Net cash flow from operations

The connection between profit before taxes and cash flow from operations is shown below.

	1998	1997	1996
Profit before taxes	**1,167**	571	1,424
Ordinary depreciations	**673**	563	563
Taxes paid	**-79**	-290	-483
Changes in receivables	**1,069**	108	357
Changes in stocks	**-106**	43	6
Changes in current liabilities	**-559**	-75	-503
Net cash flow from operating activities	**2,165**	920	1,364

5. Pension costs and pension liabilties

Net periodic pension cost	**1998**	1997	1996
Benefit earned during the year	**36**	33	28
Interest costs on prior period benefit	**40**	34	30
Expected return on plan assets	**-51**	-41	-38
Periodic employer tax	**3**	1	-2
Expensed portion of changes of AFP	**2**	2	0
Expensed portion of differences in estimates	**2**	1	0
Net periodic pension cost	**32**	30	18

Status of pension plans reconciled to the balance sheet

	Pension assets exceed PBO			PBO exceed pension assets		
	31.12.98	31.12.97	31.12.96	**31.12.98**	31.12.97	31.12.96
Projected Benefit Obligations (PBO)	**-713**	-592	-532	**-82**	-87	-53
Plan assets at fair value	**812**	662	631	**27**	22	17
Plan assets in excess of/less than (-) PBO	**99**	70	99	**-55**	-65	-36
Changed AFP plan	**0**	0	0	**28**	30	0
Unrecognized gain (-)/loss on plan assets	**-9**	35	32	**-7**	8	3
Net plan assets/pension obligations	**90**	105	131	**-34**	-27	-33
Employer tax accruals	**5**	6	8	**-2**	-2	-2
Pension assets/pension obligations (-) in the balance sheet	**95**	111	139	**-36**	-29	-35

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

6. Taxes

Due to introduction of new rules for taxation of power plants in 1997 fiscal value on power plants was increased and deferred tax reduced with NOK 65 million.

Taxation basis

A specification of the difference between profit before taxes and basis for taxation this year is shown below.

	1998	1997	1996
Profit before taxes	**1,167**	571	1,424
Permanent differences	**-39**	-9	-19
Group contribution	**-151**	-171	-121
Change of temp. differences	**-63**	-6	-5
Basis for taxation this year	**914**	385	1,279

Tax expenses			
Taxes payable	**-250**	-102	-300
Change in deferred tax	**-22**	-2	-1
Effect from changed tax-rules	**0**	65	0
Total tax expenses	**-272**	-39	-301

Deferred tax / deferred tax advantage

A spesification is made of temporary differences and calculation of deferred tax/deferred tax advantage at the end of the year (taxation rate 28 per cent).

Deferred tax	**1998**	**1997**	**1996**
Reserve in accounts receivable	-39	-44	-49
Reserve in stocks	105	88	85
Other short-term items	-38	-34	-27
Total short-term items	28	10	9
Accelerated depreciation	1,809	1,857	2,076
Allocated capital gains	81	67	61
Pension plan assets	95	111	139
Pension obligations	-39	0	0
Other long-term items	23	5	-9
Total long-term items	1,969	2,040	2,267
Total temporary differences	1,997	2,050	2,276
Deferred tax	559	574	637

Deferred tax advantage			
Uncovered pension obligations	0	-30	-35
Deferred tax advantage	0	8	10

7. Operational fixed assets

Acquisition cost	Goodwill and other exclusive rights	Ships	Machinery, equipment, etc.	Buildings and plants	Real state	Plant under construction	Total
Acquisition cost 31.12.1997	7	21	8,850	2,386	221	387	11,872
Addition 1998,at cost	0	0	454	228	15	618	1,315
Sales 1998, at cost	0	0	-7	-7	-1	0	-15
Reclassification	0	0	701	128	0	-829	0
Acquisition cost 31.12.1998	7	21	9,998	2,735	235	176	13,172
Revaluation							
Accumulated revaluation 31.12.1998	0	0	0	0	87	0	87
Depreciation							
Accumulated ordinary depreciation 31.12.1997	3	20	5,060	885	40	0	6,008
Ordinary depreciation 1998	1	1	565	101	5	0	673
Depreciation on fixed assets sold 1998	0	0	-6	-1	0	0	-7
Accumulated depreciation 31.12.1998	4	21	5,619	985	45	0	6,674
Book value							
Book value 31.12.1997	4	1	3,790	1,501	268	387	5,951
Book value 31.12.1998	3	0	4,379	1,750	277	176	6,585

Operating fixed assets - acquisition and disposals over the last 5 years

1994	Acquisition	3	0	106	6	2	132	249
	Disposal	0	0	16	1	14	0	31
1995	Acquisition	10	0	527	55	7	162	761
	Disposal	4	0	199	51	22	28	304
1996	Acquisition	0	0	230	21	8	211	470
	Disposal	0	0	6	0	7	0	13
1997	Acquisition	1	0	170	99	28	419	717
	Disposal	0	0	5	62	7	0	74
1998	Acquisition	0	0	454	228	15	618	1,315
	Disposal	0	0	3	30	12	0	45
Total 5 years	Acquisition	14	0	1,487	409	60	1,542	3,512
	Disposal	4	0	229	144	62	28	467

8. Guarantees

The company has guaranteed debt for its subsidiaries for a total of NOK 1,224 million.

9. Shareholders' equity

	Share capital	Legal reserve	Distributable reserve	Revaluation reserve	Total
Shareholders' equity 31.12.1997	764	2,946	4,479	4	8,193
Group contribution	0	0	-151	0	-151
Profit for the year	0	0	895	0	895
Provisions for dividend	0	0	-325	0	-325
Shareholders' equity 31.12.1998	764	2,946	4,898	4	8,612

At year-end 1998 the share capital consisted of 38,211,117 shares, each at a nominal value of NOK 20.

Translation from Norwegian

Auditors' Report for 1998

To the Annual General Meeting of Norske Skogindustrier ASA

We have audited the annual accounts of Norske Skogindustrier ASA for 1998, showing a profit of NOK 895 million for the company and a profit of NOK 1,020 million for the group. The annual accounts, which consist of the Board of Directors' report, statement of income, balance sheet, statement of cash flows, notes and the corresponding consolidated financial statements, are the responsibility of the Board of Directors and the President and Chief Executive Officer.

Our responsibility is to examine the company's annual accounts, its accounting records and the conduct of its affairs.

We have conducted our audit in accordance with applicable laws, regulations and generally accepted auditing standards. We have performed the auditing procedures we considered necessary to determine that the annual accounts are free of material errors or omissions. We have examined, on a test basis, the accounting material supporting the financial statements, the appropriateness of the accounting principles applied, the accounting estimates made by management and the overall presentation of the annual accounts. To the extent required by generally accepted auditing standards we have also evaluated the company's asset management and internal controls.

The appropriation of net income and equity transfers, as proposed by the Board of Directors, complies with the requirements of corporate law.

In our opinion, the annual accounts have been prepared in conformity with corporate law and present fairly the company's and the group's financial position as of 31 December 1998 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

Oslo, February 10, 1999

ARTHUR ANDERSEN & CO.

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

The Corporate Assembly's statement

The Corporate Assembly's statement to the General Meeting

The Board's draft accounts for 1998 have been presented to, and discussed by, the Corporate Assembly.

The Corporate Assembly recommends that the General Meeting confirms the Board's proposed profit and loss statement and balance sheet of Norske Skogindustrier ASA, together with the consolidated profit and loss statement, and balance sheet.

It also recommends the Board's proposal for distributing the profit to be approved.

Lysaker, March 10, 1999

Ivar B. Korsbakken
Corporate Assembly Chairman

Norske Skog doubled its output of wood-containing publication paper during the 1990's. Capacity growth has come about equally from building new paper machines and acquisitions. The Group has focused more strongly on wood-containing publication paper; while 48% of operating revenue came from this product segment in 1990, the comparable figure for 1998 was 74%.

Analytic information

- *Through the joint venture Pan-Asia Paper Company (PAPCO), Norske Skog is involved in newsprint production in China, Korea and Thailand. PAPCO will have a sales volume of 1.8 million tonnes and a market share of 30% in the Asia Pacific region (excluding Japan).*

- *After the creation of PAPCO, and the addition of PM 2 at Norske Skog Golbey, Norske Skog has about 50% of its newsprint capacity outside Norway.*

Consolidation and capacity growth in Europe's paper and pulp industry

By Mads Asprem, financial analyst, Morgan Stanley Dean Witter, London

In the Swedish and Finnish paper and pulp sector there were a number of mergers during the 1980's. Norway's paper and pulp industry experienced significant consolidation through the merger of Norske Skog/Follum/Tofte in 1989 and the takeover of Saugbrugs immediately afterwards. Towards the end of the decade, however, the consolidation process came to a halt, and the strategic focus switched to the building of new paper machines. Norske Skog built a new SC magazine paper machine at Saugbrugs and a new newsprint machine at Golbey.

But Norske Skog was not the only one building new facilities, and the result was a period of over-capacity, falling prices and low profitability. From 1992 onward, several small European mills experienced financial problems and were sold off. This applied particularly to fine paper, where 75% of the machines built from 1989 to 1991 got new owners during the following five years. Some of these transactions were very favourable to the buyers. During this period all the larger paper mills in eastern Europe were sold, many to companies outside Europe.

The consolidation process revived towards the middle of the 1990's, and reached a climax with the creation of three large Finnish paper and pulp groups in 1995. This was largely a response to low profitability and the weak trend of forest industry shares. Norske Skog embarked, somewhat cautiously, on a process of purchasing individual mills in Europe. In Sweden there were only two companies which participated in the consolidation process - AssiDomän and SCA. The largest Continental European paper and pulp companies - PWA in Germany and Cellulose du Pin in France - changed hands. The largest of them all, KNP BT, was simply dismantled and sold bit by bit.

New wave of acquisitions 1994-98

1. Buyer	2. Target	3. Date	4. Capacity *) of 2.
1994			
Cartiere Burgo	Cel. des Ardennes	Feb	450
KNP BT	Leykam (25%)	Feb/Mar	900
Enso Gutzeit	Berghinzer (40%)	Jun	120
J. Smurfit	Cel du Pin	Aug	1,100
J. Smurfit	Nettingsdorfer	Aug	330
Sappi	Warren (U.S.)	Oct	1,200
Enso Gutzeit	Veitsiluoto (35%)	Nov	-
1995			
SCA	PWA (75%)	Jan	2,000
J. Smurfit	Pap. du Limousin	Apr	200
Enso Gutzeit	Veitsiluoto (65%)	Jun	940
UPM (Repola)	Kymmene	Sept	3,390
Norske Skog	Bruck (KNP BT)	Nov	320
Metsä-Serla	Myllykoski (35%-50%)	Nov	700
1996			
Metsä-Serla	MD Papier (50%)	Jan	560
Metsä-Serla	Bieber	3rd Q	230
Myllykoski	Bieber	3rd Q	170
Haindl	Steiermuhl		350
1997			
CVC/Cinven	Cartiere Garda		200
AssiDomän	Sepap	Apr	250
Enso	Holtzmann	3rd Q	670
Norske Skog	Roto Steti	4th Q	110
Reno de Medici	Sarrio	2nd half year	650
Sappi	KNP Leykam	Dec	1,790
1998			
CVC/Cinven	Kappa Packaging	May	1,200
CVC/Cinven	Condat	Sept	360
Metsä-Serla	UK Paper	Nov	400
Stora	Enso	Dec	7,680

*) 1,000 tonnes paper, board and bleached pulp.
Source: Company Data, Morgan Stanley Dean Witter Research

When paper prices fell again, in 1996, the consolidation process also slowed down. In view of the industry's low profitability, however, the owners of other major Nordic paper and pulp companies took further drastic action. In 1998 Stora and Finland's Enso merged, and there is reason to believe this will trigger a new wave of mergers and acquisitions within the paper industry. MoDo's board decided to pay a dividend for 1998 equal to 25% of the company's market value. MoDo was overcapitalised and had no use for this capital in its paper business.

These moves by Nordic companies will probably prove highly significant for the global paper industry, as well. The synergies between Enso and Stora are very large, and underperforming activities are likely to be sold or closed. In the course of only two months, Stora Enso sold four mills and announced that a fifth would follow. Production costs will be driven down, making fibre-based advertising, communication and packaging more competitive once again.

Consolidation in publication paper
Magazine paper and newsprint have become the most concentrated segments of the paper industry. Just since 1995, the three largest manufacturers of these two products have increased their share of capacity in Europe from about 35% to about 55%. There are now only two sizeable Continental producers of wood-based publication paper, Haindl of Germany and Cartiere Burgo in Italy. While Haindl covers the whole product range, Burgo is mostly active in coated magazine paper (LWC). There is still room for further consolidation, even in Scandinavia, and this will help boost the competitiveness of printed information. It is difficult to believe that a company operating two or three medium sized mills will be very well placed to supply large international publishers in the future.

But the concentration process has come far in other products, too. Three tissue manufacturers each hold 15 - 20% of the European market. Stora Enso and Austria's Mayr-Melnhof are the clear leaders in cartonboard - three times as large in the market as the next company on the list. Profitability in the cartonboard industry has been falling, despite the Stora Enso merger, and Mayr-Melnhof's cooperation with Reno de Medici in 1998. A key reason for this was that several smaller cartonboard producers added new capacity in 1998, simultaneously with the drop in demand from Asia. Rationalisation of the production structure is thus not the solution to all problems.

The main driving force behind concentration is the search for synergies. Optimising production and logistics is easier for an organisation with eight paper machines in Europe than for one with only two.

The paper industry is based on high technology, and access to know-how and exchange of experience is becoming increasingly important. Size also makes for lower costs in external purchasing, while at the same time providing synergies on the sales side. A large organisation can optimise investments - an important consideration in a capital-intensive industry. There are examples of major mergers being expected to yield synergy gains equalling around 4-5% of operating revenue.

Experience of large mergers shows that concentration also benefits companies' balance sheets. Some companies have reduced their gearing (the debt to equity ratio) from 0.96 to 0.48 in the course of five years. These companies have achieved a very strong cash flow from operations, financial costs have fallen and they are well placed to further strengthen balance sheets. They have plenty of "financial muscle" for new acquisitions.

Changed cost structures a driving force for the industry.
At the start of the 1990's there emerged a large difference in newsprint production cost between virgin and recycled fibre based productions. On the Continent, recycled paper at low prices became a driving force behind the construction of new newsprint machines and Nordic companies' acquisitions of mills. Although Norske Skog's Golbey mill has not so far yielded a satisfactory return, it was strategically important to be present with a recycled fibre-based newsprint mill in France. Publication paper manufacturers who have followed a virgin fibre based strategy have so far shown the lowest margins in the European newsprint industry. As a result, in recent years one recycled fibre based plant after another has been appearing at their mills, too.

The wide differences in production costs between different regions and companies represents a significant problem. Low-cost producers are tempted to believe that they can add capacity and remain profitable, regardless of how product prices develop. At the same time, those who do not belong in the low-cost group feel pressured to join in in order to remain competitive. This was precisely what happened in Europe's newsprint industry in the early 1990's.

Major engagements in Asia

1. Date	2. Acquiror	3. Acquiree	4. Grade	5. Price *)	6. Capacity **)	7. Stake
Sept-97	UPM-Kymmene	APRIL - Indonesia	Fine pulp	121	750	30
Okt-97	P&G GmbH	Ssangyong – Korea	Tissue	158	75	92
Mar-98	UPM-Kymmene	APRIL - China	Fine	114	350	49
Mar-98	Norske Skog	Shinho - Thailand	News	35	120	70
Mar-98	Norske Skog	Shinho - Korea	News	160	180	100
Apr-98	Bowater	Halla - Korea	News	200	250	100
Mai-98	Stora	Suzhou - China	Ctd.		145	75
Jun-98	Enso	Advance Agro - Thailand	Unctd.	80	600	20

*) USD million
**) 1,000 tonnes of 3

Analytic information

The same thing has happened to the producers of hardwood pulp and fine paper during recent years, with much new capacity being built in Asia. Magazine paper manufacturers have a far more uniform cost structure, and consequently the situation differs for these grades. That makes for a more attractive industry, and average profitability in magazine paper has been higher than in newsprint and fine paper.

Over the longer term I do not believe that Europe can be competitive in uncoated fine paper. Finnish producers are accepting this and buying capacity in south-east Asia, instead of expanding in Europe. In newsprint, the situation is less obvious. I believe that prices of recycled paper will remain low, so that in future, too, it will be most profitable to produce newsprint from recycled fibre. In this context, Norske Skog's purchase of recycled based newsprint capacity in Asia, and construction of new capacity in France, were wise moves. The cost difference will be less than it is today, because prices of old newspapers will probably rise to a level where collections generate some profit.

At the same time, Norske Skog is in the process of refocusing its newsprint capacity in Norway on speciality newsprint, or other improved grades. Cold set offset presses represent a very interesting market for this type of "magazine paper". Because they print newspapers, they have capacity available for large parts of the day, but they can only use newsprint - not traditional coated or uncoated magazine paper. The Asian market will, in my opinion, be particularly interesting in this connection, since there are relatively more newsprint presses than magazine paper presses in that region than in Europe.

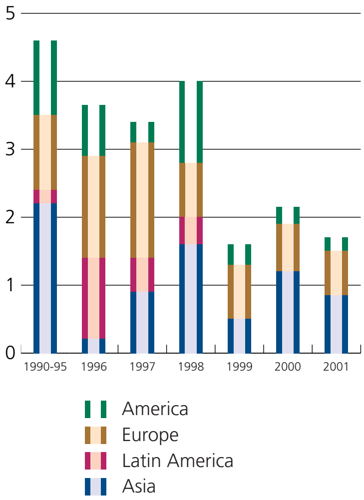
Norske Skog's and Canadian Abitibi-Consolidated's joint venture with Hansol of Korea is an example of the way that paper industry consolidation became global at the end of the 1990's.

Nordic companies have been very active in Asia. Four of six companies which acquired stakes in Asian activities during recent years were from the Nordic area. All the pulp and publication/fine paper capacity in south-east Asia sold recently has gone to Nordic groups or to joint ventures including Nordic partners. The acquisitions have been made at prices near book values, well below the cost of new capacity.

Too high profitability tempts capacity growth

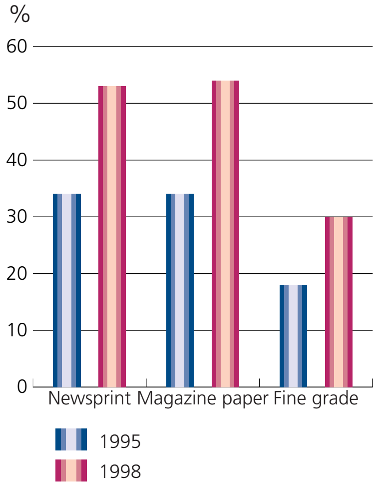
Two new newsprint machines have been announced by two smaller producers. This is clearly a result of the good profitability in producing recycled newspaper. It is also a clear indication that whenever profitability becomes good enough, there will always be someone ready to invest. As capacity is added, utilisation rates will fall, and very often prices and profitability as well.

Record low global annual cap growth in paper



1990-95 average.
1998-2001 estimated.
Source: Company data, Morgan Stanley Dean Witter Research

Three largest producers in Europe in % of total capasity



To achieve profitability which, over time, lies above the industry average, it is crucially important to have production facilities correctly located, which have low costs and which benefit from economies of scale. In my view it is important for the large established producers to avoid short-term price peaks which virtually tempt new producers into the industry.

Both the companies that are building are, fortunately, well established paper suppliers. If they had been new players in this market, there would have been a great danger that they might have created major problems, because their only option would have been to produce and sell, virtually regardless of price.

Norske Skog now has three low-cost facilities: Norske Skog Skogn, Norske Skog Saugbrugs and Norske Skog Golbey. These account for two thirds of the Group's publication paper capacity. In general, far too much has been invested in old paper machines, and the opportunities for these facilities lie in market-driven niche production.

Production capacity

Paper			Kapasiteter:
Newsprint/other publication paper Europe:			
Norske Skog Skogn	Levanger		555,000 tonnes
Norske Skog Follum	Ringerike		385,000 tonnes
Norske Skog Golbey	Golbey, France		590,000 tonnes
Norske Skog Bruck	Bruck, Austria		115,000 tonnes
Norske Skog Steti	Czech Republic		110,000 tonnes
A/S Union*)	Skien		240,000 tonnes
Total newsprint/other publication paper Europe			**1,995,000 tonnes**
Newsprint/other publication paper Asia:			
PAPCO Chonju	Chonju, Korea	1,000,000 tonnes	
PAPCO Chongwon	Chongwon, Korea	180,000 tonnes	
PAPCO SHP	Shanghai, China	130,000 tonnes	
PAPCO Thailand	Singburi, Thailand	120,000 tonnes	
Total newsprint/other publication paper Asia		**1,430,000 tonnes**	****) 475,000 tonnes**
Total newsprint			**2,470,000 tonnes**
SC magazine paper:			
Norske Skog Saugbrugs	Halden		550,000 tonnes
LWC magazine paper:			
Norske Skog Bruck	Bruck, Austria		230,000 tonnes
Total magazine paper			**780,000 tonnes**
Total publication paper (newsprint and magazine paper)			**3,250,000 tonnes**
Special grades:			
Norske Skog Hurum (kraft paper)	Hurum		35,000 tonnes
Total capacity paper			**3,285,000 tonnes**
Fibre			
Norske Skog Tofte (sulphate pulp)	Hurum		375,000 tonnes
Norske Skog Folla (chemi-thermomechanical pulp)	Verran		100,000 tonnes
Total capacity market pulp			**475,000 tonnes**
Resources			
Total			180,000 ha
Of this productiv forest			81,000 ha
Mean installed hydropower capacity			415 GWh

*) Affiliated company
**) Norske Skog owns 1/3 of PAPCO

Production

Paper		1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Newsprint [1]	1,000 t	**1,481**	1,218	1,107	1,051	816	821	748	767	787	778
SC magazine paper	1,000 t	**491**	502	458	523	430	336	199	242	241	220
LWC magazine paper	1,000 t	**209**	214	178	-	-	-	-	-	-	-
Kraft paper	1,000 t	**27**	29	29	31	32	28	29	32	31	31
Pulp											
Sulphate pulp	1,000 t	**353**	340	326	356	341	295	322	305	300	322
CTMP-pulp	1,000 t	**86**	64	60	89	83	70	52	62	71	78
Building materials											
Sawn timber	1,000 m^3	**685**	654	557	497	491	476	476	467	488	499
Particle board	1,000 m^3	**400**	368	347	334	244	228	213	206	225	210
Flooring	1,000 m^2	**3,507**	3,529	3,724	3,695	2,960	2,337	1,996	1,498	1,579	1,792

[1] Exclusive of A/S Union.

Analytic information

Key events in Norske Skog 1989-98

1989 • Merger Norske Skogindustrier A/S, A/S Follum Fabrikker and Tofte Industrier A/S, as of 13.10.
• The merged company took over Saugbrugsforeningen with effect, for accounting purposes, from 01.07.

1990 • Norske Skog acquired 49% of the FRF 900 million share capital of Papeteries de Golbey S.A. The company decided 21.03 to build a new newsprint mill at Golbey. Total investment budget NOK 3.4 billion.
• Norske Skog decided 18.12. to build a new paper machine to make SC magazine paper at Norske Skog Saugbrugs, Halden - total investment budget NOK 3 billion.
• Operations at the Otto Langmoen A/S sawmill were wound up during the first half-year.

1991 • During the year the Group sold the packaging companies Guru Papp A/S, Kartopapp A/S and Dalwell AB, as well as F.Beyer's wholesaling and printing activity and book and stationery retail business.
• Operations were wound up at Norske Skog Saugbrugs' cellulose mill and at Fibo-Trespo's laminated products plant, Notodden.

1992 • The new newsprint machine (PM 1) at Norske Skog Golbey started production in January - capacity 255,000 tonnes/year.
• Empire Fine Papers Ltd., a fine paper mill in England, and Koppang Innredninger A/S, were transferred to new owners.

1993 • The new magazine paper machine (PM 6) at Norske Skog Saugbrugs started production in February, increasing the mill's capacity to 540,000 tonnes/year.
• Sarpsborg Finpapir, Olaf Norlis Bokhandel (50% ownership stake) and Ad.Jacobsen (stationery trade) were transferred to new owners.

1994 • Jan Reinås succeeded Arnfinn Hofstad as President and CEO (April).

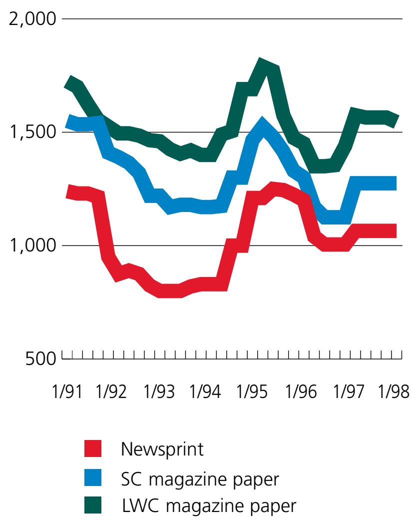
1995 • Agnes A.S., a particle board mill, was taken over in March.
• Norske Skog acquired 51% of the shares in Papeteries de Golbey S.A., so that the newsprint mill became a wholly-owned subsidiary, consolidated in the Group accounts from 01.04.

1996 • Norske Skog acquired, with effect from 01.01., the Bruck publication paper mill in Austria, with a capacity of 220,000 tonnes of LWC magazine paper and 115,000 tonnes of newsprint.

1997 • Norske Skog transferred Sande Paper Mill A/S (fluting) to new owners, as of 03.01.
• The particle board mill at Braskereidfoss started up a new production line in the first quarter, after investments of NOK 325 million.
• Norske Skog decided on 16.04. to expand the Norske Skog Golbey newsprint mill by adding a second paper machine with capacity of 335,000 tonnes - investment budget NOK 2.8 billion.
• Norske Skog's building materials business was organised as two subsidiary companies, Forestia AS (sawn timber and particle board) and Norske Skog Flooring AS (flooring products).
• The Forestia AS subsidiary took over, from 01.07., the Hedalm Trelast firm, with three production units.
• Norske Skog took over, from 01.11., the ROTO newsprint mill (Norske Skog Steti) in the Czech Republic, with capacity of 100,000 tonnes.
• The building materials outlets Lundby Bruk Rena and Brumunddal, and Namsenbygg, together with a workshop firm, Folla Tech, were transferred to new owners.
• For the first time, Norske Skog produced more than 2 million tonnes of publication paper.

1998 • Norske Skog took over a newsprint mill in Korea, with effect for accounting purposes from 01.07. - capacity 180,000 tonnes/year.
• Norske Skog took over a newsprint mill in Thailand, with effect for accounting purposes from 01.09. - capacity 120,000 tonnes/year.
• Norske Skog concluded on 06.07. an agreement of intent with Abitibi Consolidated, Canada, and Hansol Paper Co., Korea, to form a company which would secure a leading position in newsprint and other publication paper in Asia.
• Norske Skog Golbey carried out a successful test run of the new newsprint machine (PM 2) on 21.12. - increases the mill's capacity to nearly 600,000 tonnes/year.
• Norske Skog, Abitibi Consolidated and Hansol Paper concluded on 22.12. a final agreement to create Pan-Asia Paper Company, with a total capacity of more than 1.4 million tonnes of newsprint. Norske Skog's total publication paper capacity was thereby increased to 3.2 million tonnes.

Price development - publication paper in Germany
DEM/tonne



Source: PPI Pricewatch

Main financial figures

Profit and loss account (NOK million)	Def.	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989
Operating revenue		**14,908**	13,312	13,265	12,548	9,170	7,338	7,557	8,640	9,879	9,248
Gross operating profit	1	**3,103**	2,223	3,136	3,332	1,348	851	728	1,183	1,676	1,678
Operating profit		**1,780**	1,083	1,916	2,500	732	299	-47	500	1,128	1,001
Profit before financial expenses	2	**1,948**	1,319	2,225	2,850	843	589	49	877	1,502	1,490
Profit before taxes		**1,407**	652	1,732	2,336	333	4	-659	478	957	917
Profit for the year		**1,020**	590	1,317	1,699	206	-47	-516	246	773	802
Balance sheet (NOK million)											
Current assets		**6,663**	4,515	4,592	4,618	4,333	4,261	3,816	5,690	4,835	5,093
Fixed assets		**17,586**	12,778	12,031	10,246	7,377	7,694	7,917	6,042	5,380	4,662
Total assets		**24,249**	17,293	16,623	14,864	11,710	11,955	11,733	11,732	10,215	9,755
Current liabilities		**4,656**	3,363	3,754	3,337	2,043	1,958	2,535	2,077	2,418	3,358
Long-term liabilities		**9,599**	4,807	5,178	4,981	4,936	6,133	5,413	5,368	3,139	2,453
Minority interests		**145**	59	56	1	4	3	16	20	20	31
Untaxed reserves		**-**	-	-	-	-	-	-	-	3,379	2,713
Shareholders' equity		**9,849**	9,064	7,635	6,545	4,727	3,861	3,769	4,267	1,259	1,200
Total liabilities and shareholders' equity		**24,249**	17,293	16,623	14,864	11,710	11,955	11,733	11,732	10,215	9,755
Profitability											
Gross operating margin %	3	**20,8**	16,7	23,6	26,6	14,7	11,6	9,6	13,7	17,0	18,1
Net operating margin %	4	**11,9**	8,1	14,4	19,9	8,0	4,1	-0,6	5,8	11,4	10,8
Net profit margin %	5	**6,8**	4,4	9,9	13,5	2,2	-0,6	-6,8	2,9	7,8	8,7
Return on assets %	6	**9,4**	7,8	14,1	21,4	7,1	5,0	0,4	8,0	15,0	17,0
Return on equity %*)	7	**10,8**	7,1	18,6	30,1	4,8	-1,2	-12,8	6,5	25,3	33,4
Equity ratio %	8	**40,6**	52,4	45,9	44,0	40,4	32,3	32,1	36,4	32,2	29,0
Net interest-bearing debt/Equity		**0,72**	0,46	0,63	0,61	0,67	1,13	1,07	0,49	0,65	0,63
Return on capital employed %	9	**11,7**	8,4	15,9	25,4	8,3	3,4	-0,6	7,2	17,9	19,8
Net earnings per share after tax (NOK)	10	**26,68**	16,40	40,38	52,39	6,91	-1,79	-21,28	10,18	32,05	35,99
Net earnings per share fully diluted (NOK)	10	**26,68**	16,40	35,89	45,99	6,91	1,68	-13,03	11,30	30,25	34,59
Cash flow per share after tax (NOK)	11	**74,82**	44,89	80,20	78,79	29,07	18,74	10,56	58,12	41,50	41,19
Cash flow per share after full conversion (NOK) 1)	11	**74,82**	44,89	69,47	68,22	25,91	18,11	11,56	49,73	38,85	39,55

*)For 1990 and 1989 equity includes shareholders' equity and 60% of untaxed reserves.

Liquidity:	Def.	**1998**	1997	1996	1995	1994	1993	1992	1991	1990	1989
Liquid assets (NOK million)	12	**2,312**	853	1,088	1,010	1,499	1,716	1,433	3,081	1,879	2,354
Cash flow (NOK million)	13	**2,859**	1,615	2,616	2,555	866	492	256	1,405	1,001	918
Current ratio	14	**1,43**	1,34	1,22	1,38	2,12	2,18	1,51	2,74	2,00	1,52

Definitions main financial figures:

1. Gross operating profit=	Operating profit + Ordinary depreciation + Restructuring expenses
2. Profit before financial expenses=	Operating profit + Financial income + Share of profit in aff. companies
3. Gross operating margin=	Gross operating profit : Operating revenue
4. Net operating margin=	Operating profit : Operating revenue
5. Net profit margin=	Profit for the year : Operating revenue
6. Return on assets=	Profit before financial expenses : Total assets (average)
7. Return on equity=	Profit for the year : Equity (average)
8. Equity ratio=	Equity : Total assets
9. Return on caital employed=	Operating profit : Capital employed (average) (see 15)
10. Net earnings per share after tax=	Profit 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 with deductions for non-interest-bearing 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.

Sensitivity

One per cent change of the price on main products/cost factors entail the following change on the operating profit:

NOK mill	1 % change
Price	
Newsprint	61
SC magazine paper	26
LWC magazine paper	13
Pulp	11
Sawn timber	12

NOK mill	1 % change
Input factors	
Wood	31
Recycled paper	3
Energy	13

The Group's management of Currency and Interest Rate Risks

In the management of the Group's currency and interest rate exposure, the goal is to minimise risk, in accordance to given guidelines.

Comprehensive internal supervisory routines have been established to ensure that the financial management follows these guidelines.

Currency risk

Fluctuations in currency rates expose Norske Skog both direct and indirect economic risk. The direct risk (basic risk) reflects the fact that a large part of the Group's operating revenues are in foreign currencies, while a significantly lower share of its costs is in such currencies. Although this risk has diminished, as a percentage of operating revenue/operating costs, absolute currency exposure measured in NOK, has risen somewhat as a result of growth during the year. The largest exposures are against EUR, USD and GBP.

The basic risk per currency is calculated as 12 months' future net cash flow per currency (rolling). Allowance is made for the fact that market pulp is invoiced in local European currencies, while prices are agreed in USD. On a 12-month horizon, 75% of the currency risk on pulp is calculated as a USD risk. The basic risk is estimated by the business units, and consolidated to a net exposure per currency. At all times, 50-100% of that exposure should be hedged. Hedging takes place either by drawing on a loan in foreign currency, or through the use of hedging instruments such as forward contracts and currency options.

The effect of hedging deals is shown in the Group accounts under financial items. Such currency losses or gains will to a greater or lesser extent have counterpart items in the form of increased or reduced future net operating revenue. The size of the counterpart item will depend mainly on what proportion of the exposure has been hedged.

Norske Skog is exposed to indirect risk because our competitive position is affected by fluctuations in the domestic currencies of our competitors. This applies mainly to SEK, EUR and CAD. This type of risk is not hedged.

Interest rate risk

Norske Skog is normally a net borrower, and is therefore exposed to risk connected to changes in interest rate levels. During an upswing, interest rates will normally be higher than during a downturn, and in the same way Norske Skog's results are normally higher in an economic swing than in a downturn. Thus, Norske Skog can handle higher interest costs during an upswing, while it is important to ensure low interest costs during a recession. It is therefore regarded as a reduction of risk to have floating interest rates, to the greatest possible extent, on net borrowing. In order to exploit interest rate fluctuations, we also have a proportion of borrowing at fixed interest rates.

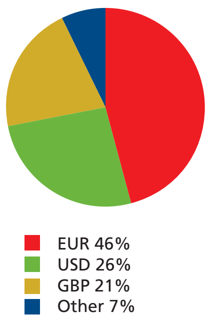
Today's loan portfolio consists of floating and fixed interest rate loans. The economic risk incorporated in the portfolio is measured in terms of interest rate sensitivity. The risk is hedged either by interest-bearing assets or by off balance sheet hedging instruments.

As a consequence of this strategy, Norske Skog has held long-term bonds to hedge the interest rate risk on long-term loans. The losses and gains on the bond portfolio have their counterpart item in an increase/decrease in the value of the company's fixed interest rate debt, but such effects are not shown in the accounts, in accordance with present accounting rules.

Net currency exposure

The Group's annual net currency exposure is at present approx. NOK 7.5 billion divided by:

Net currency exposure



Basis for value estimates

General remarks
The assets of an industrial group such as Norske Skog consist largely of factories and the appertaining operating capital in the form of stocks and receivables. The value of these assets is, in principle, equal to the discounted value of the future cash flows they will generate. The Group has, however, certain other assets which must be taken into account when valueing total assets, including the Group's liquid assets, which on 31.12.1998 amounted to NOK 2,312 million.

Below are listed the most important assets not dependent on operations.

Forests
Norske Skog owns 81,000 hectares of productive forest, 17,000 hectares of which is in Sweden. Annual fellings during the past few years have averaged about 80,000 m^3.
The book value of the Group's forest properties is NOK 103 million. Of this, write-ups account for NOK 27 million.

Hydro power rights
Norske Skog owns power plants which, in a year with average precipitation, generate 415 GWh of hydro power. Only a small part of this hydro power is subject to "hjemfall" (that is, due to revert to state ownership within a specified period).

The book value of the Group's power plants and hydro power rights is NOK 77 million, of which write-ups account for NOK 58 million.

Shares in A/S Union (Union Co.)
Norske Skog owns 576,151 shares in Union, corresponding to 57.6% of total share capital. The Union group produces about 240,000 tonnes of newsprint and other grades of printing paper. In addition, Union owns power plants with an annual output of 280 GWh and buildings in downtown Drammen.

The cost price to Norske Skog of its Union shares is NOK 27.8 million. Union is consolidated in Norske Skog's accounts according to the equity capital method. This gives it a book value of NOK 420 million, as of 31.12.1998.

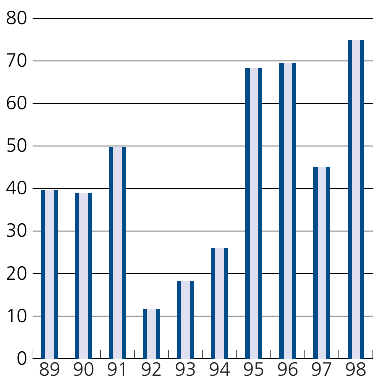
Merger negosiations have been started in 1999, with a view to acquiring Union's remaning shares.

Ships
Norske Skog has a 55% ownership stake in each of the ships "Nornews Express" and "Nornews Leader". The two vessels carry newsprint for Norske Skog, under long-term contracts.

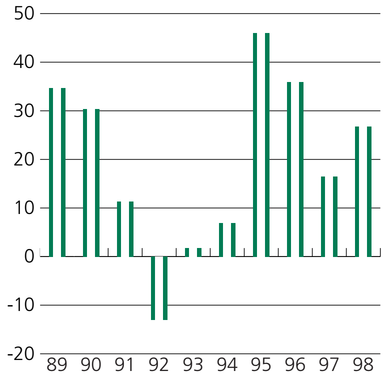
"Nornews Express" is of 4,568 m.t. deadweight and built in 1987. "Nornews Leader" is of 5,670 m.t. deadweight and built in 1991.

The book value of Norske Skog's 55% stakes in "Nornews Express" and "Nornews Leader" is NOK 17 million.

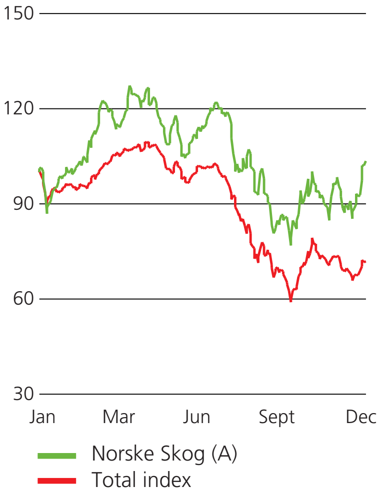
Cash flow per share - fully diluted
NOK



Earnings per share - fully diluted
NOK



Share prices and Oslo Stock Exchange Index 1998
01.01.98 = 100



Analytic information

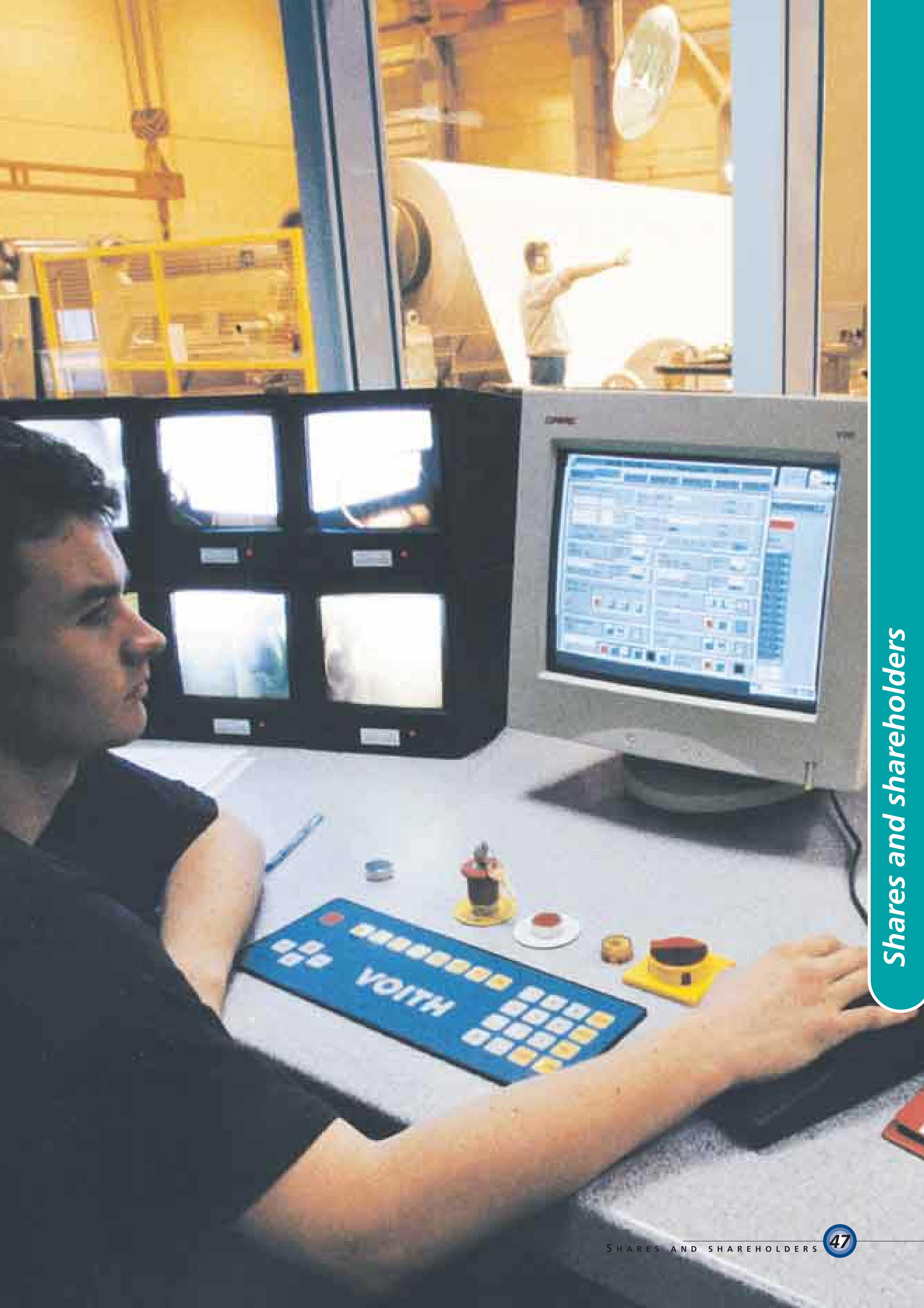
Risk capital is a prerequisite for Norske Skog's further development. The company's shares must, therefore, represent a competitive investment option. Norske Skog will achieve this through payment of dividends and by creating the conditions for an increase in the shares' value over the longer term.

Shares and shareholders

- *The dividend proposed for 1998 – NOK 8.50 – is equivalent to a pay-out ratio of 31.9% and an average pay-out ratio of 21.6% for the past five years.*

- *Norske Skog is concerned to pay a competitive dividend.*

- *The weighted average of the value of Norske Skog's A- and B-shares was unchanged in 1998. Norske Skog thus showed a significantly better trend than the overall Oslo Stock Exchange index, which fell by 28% during the year.*



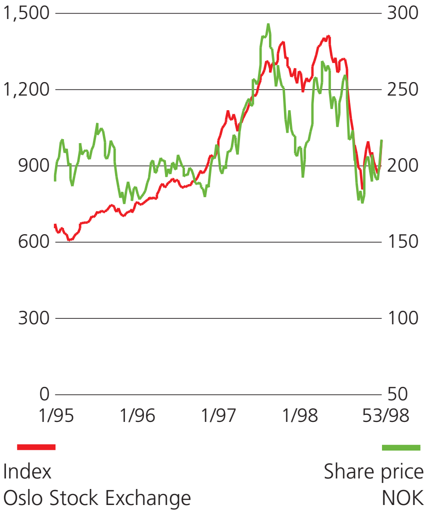
Shares and shareholders

Shareholder policy, share capital and shareholder structure

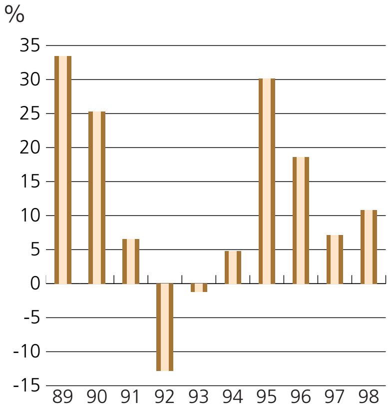
Shareholder policy

The forest industry is a sector subject to fluctuations in earnings and requiring signficant amounts of capital for continuous investment in machinery and plant. To cope with cyclical swings and investment outlays a sound balance sheet is needed, marked by a high equity capital ratio and long-term financing.

Share price and Oslo Stock Exchange index development 1995-1998



Return on equity



Risk capital is a prerequisite for Norske Skog's further development. The company's shares must therefore represent a competitive investment option.

Norske Skog will achieve this by paying dividends and by creating the conditions for an increase in the shares' value over the longer term.

It is Norske Skog's goal to pay a competitive dividend.

Values for shareholders

Shareholders calculate their total return as change in price + dividend. Norske Skog is a company with a strong focus on its owners, and in consequence shareholders' total return is also a relevant target number for Norske Skog. In practice, however, it is difficult to aim for this, and instead the most important factors affecting the share price must be defined and considered as target numbers, to the extent that this is feasible.

Most important in this connection is that Norske Skog should achieve a level of profitability, in terms of return on invested capital, which meets requirements. Norske Skog has, over time, had better profitability than the average in the industry, but even so it has probably been too low, so that shareholders' total return, during some periods, has been too poor. Norske Skog's profitability programme "Norske Skog 2000", which was launched last year, aims to achieve targets for return on total assets and on equity of 13% and 15%, respectively, as an average during an economic cycle. Both profit increase and capital reduction are important parts of this programme, as well as extracting synergy effects across the Group, and the introduction of operational standards.

The structure of a company's financing is another important factor, and repurchasing of own shares has been used in certain countries in order to boost shareholder values. This is now legal in Norway, too - from and including 1999. In May 1998, the general meeting of Norske Skog shareholders authorised the Board to repurchase up to 10% of outstanding shares. This could be appropriate if the equity capital ratio is unnecessarily high and there are no investment projects offering a sufficiently high return.

There is no doubt that in the past the industry has invested too much, and at the same time, and that this has created over-capacity and large deficits, for certain periods. Within certain paper segments this policy now appears to have been abandoned, and expansion is taking place, instead, through acquisitions. Over time, this should moderate fluctuations in prices and results.

Dividend for 1998

Norske Skog has increased dividend levels over the past few years. The Board proposes a dividend of NOK 8.50 per share for 1998, against NOK 7 per share for 1997. This represents a pay-out ratio of 31.9% for 1998, and 21.6% as a weighted average over the past five years. Based on share prices at the end of last year, the dividend provides a yield of 3.6% on A-shares and 4.1% on B-shares.

Shares for employees

Norske Skog would like as many as possible of its employees to be shareholders, and for several years it has been selling shares to the Group's employees in Norway. The arrangement takes advantage of Norwegian taxation rules which allow the company to grant employees a tax-free 20% discount on the shares' market price. Some 20-25% of employees have accepted this offer during the past two years. From and including 1999 the arrangement will be widened to include employees living outside Norway, too. The annual share sales increase awareness, throughout the organisation, of the role played by owners in Norske Skog, as well as giving employees insight into the share market. In 1998 1,246 employees took part, buying a total of 23,304 A-shares.

These annual share sales have in the past been handled by a foundation which bought shares in the market and re-sold them to employees. As a result of changes in the joint stock company act, Norske Skog can now buy shares itself - from and including 1999 - and there is no longer any need to run the arrangement through the foundation.

From and including 1998, a bonus system has been introduced which applies to the Group's top management. The bonus is linked to return on invested capital, and the maximum pay-out is three months' salary. 50% of any bonus payment shall be used to buy Norske Skog shares, which must be held for a certain time thereafter.

Shares and share capital
As of 31.12.1998 the company's share capital was NOK 764,222,340 divided between 28,795,560 A-shares and 9,415,557 B-shares. Share capital was unchanged during 1998. The B-shares do not have voting rights. Otherwise, all shares have equal rights in the company, and there is no limit on the number of shares which may be held by foreigners.

Ownership structure continued stable during 1998, with only minor changes during the year. At the turn of the year, Norwegian forest owners' associations owned, in total, 36.6% of A-shares and 29.8% of total share capital. On the same date, foreign investors held 27.6% of A shares and 22.2% of total share capital. This compared with 26% of A-shares and 21.6% of total share capital, at the start of 1998.

At present the Board has no authorisation to increase share capital, but at the shareholders' general meeting in 1998 it was authorised to buy back up to 10% of outstanding shares. This authority will initially be used to buy shares for re-sale to employees.

The Stock Exchange in 1998
The Oslo Stock Exchange was weak throughout 1998. The main reasons for this were the special circumstances existing in Norway, such as the low price of oil, the weak Norwegian krone and high short-term interest rates. This trend also led to low prices for Norske Skog shares, even though a weak krone is as a rule beneficial for Norway's export industry, and low oil prices are good for the economy in our most important markets.

As of 31.12.1998 Norske Skog shares were quoted at NOK 222 for A-shares and NOK 191 for B-shares. Corresponding figures as of 31.12.1997 were NOK 214 for A-shares and NOK 200 for B-shares. The highest prices during the year were NOK 273 and NOK 257, respectively, while the lowest were NOK 165 and NOK 140, respectively. Those were the lowest prices recorded for Norske Skog's shares since 1994.

During the same period, the booked equity capital per share increased by more than 75%, and amounted to NOK 257.75 at the end of 1998.

The Oslo Stock Exchange overall index fell by 28% during 1998. The weighted average of Norske Skog's A- and B-shares was unchanged, so that Norske Skog showed a significantly better trend than the overall index. Within the sector, the price trend for shares of Swedish forest industry companies was relatively weak, while in Finland shares of such firms generally rose. In contrast to Norske Skog, the share prices of both the Swedish and Finnish forest industry companies were weaker than the local overall indices in Stockholm and Helsinki.

Norske Skog's market capitalisation stood at NOK 8,191 million as of 31.12.1998, unchanged from a year earlier. A certain rise in the price of A-shares was offset by lower prices for B-shares.

Trading in Norske Skog shares
The company's shares are listed on the Oslo Stock Exchange. In addition, its B-shares are listed on SEAQ (Stock Exchange Automatic Quotation System) in London.

During the year a total of 23.8 million Norske Skog shares were traded on the Oslo Stock Exchange. In relation to the number of shares - 38.2 million - that represents a turnover ratio of 62%. That is a relatively high figure, considering the significant presence of long-term, institutional shareholders in Norske Skog, particularly in its A-shares. In addition to the shares traded on the Oslo Stock Exchange, 7.6 million A-shares and 1.4 million B-shares were traded on SEAQ.

Investor relations
Providing the Norwegian and international financial market with information has high priority in Norske Skog. The aim is to increase knowledge about the company and understanding of the industry. This will build up the confidence needed to make long-term investors interested in Norske Skog, and the company should be correctly priced in the share market.

Issuing relevant and timely information is an important part of keeping the investment market informed. Norske Skog's financial calendar for 1999 is as follows:

Preliminary report 1998 – February 11, 1999
Annual report and accounts 1998 – April 1999
Shareholders' general meeting 1999 – May 5
1st quarter 1999 – May 5
2nd quarter 1999 – August 19
3rd quarter 1999 – November 4

Norske Skog has a home page on the Internet which is very well visited. On the home page may be found Norske Skog's annual and interim reports, press releases, presentations, general information about the company and share-related information.

In 1998 Norske Skog launched a new quarterly report, called Norske Skog Plus. This publication contains other material in addition to accounts figures, etc., and has been well received in the financial market.

As well as publishing printed and electronic information, Norske Skog holds regular presentations for the Norwegian and international financial market. In other connections, presentations are arranged at the company's different mills, and people from Norske Skog give lectures at international conferences. In 1998 such arrangements took place in Norway, England, Sweden, Austria, the Czech Republic and the US. Information activity is increasing, particularly abroad.

A large number of Norwegian and foreign broking houses follow Norske Skog and publish analyses of the company.

Jarle Langfjæran is responsible for Norske Skog's investor relations.

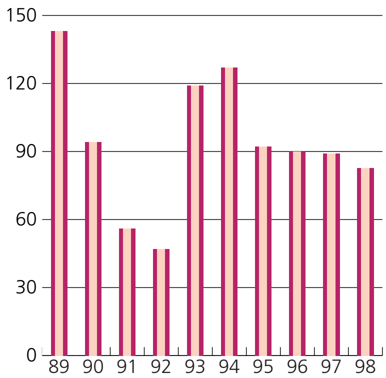
Principal shareholders as of December 31,1998

(>1% ownership)

Name	A-shares Number	%	B-shares Number	%	Total Number	%
Chase Manhattan Bank NA, GBR	3,631,204	12.6	16,761	0.2	3,647,965	9.5
Drammendistr. Skogeierforening, Hønefoss	2,352,332	8.2	185,898	2.0	2,538,230	6.6
Folketrygdfondet, Oslo	1,034,222	3.6	812,000	8.6	1,846,222	4.8
Storebrand Liv- og Skadeforsikring, Oslo	240,983	0.8	1 259,627	13.4	1,500,610	3.9
Kommunal Landspensjonskasse, Oslo	368,371	1.3	1 050,390	11.2	1,418,761	3.7
State Street Bank & Trust Co, USA	1,172,875	4.1	175,827	1.9	1,348,702	3.5
Mjøsen Skogeierforening, Lillehammer	1,148,773	4.0	176,225	1.9	1,324,998	3.5
Glommen Skog/Fond, Elverum	1,087,527	3.8	69,659	0.7	1,157,186	3.0
Telemark Tømmersalgslag, Skien	1,132,469	3.9	9,004	0.1	1,141,473	3.0
Nedre Glommen Skogeierforening, Ås	825,343	2.9	101,800	1.1	927,143	2.4
Vestfold-Lågen Skogeierforening, Hvittingfoss	823,949	2.9	79,975	0.8	903,924	2.4
A/S UNION, Skien	838,546	2.9	182	0.0	838,728	2.2
Aksjefondet Avanse, Oslo	769,657	2.7	0	0.0	769,657	2.0
Morgan Stanley, USA	614,887	2.1	100,061	1.1	714,948	1.9
Vital Forsikring, Bergen	512,163	1.8	193,600	2.1	705,763	1.8
Gjensidige Forsikring, Oslo	118,936	0.4	567,592	6.0	686,528	1.8
K-fondene, Oslo	384,194	1.3	195,900	2.1	580,094	1.5
Sør-Trøndelag Skogeierforening, Trondheim	518,260	1.8	23,000	0.2	541,260	1.4
Namdal Skogeierforening, Namsos	498,359	1.7	34,354	0.4	532,713	1.4
Odin Norge AF, Oslo	0	0.0	510,101	5.4	510,101	1.3
Nidarå Tømmersalgslag, Arendal	503,237	1.7	1,375	0.0	504,612	1.3
Agder Skogeigarlag, Kristiansand S.	393,423	1.4	85,092	0.9	478,515	1.3
Norsk Hydro Pensjonskasse, Oslo	440,500	1.5	15,500	0.2	456,000	1.2
DnB Investor, Oslo	289,809	1.0	149,306	1.6	439,115	1.1
VPF Skagen Vekst, Stavanger	398,900	1.4	23,430	0.2	422,330	1.1
Total principal shareholders	20,098,919	69.8	5,836,659	62.0	25,935,578	67.9
Total number of shares	28,795,560	100	9,415,557	100	38,211,117	100

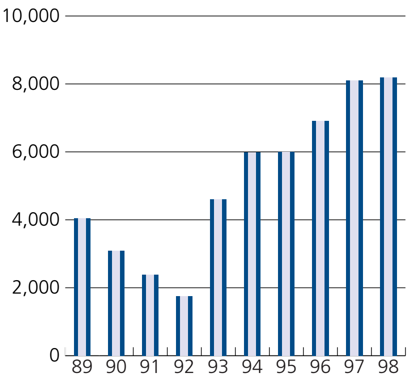
Market cap. as % of book value

%



Market cap. as of 31.12.

NOK mill.



Shareholder structure as of 31.12.1998

	Voting shares %	Total shares%
Forest owners' associations	37	30
Other Norwegian shareholders	36	48
Foreign holding	27	22
Total number of shares	28.8 mill.	38.2 mill.

Key figures related to shares

		1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Nominal value per share (NOK)		**20**	20	20	20	20	20	20	20	20	20
Average number of shares ex. shares held in treasury (1,000)		**38,211**	35,979	32,617	32,430	29,794	26,259	24,251	24,174	24,121	22,286
Average number of shares after full conversion excluding shares held in treasury (1,000)		**38,211**	35,979	38,695	38,508	36,241	32,791	31,399	29,922	26,509	23,388
Net earnings per share after tax (NOK) [1]		**26.68**	16.40	40.38	52.39	6.91	-1.79	-21.28	10.18	32.05	35.99
Net earnings per share after full conversion (NOK) A) [1]		**26.68**	16.40	35.90	45.99	7.70	1.68	-16.43	8.22	30.25	34.59
Cash flow per share after tax (NOK) A) [2]		**74.82**	44.89	80.20	78.79	29.07	18.74	10.56	58.12	41.50	41.19
Cash-flow per skare after full conversion (NOK) A) [2]		**74.82**	44.89	69.47	68.22	25.91	18.11	11.56	49.73	38.85	39.55
Dividend per share (NOK)		**8.50**	7.00	7.00	6.00	1.50	1.00	0.00	2.00	3.00	3.00
Price earnings ratio [3]		**8.32**	13.05	5.28	3.54	27.77	-	-	9.63	3.96	4.61
Pay-out ratio (%)		**31.90**	42.70	19.50	11.50	21.70	-	-	19.60	9.40	8.30
Number of shares 31.12. (1,000)	A-shares	**28,796**	28,796	26,557	26,531	26,199	23,684	21,826	21,826	21,825	21,825
	B-shares	**9,416**	9,416	6,084	6,084	5,561	2,631	2,425	2,425	2,425	2,425
	Total	**38,211**	38,211	32,641	32,615	31,760	26,315	24,251	24,251	24,250	24,250
Share prices high (A-restricted)		**273**	296	214	233	203.50	175.50	127.50	173	185	186
Share prices low (A-restricted)		**165**	190	174.50	170	140	65	45	73	103	109
Trading volume (Oslo Stock Exchange) 1,000		**23,825**	30,500	25,600	28,000	26,192	25,619	30,190	19,571	10,010	16,560
Share prices 31.12.	A-restricted	**-**	-	-	-	192.00	174.00	71.00	96.00	125.00	-
	A free	**222.00**	214.00	213.00	185.50	190.00	176.00	76.00	97.50	135.50	166.00
	B-shares	**191.00**	200.00	194.50	175.50	184.00	175.00	68.00	95.00	119.00	-
Number of shareholders 31.12.	A-restricted	-	-	-	-	-	16,907	16,824	17,067	17,561	-
	A free	**18,002**	17,466	17,456	17,285	17,222	16,106	15,936	16,224	16,811	17,524
	B-shares	**13,746**	13,796	14,271	14,605	14,950	15,384	15,196	17,502	16,192	-
	Total	**18,753**	18,075	18,070	17,710	17,503	17,552	17,379	17,501	17,854	17,524
Number of foreign shareholders 31.12.	A free	**203**	186	154	179	164	139	108	100	91	116
	B-shares	**88**	97	92	127	130	80	98	91	105	-
	Total	**222**	208	177	231	222	162	142	112	137	116
Percentage of shares for foreign shareholders 31.12.	A free	**27.6%**	26.0%	23.6%	14.2%	15.9%	42.7%	17.0%	11.7%	25.1%	13.7%
	B-shares	**6.0%**	8.3%	15.2%	41.4%	60.8%	58.4%	63.2%	54.4%	7.6%	-
	Total	**22.3%**	21.6%	22.0%	19.3%	24.7%	18.6%	11.7%	8.9%	8.3%	13.7%
Market value (NOK mill.)		**8,191.0**	8,100.0	6,900.0	6,000.0	5,983.0	4,597.0	1,750.9	2,376.6	3,089.5	4,037.0

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

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

The share classes A-restricted and A free were combined at year-end 1994.

Norske Skog has never previously produced as much paper, sawn timber and board as in 1998. All the Group's newsprint mills in Europe sat new production records. Production of market pulp was also high.

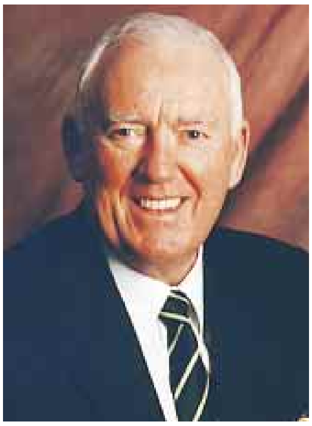
Administration's comments

- *Both newsprint and magazine paper achieved strong profit increases in 1998. The pulp and building materials businesses had weak results.*

- *In 1998 the Group started its Norske Skog 2000 improvement programme, which has two equally important main goals: a 13% return on total assets, and an H-factor (number of injuries leading to absence, per million hours worked) lower than 5 by the end of 2000.*

- *Norske Skog and Statkraft signed an agreement in 1998 which covers most of the Group's power requirements for its present activities in Norway until and including the year 2020.*

Administration's comments



We shall create values

For a company, the creation of economic values is not merely its primary task, it is a duty. Value creation is the difference between the value of production and the input factors (including depreciation) which are applied. It is the amount available for distribution among employees, owners, lenders, society and the company. And it is what justifies the company's existence. All interested parties are losers if resources are used to maintain activities which - over time - consume values and do not create them.

For Norske Skog it has always been a primary goal to achieve high profitability, in terms both of profit and return on invested capital. By and large, this will also be a measure of the value creation within the Group. Seen from the owners' viewpoint, value creation will include both value appreciation and dividend. For the forest industry it is a challenge to represent a competitive investment option, compared with other investment opportunities. During the past three to four years, particularly, this has not been the case. Only the industry itself can do something about this.

This is why we are focusing strongly on Norske Skog 2000, which aims at improving Norske Skog's profitability. Calculations made after the purchases of the mills in the Czech Republic and Austria show that we achieve value-creating synergy effects when capacity is added which complements existing activity. One large player in the Asian newsprint market, PAPCO, can serve customers more efficiently than several small ones. The new newsprint machine at Norske Skog Golbey uses less resources, for each sales krone, than older production facilities. We have also made preparations for improvement in those business areas where earnings have been weak.

When Norske Skog thus creates increased values to be shared out, there is also an increase in the potential for competitive returns on its owners' capital investment, in the form of value appreciation and dividend. And that is a prerequisite if the Group is to be able to continue the profitable growth which is Norske Skog's long-term goal. We must have a strong balance sheet, focus on return on capital, and concentrate on core activity, to ensure satisfactory competitiveness. Ambitious but realistic development plans are needed, as well as a dividend policy which contributes to high market value. It is this value creation by which we are measured, and for which we must therefore set ourselves clear goals.

Jan Reinås

Group administration in 1998

The Group's management faced two main tasks in 1998. One was to work on, and evaluate, new business opportunities. The other was to further develop the Group's organisation and working methods. In the global organisation which Norske Skog has become, it is encouraging to see that the Group is building up valuable competence through international projects and operations.

It is also encouraging to note that this has been achieved through internal recruitment to the new activities outside Norway. The Group's organisation has shown its strength by handling the major projects, particularly in Asia, in a professional manner, without significant injections of new talent.

Coordination of procurement

Norske Skog Supply AS, formerly Norsk Virke AS, has been given responsibility for coordinating procurement for the Group. The company's largest work area will remain the supplying of pulpwood and chips to the Group's own and affiliated paper and pulp activities in Norway.

Project Supply Management 2001 was created in November within the framework of the improvement programme Norske Skog 2000. Coordination and improvement of procurement systems and routines are to contribute to improved profitability. The project has a life of three years and embraces all Norske Skog's mills in Europe. It does not cover timber, recycled fibre or electricity.

More streamlined transport and storage

Norske Skog Logistics N.V. was created in Antwerp in November, after a comprehensive pre-project. The company will be concerned with outgoing transport and stockholding for all Norske Skog's European production of pulp and paper, as well as handling parts of ingoing transport of raw materials. The company's goal is to reduce transport costs by 10%.

The Group has a sales volume of 3.2 million tonnes annually, as well as significant inward transport of raw materials and operating requisites.

New IT organisation

The Group's IT functions were reorganised with effect from 01.07. This activity has switched from being concerned with operation to providing advice, laying down standard guidelines and advising on strategic development. An agreement has been concluded with a leading international supplier covering IT operation and consultancy services. The development of new systems for administration, sales, distribution and finance/economy created a need for an upgrading of infrastructure and a professional service apparatus. During 1998 a technical platform was developed for a common electronic workplace at Norske Skog.

Productivity improvement programme

As part of the Norske Skog 2000 programme, Norske Skog Research has developed a productivity improvement programme - Norske Skog Operational Standards (NSOS). The programme entails a standardisation of mill operation, in which the main elements are management, increased competence, coordination of action and exchange of experience. The programme is being introduced at the Group's publication paper mills.

HES a priority area

Norske Skog focused strongly on Health, Environment and Safety in 1998. During the year, most of the paper and pulp companies in the Group carried out a status analysis. This revealed a number of areas in which there was a need for improvement through increased involvement of management, training, and improved tools for measuring results. For 1999, concrete plans have been prepared for improvement in a prioritised number of areas at Group, area and company level.

Area Newsprint

1998 was a good year for Norske Skog's most important product. All the Group's newsprint mills in Europe set new production records. There was a satisfactory balance between supply and demand on the main markets in Europe and North America.

Newsprint
Executive Vice President
Dag Tørvold

Norske Skog Follum
Mill Director
Gjermund Røkke

Norske Skog Golbey
Managing Director
Ketil Lyng

Norske Skog Skogn
Mill Director
Svein Kr. Aurstad

Norske Skog Steti
Managing Director
Ragnvald Nilsen

Union Bruk
Managing Director
Bjørn Arnestad

Good *demand* led to record output

Market conditions
There was good balance on the European newsprint market throughout the whole of 1998. Strong growth in demand in Europe offset a significant fall in consumption in Asia. Capacity utilisation in the newsprint industry in Western Europe was consequently as high as 95%, or virtually the maximum possible. Prices in this market rose by 3% during the first quarter, and were stable throughout the whole year. There was a corresponding trend in Central and Eastern Europe, with moderate price rises and good growth in demand.

In North America the supply side was affected, in 1998, by the fact that the two largest producers were hit by strikes in 1997/98 which lasted for ten and five months, respectively. This production stoppage paved the way for record imports, specially from South Korea. With 2% consumption growth, there was balance in the North American market, too, with prices which were somewhat above European levels.

In Asia the financial crisis led to reduced demand for newsprint, although major consumer countries such as China, Japan, Taiwan and India largely avoided any significant decline. Local producers compensated for the imbalance in the market partly through increased market share in Asia, partly by exporting to overseas markets, primarily North America. In consequence, prices in Asia for newsprint from western suppliers were 10% below the levels in North America and Western Europe. For deliveries inside Asia, price levels were an additional 10% lower.

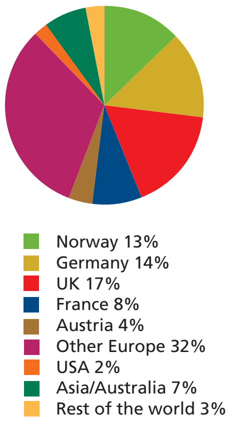
Production conditions
Because of the good demand, the mills were able to run with high capacity utilisation. Norske Skog's mills in Europe achieved their highest-ever output. Total production (excluding the Asian activities and affiliated company Union) reached 1.35 million tonnes, an 11% increase from 1997. The increase reflected increased operating time, but also higher productivity. All of Norske Skog's newsprint mills in Europe set new production records in 1998. With the new newsprint machine at Norske Skog Golbey in operation, the capacity of the Group's European mills totals 2 million tonnes of newsprint and special grades.

Plant and investment
The new newsprint machine at Norske Skog Golbey had a successful test run on December 21, 1998, and is now being run in for regular operation. Its annual capacity of 330,000 tonnes makes Norske Skog Golbey - with a total capacity of nearly 600,000 tonnes - one of the world's largest newsprint mills.

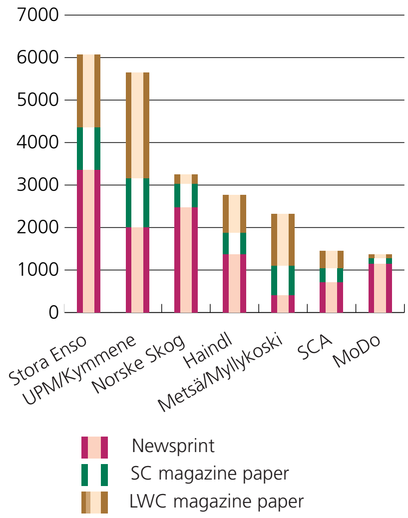
At Norske Skog Follum a new wood handling plant costing NOK 300 million was started up successfully. At Norske Skog Steti the investments planned when the mill was acquired are now being carried out. The investment programme will be concluded in 1999. At Norske Skog Skogn it has been decided to build a de-inking plant with a capacity of 140,000 tonnes of finished pulp, which replaces thermomechanical pulp. Investments have been made to improve the quality on the newsprint machine at Norske Skog Bruck.

Personnel, organisation and the work environment
At the end of 1998 there were 2,352 people on the Area Newsprint payroll. The area included the same units as a year earlier, when there were 2,177 people on its payroll. The increase reflects additional capacity at Norske Skog Golbey.

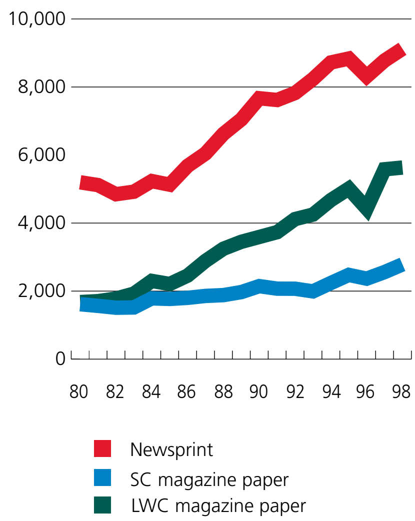
Area Newsprint operating revenue by market



European producers of publication paper
1,000 tonnes



Demand for publication paper in Western Europe
1,000 tonnes



Source: CEPIPRINT

There were no lay-offs at any of the mills during 1998.

Despite increased efforts, targets for reducing the number of injuries at work were not achieved. Absence due to illness is still high at our Norwegian mills, while it is low at the units outside Norway. Norske Skog Golbey, for example, has only 1% absence due to illness. There will be a systematic drive to maintain the sharp focus on HES.

The Group's improvement programme - Norske Skog 2000 - has been introduced at all mills. The focus is on HES, organisation and productivity. In addition, we expect to see the effect of a number of projects implemented between the Group's various units.

Environment
All units complied with permitted emission limits during 1998 with some minor exceptions. At Norske Skog Golbey a new biological treatment plant has been built to handle the discharges from the new paper machine, while at the same time the use of water in production has been reduced by 30%.

No new regulations are expected which will entail major environmental investments at the Group's newsprint mills.

Future prospects
In Western Europe capacity utilisation is expected to be somewhat lower than in 1998, but with continued good market balance. Prices in some markets have been adjusted slightly downward, after negotiations at the turn of the year 1998/99. Some stock building by customers, in advance of the millenium change, could lead to increased demand in the second half of 1999. In the US, capacity utilisation is also expected to be somewhat lower than in 1998, but market balance will remain reasonably good. Prices are tending downward, and will probably settle at the same level as in Europe.

After a weak year in 1998, newsprint markets in Asia are expected to improve in 1999. Asian producers are expected to boost their market share, leading to a continued decline in exports to Asia from overseas suppliers. The Asian newsprint industry will increase capacity utilisation in 1999, but because the market is still imbalanced, prices may weaken somewhat in the short term.

Mills:
Norske Skog Skogn
Norske Skog Follum
Norske Skog Golbey, France
Norske Skog Bruck (PM 3), Austria
Norske Skog Steti, the Czech Republic
A/S Union (affiliated company)

Products:
Standard and improved newsprint, used for newspapers and to some extent for catalogues and free sheets. Newsprint consists of up to 100% mechanical pulp or recycled paper.

Area Newsprint		**1998**	1997	1996
Operating revenue	NOK million	**6,414**	5,672	5,445
Operating expenses	NOK million	**4,687**	4,463	3,616
Depreciation	NOK million	**535**	448	458
Operating profit	NOK million	**1,192**	761	1,371
Operating margin	%	**18.6**	13.4	25.2
Non interest bearing current assets	NOK million	**2,079**	1,248	1,211
Operational fixed assets	NOK million	**7,589**	5,298	4,089
Non interest bearing short-term debt	NOK million	**1,948**	892	620
Export share	%	**91**	89	88
Number of employees		**2,352**	2,177	2,016

Demand in Europe *still rising*

Area Magazine Paper

Market growth in Europe made it possible to run magazine paper machines at virtually full capacity. Norske Skog Saugbrugs' PM 6 set a new production record. Norske Skog Bruck launched a new grade of coated magazine paper, and Norske Skog Saugbrugs carried out a successful rebuild of PM 5.

Fibre/ Magazine paper
Executive Vice President
Jan Oksum

Norske Skog Saugbrugs
Mill Director
Oddvar Sandvei

Norske Skog Bruck
Mill Director
Siegfried Kocher

Norske Skog Hurum
Mill Director
Jarle Dragvik

Market conditions
The markets for both uncoated (SC) and coated (LWC) magazine paper were very strong at the start of 1998, and price increases were put into effect for both grades.

The tight market for magazine paper was maintained throughout the first half-year. During the second half-year the situation gradually became more balanced, and the market for LWC slowed somewhat. Deliveries of SC to Europe rose in 1998, for the second year running, by about 10%. Deliveries of LWC to Europe rose by 1% in 1998, after having risen by no less than 25% in 1997.

Prices for SC in Europe remained mainly unchanged throughout the whole year. Over-capacity for fine paper in Europe, and the disappearance of exports of this grade to southeast Asia, led to pressure on prices and moderate price adjustments in certain markets during the autumn for LWC as well.

A large new SC machine started production in Canada in the spring of 1998. European exports of SC to the US declined by about 2% or some 15,000 tonnes in 1998. Europe's SC industry has, even so, operated at virtually full capacity in order to cover market growth in Europe.

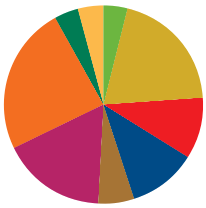
Production
In 1998, production reached 701,000 tonnes of magazine paper and 27,500 tonnes of special grades. This is 15,000 tonnes and 1,500 tonnes less, respectively, than in 1997. PM 5 at Norske Skog Saugbrugs was stopped for ten weeks for the rebuild, thus reducing capacity by over 30,000 tonnes. The mill's PM 6 set a new output record, and PM 4's productivity also improved.

In 1998 Norske Skog Bruck launched its improved LWC grade, under the brand name Norcote. Because of the need to adjust to the market, production of LWC was 5,000 tonnes lower than in 1997. Lower volume at Norske Skog Hurum was due to a somewhat difficult order situation.

Plant and investment
The rebuild of Norske Skog Saugbrugs PM 5 had an investment budget of NOK 400 million. The aim of the project was to enable the machine to produce the same high grade - SC A - as the new PM 6. That was achieved. The rebuild was completed on time and within budget.

Toward the end of 1998 Norske Skog Bruck began preparations for the rebuilds of both PM 3 (newsprint) and PM 4 (LWC), in order to improve quality and productivity. These projects will be carried out during 1999.

Area Magazine paper operating revenue by market



Personnel and the work environment
At the end of 1998 there were 1,278 people on the Area Magazine Paper payroll, compared with 1,259 a year earlier.

There were no lay-offs at any of the mills in 1998.

A sharper focus on HES in Norske Skog's organisation resulted in a 20% decline in injuries leading to absence from work during 1998. This drive will be further intensified in 1999. At Norske Skog Saugbrugs there was one fatal industrial accident in 1998.

Environment
All the mills met permitted emission limits in 1998 with some minor exceptions. At Norske Skog Saugbrugs steps were taken to reduce steam emissions.

Future prospects
The market for magazine paper is expected to be good in 1999, too. Price levels are expected to be maintained, by and large. The market situation could, however, be affected by the situation for fine paper, where overcapacity may lead to pressure on LWC prices.

Mills:
Norske Skog Saugbrugs
Norske Skog Bruck, Austria
Norske Skog Hurum

Products:
SC magazine paper: used mainly for magazines, but also for catalogues and free sheets. This is an uncoated publication paper consisting of mainly mechanical pulp, together with chemical pulp and clay. This paper is given a surface treatment (super calendered) to give it a smoother surface and better print characteristics.

LWC magazine paper: used for magazines, catalogues, free sheets and brochures. This paper is made from mechanical and chemical pulp and coated with pigments (including clay) to give it an even better surface and print characteristics.

Area Magazine paper		**1998**	1997	1996
Operating revenue	NOK million	**4,125**	3,612	4,048
Operating expenses	NOK million	**2,932**	2,830	2,947
Depreciation	NOK million	**439**	409	394
Operating profit	NOK million	**754**	373	707
Operating margin	%	**18.3**	10.3	17.5
Non interest bearing current assets	NOK million	**771**	1,215	975
Operational fixed assets	NOK million	**4,437**	4,291	4,776
Non interest bearing short-term debt	NOK million	**278**	419	406
Export share	%	**97**	94	96
Number of employees		**1,278**	1,259	1,370

Crisis *weakened* markets

Area Asia

The financial crisis in Asia led to lower newsprint consumption, which depressed prices. Results at Norske Skog's two mills in Thailand and Korea are as foreseen when they were acquired.

Norske Skog Chongwon, Korea
Managing Director
Terje Engevik

Norske Skog Singburi, Thailand
Managing Director
Erik Stai

As part of the Group's strategic development, Norske Skog Asia Pacific Pte Ltd was created, based in Singapore, in autumn 1997. A number of business opportunities have been identified and evaluated.

During the first quarter of 1998 an agreement was concluded with the Korean Shinho group regarding the take-over of stakes in their newsprint mills in Korea and Thailand. In the summer of 1998, personnel from Norske Skog were stationed at the two mills, to ease the transition to new owners.

Norske Skog took over commercial responsibility for the mill in Korea on June 13, 1998. The final agreement to acquire 100% of the mill (Norske Skog Chongwon) was concluded September 19, 1998. Purchase price for the assets was approx. USD 170 million.

The negotiations and the take-over of the Thailand mill ran parallel with the process in Korea. A final agreement was signed on August 17, 1998. This gave Norske Skog 75.3% of the shares in Norske Skog Singburi for about USD 40 million. The 100% debt-free value was approx. USD 105 million.

As of September 1998, Area Asia was created as a separate profit unit within Norske Skog. At the end of 1998 the Area consisted of the two newsprint mills in Korea and Thailand, a regional head office in Singapore, and sales offices in Bangkok, Singapore, Hong Kong, Tokyo and Seoul. Norske Skog Asia Pacific is also responsible for the Group's sales from Europe to the region.

The most important assets in Norske Skog Asia Pacific, the mills in Thailand and Korea, were transferred to Pan-Asia Paper Company (PAPCO) in the first quarter of 1999. PAPCO will also serve as Norske Skog's representative for wood-containing publication paper in Asia. PAPCO is registered in Singapore, where the company is now building up its own organisation. The Norske Skog board members on PAPCO are CEO Jan Reinås and Senior Vice President, Newsprint, Dag Tørvold. Former Executive Vice President, Corporate Development, Omund Revhaug, is PAPCO's board chairman and managing director.

The majority of the financing of Norske Skog's share of PAPCO was, in the main, completed in 1998, hence most of the effect on the Group's equity capital is shown in the accounts for 1998.

Market conditions

The markets for the Norske Skog newsprint mills in Thailand and Korea were strongly affected by the crisis in Asia in 1998. Lower consumption and increased supplies depressed prices throughout the entire region. The two mills' results were, even so, as foreseen.

While sales of newsprint in western countries are made under long-term contracts, most deliveries in Asia are spot sales. The prices closely follow international market prices in USD. Because Thailand's currency, the baht, strengthened by 17% against the USD in the second half-year, prices in Thailand fell. Through the Norske Skog sales organisation in Asia it was possible to increase exports to other markets in the region.

Consumption of newsprint in Korea fell by 36% in 1998. The first half-year consequently saw large exports by Korean newsprint producers. During the second half-year the focus switched to the home market, leading to strong

Area Asia		1998
Operating revenue	NOK mill.	**485**
Operating expenses	NOK mill.	**393**
Depreciation	NOK mill.	**31**
Operating profit	NOK mill.	**61**
Operating margin	%	**12.6**
Non interest bearing current assets	NOK mill.	**206**
Operational fixed assets	NOK mill.	**2,085**
Non interest bearing short-term debt	NOK mill.	**101**
Export share	%	**100**
Number of employees		**680**

competition. Nevertheless, the prices in Korea were stable, and rose somewhat toward the end of 1998. Norske Skog increased its shares of the Korean domestic market during the year.

Production
The Norske Skog mills in Asia operated at full capacity in 1998. Total production at the mills after Norske Skog's take-over was 130,000 tonnes. Through increased efforts on the Asian export markets, stocks have been kept at a stable level.

Norske Skog Chongwon has achieved increased productivity and better utilisation of raw materials. In Thailand annual output was somewhat lower than foreseen, due to - among other things - testing of new chemicals.

Plant and investments
No significant investments were made at the mills during 1998.

Personnel
Area Norske Skog Asia Pacific had 680 people on its payroll at the end of 1998. In connection with the take-over, personnel from Norske Skog replaced the Korean management at the mills. Good relations have been established between the management and the employees at both units.

Environment
In connection with the take-over, environmental studies have been carried out at the mills. Improvements will be made during 1999 in the process water evaporation plant at the Thailand mill. Norske Skog Chongwon has about 50% lower discharges of dissolved organic compounds than good mills in Europe. Norske Skog Chongwon intends to incinerate all sludge created by the production process.

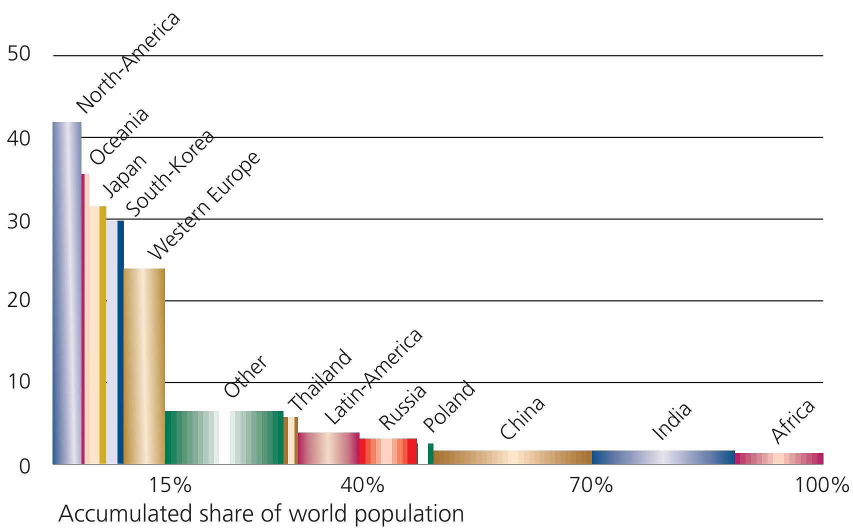
In December, local authorities awarded Norske Skog Chongwon a prize for the best internal and external environment. The prize was won in competition with 700 other companies.

Future prospects
In both Korea and Thailand, the economy is now showing signs of an upturn, but major changes cannot be expected as early as 1999. Some Korean newspapers increased their advertising volumes in the latter part of last year. It is Norske Skog's ambition to boost its market share in Thailand in 1999. Norske Skog Chongwon expects to maintain its share of the Korean market.

Mills:
Norske Skog Chongwon, Korea
Norske Skog Singburi, Thailand

Products:
Standard newsprint.

Newsprint consumption per capita
Kilos



Overcapacity *depresses* prices

Area Fibre

Overcapacity led to high inventories and falling prices for pulp during 1998. The "Tofte 400" project is yielding results in the form of uniform, high quality sulphate pulp. Norske Skog Tofte had the lowest number of accidents leading to time off work in the mill's history.

Fibre/ Magazine paer
Executive Vice President
Jan Oksum

Norske Skog Tofte
Mill Director
Erik Olsson

Norske Skog Folla
Mill Director
Egil Kjeldstad

Market conditions
For the third year running, 1998 saw very difficult market conditions for bleached, long fibre sulphate pulp. Pulp stocks in the NORSCAN area (the Nordic countries and north America) remained throughout the whole year at around 1.7 million tonnes, while about 1.2 million tonnes is regarded as indicating a balanced market. At the end of 1998 stocks stood at 1.6 million tonnes. Capacity utilisation in the NORSCAN area was 87%.

Pulp consumption rises every year, but there is still significant imbalance between supply and demand. In 1998, capacity increased by about 1 million tonnes to 38 million tonnes, while consumption is around 34 million tonnes. Capacity shutdowns are expected in North America during 1999.

The list price for bleached long fibre sulphate pulp was USD 570/tonne at the start of 1998, fell at end-March to USD 500/tonne, and then rose to USD 550/tonne in May. During the final quarter the price dropped to a low of USD 460/tonne. The list price of short fibre eucalyptus pulp showed a parallel trend, and at end 1998 it stood at ECU 360/tonne, compared with ECU 480/tonne at the start of the year.

Balance in the CTMP market improved during the year, and in 1998 capacity utilisation in the industry was 90%. This is significantly better than in 1997. The price of CTMP developed along the same lines as that of chemical pulp, but with a relatively smaller price decline. The price of high bleached CTMP stood at USD 360/tonne at the end of the year, compared with USD 400/tonne at the start of 1998.

Production
Norske Skog Tofte produced 353,200 tonnes of bleached sulphate pulp in 1998, 13,200 tonnes more than in 1997. Eucalyptus pulp accounted for 151,600 tonnes of the total. The mill curbed output, in the second half-year, in order to avoid stock building. The "Tofte 400" project is now yielding results, and where quality is concerned, 1998 was the best year in the mill's history.

Norske Skog Folla produced 85,600 tonnes of CTMP in 1998 - 22,100 tonnes more than in 1997.

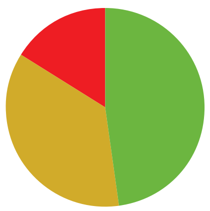
Plant and investments
In 1998 Norske Skog Tofte completed stage two of its "Tofte 400" project, which was started in 1997. In 1998 the project has concentrated on improving the quality of the finished product, and on reducing emissions to air. Investments totalled NOK 223 million in 1998. To achieve a further improvement in quality, and better operating economy, the project will be carried further in 1999, without significant investments.

At Norske Skog Folla only minor investments were made.

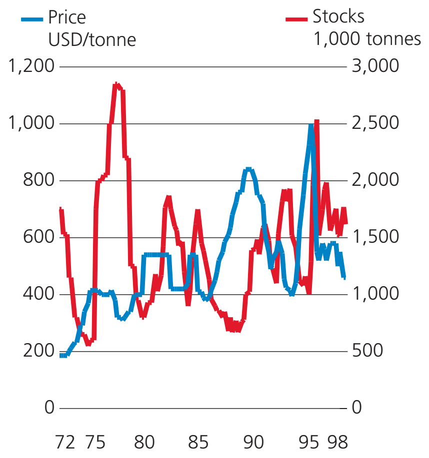
Personnel and the work environment
There were 449 people on the Area Fibre payroll at the end of 1998, compared with 468 a year earlier.

As in previous years, Norske Skog Tofte focused strongly on competence building, internal training and streamlining of the mill's organisation. The number of jobs at the mill was reduced by 19 during the year.

Area Fibre
operating revenue by pulp qualities

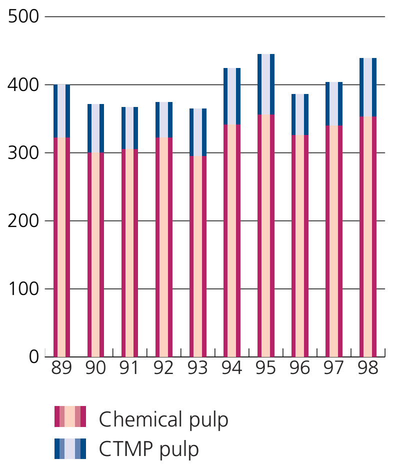


List price bleached long fibred pulp/
NORSCAN stocks 1972-1998



NORSCAN = Producers in the Nordic countries and North America.

Pulp production
1,000 tonnes



HES work at Norske Skog Tofte was reorganised in 1998. The number of injuries leading to time off work was the lowest in the mill's history. The mill will continue to make great efforts to achieve further improvements.

At Norske Skog Folla the number of injuries leading to time off work showed a negative trend, and HES efforts will be intensified in 1999. In 1998 an agreement was concluded with employees, aimed at improving the company's profitability.

Absence due to illness remains high at both mills.

There were no lay-offs at any of the mills during 1998.

Environment
Both Norske Skog Tofte and Norske Skog Folla kept within permitted emission limits in 1998. The environmental investments at Tofte, aimed at reducing emissions to air, have had a beneficial effect locally. The new biological treatment plant at Norske Skog Folla is functioning as planned.

Future prospects
The pulp industry's basic problem is over-capacity. It looks as if closure of long fibre pulp capacity in North America may improve market balance somewhat in the second half-year.

Even so, production curtailment will be necessary this year, too, to keep the stock situation under control.

The situation in Asia causes great uncertainty about how pulp markets will develop in 1999. The largest users of chemical market pulp are the makers of fine paper, a product exported in significant amounts from Asia to Europe and South America.

In the case of CTMP, too, production curtailment will be necessary, even though the imbalance between supply and demand is less than in the case of sulphate pulp.

Mills:
Norske Skog Tofte
Norske Skog Folla

Products:
Bleached long and short fibre sulphate pulp: used to give magazine paper necessary strength, as well as a raw material for fine paper, soft paper and special paper. Made by boiling chips in a chemical solution.

CTMP: used as raw material for cardboard, soft paper, writing and publication paper and for absorbent products. CTMP is pulp produced in refiners where the raw material - chips - is both pre-heated and chemically treated.

Area Fibre		**1998**	1997	1996
Operating revenue	NOK million	**1,425**	1,376	1,222
Operating expenses	NOK million	**1,346**	1,227	1,228
Depreciation	NOK million	**107**	100	121
Operating profit	NOK million	**-28**	49	-127
Operating margin	%	**-2.0**	3.6	-10.4
Non interest bearing current assets	NOK million	**369**	336	350
Operational fixed assets	NOK million	**1,063**	895	890
Non interest bearing short-term debt	NOK million	**118**	88	83
Export share	%	**69**	64	67
Number of employees		**449**	468	521

Difficult *sawn timber* market in 1998

Forestia AS

Forestia AS was formally established from January 1998 and includes the former subsidiaries Norske Skog Trelast AS and Norske Skog Plater AS. In addition, the three sawmills owned by KS Hedalm Trelast were taken over in autumn 1997. Forestia AS has been a 100%-owned subsidiary of Norske Skog throughout the whole of 1998.

Forestia AS
Chairman of the Board
Jan Reinås

Forestia AS
Managing Director
Richard Heiberg

Market conditions
Consumption trends on international sawn timber markets were generally stable, on most markets.

Record high output of sawn timber in the Nordic area led to a 20-30% fall in sawn timber prices at the turn of the year 1997/98. The first quarter was, therefore, marked by ample supplies of sawn timber and low prices. During the year prices firmed up, to some extent, but they are still significantly below the 1997 level.

Export markets for particle board showed a stable trend during the year, but with markedly stronger pressure from European producers towards the end of the year. Prices remained stable.

In volume terms, exports accounted for 39% of sawn timber sales and 54% of particle board sales. Forestia's most important export markets are Denmark, Sweden, Germany and UK.

The Norwegian building materials market developed satisfactorily during the first half-year. In the second half-year higher interest rates contributed to a marked decline in demand for both sawn timber and particle board. International recession affected sawn timber prices, but particle board prices were stable. The company maintained its share of the sawn timber market, and increased its share of the particle board market in Norway.

Production
Sawn timber output totalled 685,000 m^3, against 721,000 m^3 in 1997. Production was curbed at some sawmills during the spring.

Following a weak first half-year, operating stability at the new particle board line at Braskereidfoss showed a marked improvement during the second half-year. Total particle board output reached 400,000 m^3 against 368,000 m^3 in 1997. In 1998 Forestia Kvam once again achieved record output.

Forestia experienced three sizeable fires in 1998. The cost of the material damage done by the largest of these, at Forestia Sokna, was nearly NOK 25 million. The fires caused only minor disruption of production, and no injury to personnel.

In 1998, once again, imports of wood from Russia and the Baltic states were necessary to meet raw material requirements.

Investments
To reduce the total amount of capital engaged in the business, the level of investment was low in 1998. Investments totalled NOK 78 million, while ordinary depreciation amounted to NOK 121 million. No major individual projects were carried out.

It has been decided to build a new centre for interior wood products at Forestia Langmoen, at a cost of NOK 36 million. This is intended to give Forestia a leading position in added value products such as panelling, solid wood flooring and skirtings.

Normal, satisfactory maintenance was carried out at all plants.

Structural measures
As part of a plan to adapt sawmill capacity to future raw material supplies, the sawline at Forestia Langmoen was shut down from the turn of the year 1998/99. Production of impregnated poles at Hen Treimpregnering AS has been stopped, and its machines and inventories were sold to Solør Treimpregnering As. The smallest particle board line at Forestia Agnes has been taken out of production, now that output at Braskereidfoss has reached a higher level. The building materials

outlet Saugbrugs Trelast has been transferred to new owners.

The production structure of both the sawmilling and further processing activities at Forestia Trelast is being evaluated.

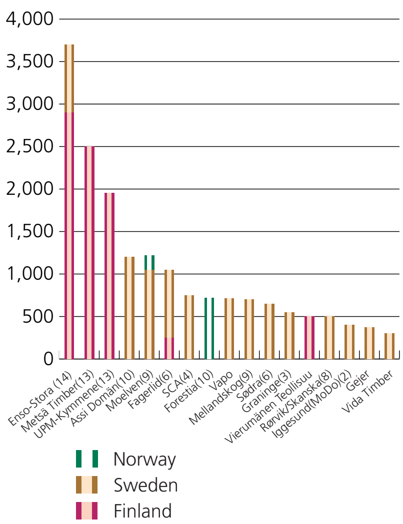
Personnel and the work environment
At the end of the year Forestia had 1,276 employees. This is a reduction of 66 from a year earlier, mainly reflecting closures, sales of businesses and internal rationalisation.

The overall rate of absence due to illness was 7% - a slight rise from the previous year. Injury rates remain far too high, with an H-value of 25. Increased focus on HES is expected to improve matters in this area during 1999.

Minor and brief production curbs were primarily dealt with by reassigning employees. There were, however, temporary lay-offs at some sawmills during 1998.

A number of steps were taken to increase employee skills and improve the work environment.

The largest sawn timber producers in the Nordic countries 1998
1,000 m^3



Environment
No new emission permits were granted to Forestia during 1998. Emissions were kept within the limits applying under existing permits. An unannounced inspection was carried out at Forestia Agnes by the SFT (Norwegian State Pollution Control Agency). It resulted in a request for a report about improved treatment of dust emissions from the drying plants.

Future prospects
The development of the Norwegian construction market is the main factor of uncertainty in 1999. Activity is expected to be considerably lower than in 1998, affecting consumption of both sawn timber and particle board.

International sawn timber markets show a stable and slightly positive trend in the first quarter of 1999. Uncertainty relates primarily to future production levels in Sweden and Finland. Activity is expected to continue satisfactory on the most important export markets for particle board, but increased supplies from central European producers are putting pressure on margins.

As a consequence of considerable over-capacity, profitability in the sawn timber business will be under pressure in 1999, too. There will be a need for structural measures, productivity improvements and cost-cutting, combined with a higher degree of further processing and value adding.

The company believes it has solved the problems connected with IT and the millenial change. Its first contract in euros was concluded in December 1998.

Plants:
Sawmills:
Forestia Våler
Forestia Østerdalen
Forestia Løten
Forestia Elverum
Forestia Romedal
Forestia Sokna
Forestia Telemark
Forestia Numedal
Forestia Van Severen

Particle board mills:
Forestia Braskereidfoss
Forestia Agnes
Forestia Kvam

Trade and further processing:
Forestia Gol
Forestia Hen
Forestia Langmoen
Forestia Vikersund
Forestia TreNova
Forestia Grubhei

Products:
Sawn timber for building and construction use, panelling and special grades, beams, components for the furniture industry, particle board for the building, furniture and interior products industries.

Area Forestia		**1998**	1997	1996
Operating revenue	NOK million	**1,944**	1,964	2,001
Operating expenses	NOK million	**1,816**	1,831	1,894
Depreciation	NOK million	**124**	114	104
Operating profit	NOK million	**4**	19	3
Operating margin	%	**0.2**	1.0	0.1
Non interest bearing current assets	NOK million	**501**	505	452
Operational fixed assets	NOK million	**858**	903	832
Non interest bearing short-term debt	NOK million	**215**	227	165
Export share	%	**33**	31	28
Number of employees		**1,276**	1,342	1,278

Pressure on *prices* and lower volumes

Norske Skog Flooring AS

Norske Skog Flooring AS is a 100% owned subsidiary company of Norske Skog. In 1998, too, the business was affected by the fact that the company is experiencing a period of organisational and structural changes, new products and launches in new markets.

Norske Skog Flooring AS
Chairman of the Board
Jan Kildal

Norske Skog Flooring AS
Managing Director
Bengt Rasin

Market conditions
The markets for laminated flooring are still growing strongly, and Alloc doubled its sales compared with 1997. Owing to large supplies there is pressure on prices on hardwood flooring, laminated flooring and other laminated products.

During the year the sales/marketing organisation and the overseas sales companies were streamlined and reorganised.

Production, plant and investment
Because sales were weaker than expected, it was necessary to curtail production. Total production of flooring was about the same as in 1997. During 1998 a number of investments were made in order to achieve higher productivity both at the hardwood flooring plant in Brumunddal and at the flooring plant in Lyngdal. This resulted in a higher proportion of first quality product, and significantly fewer customer complaints.

Personnel and organisation
The workforce at Norske Skog Flooring AS numbered 574 at the end of 1998, compared with 476 a year earlier. For the company as a whole the number of injuries causing time off work amounted to 12 per million hours worked, and the rate of absence due to illness was 8.2%.

Future prospects
The markets for hard flooring are expected to continue growing.

The steeply rising competition in the laminated flooring market makes it necessary to evaluate the positioning of today's products and consequently the production strategy.

Plans for 1999 are based on cautious expectations regarding both production volume and result.

Plants:
Norske Skog Flooring AS, Lyngdal
Norske Skog Flooring AS, Brumunddal
Fibo-Trespo AS, Lyngdal

Products:
Hardwood flooring, laminated flooring, laminated products, bathroom panelling, counter tops, laminated components.

Area Flooring		**1998**	1997	1996
Operating revenue	NOK million	**668**	703	577
Operating expenses	NOK million	**680**	689	526
Depreciation	NOK million	**54**	49	27
Operating profit	NOK million	**-67**	-35	24
Operating margin	%	**-10.0**	-5.0	4.2
Non interest bearing current assets	NOK million	**276**	215	180
Operational fixed assets	NOK million	**331**	403	281
Non interest bearing short-term debt	NOK million	**105**	101	88
Export share	%	**59**	56	50
Number of employees		**574**	476	584

Continued *high imports* of timber to Norway

Area Resources

Area Resources includes the Group's forests, its hydro power stations, procurement of electric power, management of Norske Skog's buildings and property in Norway, and Norske Skog Supply AS. That company is responsible for purchases of round timber, sawmill chips and waste paper to Norske Skog's pulp and paper mills in Norway and to Union. The department at Skogn also handles procurement for Forestia Van Severen. In 1998 the company took over management of the Group's procurement network.

Corporate resources
Senior Vice President
Thor H. Lobben

Norske Skog Supply AS
Managing Director
Helge Fasseland

Forests
Forestry Manager
Steinar Asakskogen

Energy
Director
Svein Kroken

Properties
Property Manager
Jon B. Ås

Industrikraft Midt-Norge DA
Managing Director
Steinar Bysveen

Wood and recycled paper
Purchases of wood and chips for Norske Skog's paper and pulp mills and Forestia's sawmills and board business, excluding activities in Asia, totalled 7.7 million cubic metres in 1998. Purchases of wood and chips for the mills in Norway amounted to 7.1 million cubic metres. Of this, 5.3 million cubic metres was bought for the pulp and paper industry through Norske Skog Supply AS. Imports accounted for 2.5 million cubic metres, corresponding to 35% of all wood imports.

In Norway the collection of waste paper for recycling has risen to 53% of paper consumption. The average recycling rate for Western Europe is 49%. The new de-inking plant at Norske Skog Skogn will be able to receive 170,000 tonnes of recovered paper annually. The plant is scheduled for completion in 2000.

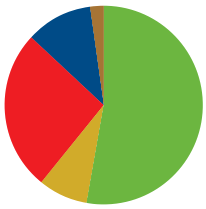
Norske Skog Golbey has established a new recovered paper supply scheme in France following the mill's enlargement by the addition of a second paper machine. The main elements in this arrangement are guaranteed minimum prices, a bonus for increased collection, secure supplies of waste paper, predictability and improved insight. At full operation, waste paper will cover up to 85% of the mill's raw material requirements.

In 2001 Norske Skog's mills in Europe will be using nearly 900,000 tonnes of waste paper. The Group's partly-owned activities in Asia are almost 100% based on waste paper.

The broadly based project Living Forest, which was started in the summer of 1995, was concluded as planned in July 1998. All parties involved agreed to a set of national standards for sustainable forestry. In the project's final phase, models were also worked out for independent forest certification. This certification can be linked to international systems such as ISO, EMAS, PEFC and FSC, or a combination of these.

This means that there now exist tools for the certification of Norwegian forestry. The forest owners' associations will play a key role in this work. The two first associations achieved certification as early as December 1998, and can thereby document the fact that they operate sustainable forestry. This is important to Norske Skog, and 25% of the Group's consumption of pulpwood in Norway is now supplied from certified Norwegian forests. Timber procurement through Norske Skog Supply is also being certified in accordance with ISO 14001.

Norske Skog (Europe) total energy consumption 11,270 GWh in 1998



Forests

Norske Skog's land estates total 180,000 hectares, of which 81,000 hectares is productive forest.

A total of 75,000 cubic metres was harvested in 1998.

Norske Skog will apply Living Forest standards in certifying its own forests in accordance with ISO 14001.

Energy

Norske Skog's mills in Norway used 4,667 GWh of electric power and 4,502 GWh of thermal energy in 1998. The Group's own power plants supplied 471 GWh of hydro power, while the rest came from contracts of varying duration, with Statkraft as the largest supplier. Bioenergy and heat recovery met nearly 90% of heat energy requirements. Total consumption at Norske Skog's mills, excluding Asia, was 5,742 GWh of electric power and 5,528 GWh of thermal energy.

Industrikraft Midt-Norge DA has established an organisation which is preparing application for a permit to build a cogeneration plant that would be linked to the Norske Skog Skogn newsprint mill. Negotiations are in progress concerning gas deliveries to the plant.

Independent analyses show that a natural gas pipeline running between Tjeldbergodden and Skogn, by making gas supplies available along the pipeline's route, could create great opportunities for business and industry in central Norway. Based on present assumptions, the cogen plant could be ready for operation in 2003.

Norske Skog and Statoil have begun co-operating in the production and sales of biopellets in Norway. The venture is starting with a small facility in Brumunddal, designed for annual output of about 8,000 tonnes of biopellets made from waste from the parquet flooring plant there.

Real estate

The new corporate centre Oxenøen Bruk, at Fornebu, consists of a modern office building which has been integrated with the existing, conservation-worthy buildings. The new building has a total floor area of 5,770 sq.m. There is ample scope for expansion in an attractive area, while at the same time the existing building also offers potential for utilisation.

Raw material purchases (excluding Asia)

	Round timber and chips (m^3)	Recycled paper (tonnes)
Norske Skog Supply, from Norway	3,033,000	
Norske Skog Supply, imports	2,274,580	
Other Norwegian suppliers	1,537,340	
Other imports	223,450	
Mills outside Norway	626,370	398,600
Total	7,694,740	398,600

Administration's comments

Focus on *productivity,* energy and quality

Research and development

The research and development work carried out by Norske Skog Research aims to improve the Group's products and processes, increase market acceptance of Norske Skog's products and ensure that its activities do not harm the environment. R & D work is conducted in close co-operation between the mills, Norske Skog Research, and external institutions, and shall contribute to improving Norske Skog's result. Norske Skog Research is organised in seven departments and has 38 employees.

In 1998 Norske Skog Research concentrated its activity on productivity improvement, optimising processes connected with our products, and quality.

The Productivity Improvement Department was established at the beginning of 1998. During the first half-year, a productivity improvement project was presented to the Group's areas and mills. Following an encouraging response, the department established a Norske Skog Operational Standard (NSOS), which involves a standardisation of pulp and paper mill operations. The goal is to increase performance at existing mills. The project comprises the sub projects productivity, benchmarking and maintenance. Its main elements are management, competence improvement, exchange of experience and coordination. The four mills given priority in the introduction of NSOS are Norske Skog Follum, Norske Skog Saugbrugs, Norske Skog Bruck and A/S Union. Some of these mills have made their own mill NSOS programmes and have started introduction and implementation.

At Norske Skog Bruck, new grades of LWC (coated magazine paper) have been developed, based on coating formulation with higher brightness, which makes these products attractive to a larger and more demanding market. A new coating formulation has also been developed for Norske Skog Follum's Norset publication paper, improving the paper's quality and widening its possible range of applications. It is now ready to be implemented.

The Mechanical Pulp Department worked on several problem areas during the year. Good results were achieved in a programme to improve the energy economics of the paper mills, via pulping processes which use less energy. The latter is a major cost factor in the production of mechanical pulp. Calculations to date show that it is possible to reduce energy consumption by 5%. This equals 10 million kWh per year, for a plant producing 100,000 tonnes of pulp per year. The results of this research are now being applied, and optimised, at Norske Skog Follum.

Through its Runability and Printability Department, Norske Skog Research has for some time been co-operating closely with several foreign customers regarding printing technology and technical problems connected with printing. Great efforts have been made to build up knowledge concerning the way in which paper affects different parameters in the offset printing process. In Norway the department has contributed its know-how in a partnership between suppliers of printing presses, printing companies and Norske Skog. This activity has yielded significant benefits by contributing to better print results for Norske Skog's customers.

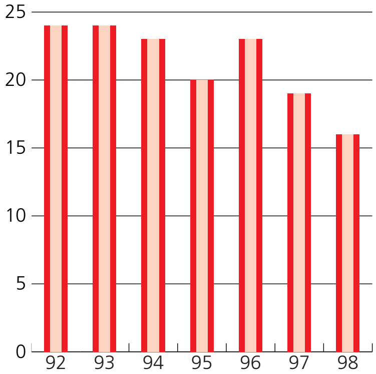
To focus on key areas, Norske Skog Research established three new departments in 1998. The new department for improvement of productivity at pulp and paper mills is located at Norske Skog Skogn. At Norske Skog Bruck, a new department has been established concerned with the coating of publication paper. To increase competence regarding our customers' print problems, runability and printability have been combined in a department which has been located at A/S Union. The other departments are, as previously, Fibre, Mechanical Pulp, Paper, Environment and Process Chemistry.

Demanding *targets*

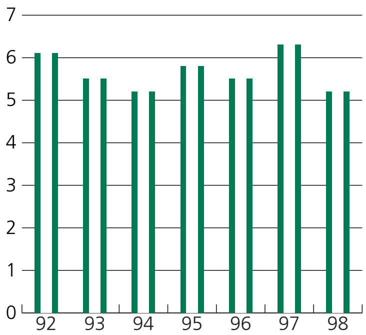
Health, Environment and Safety

At the turn of the year 1997/98 Norske Skog defined a new level of ambition where Health, Environment and Safety was concerned. As a result, greater attention and effort has been given to this area, but a further strengthening of activity is required at all levels of the organisation.

H-value
Number of injuries leading to absence from work per 1 million hours worked



Sick leave
Sick leave as per cent of normal working hours



The Group has chosen the so-called H-value (number of injuries leading to absence from work, per 1 million hours worked) as a way of measuring trends in this area. In 1998, the H-value was 16. Norske Skog's goal is an H-value of less than 5, before the end of 2000. In the Group's improvement programme, Norske Skog 2000, this goal is seen as just as important as the profitability target. Efforts are being made to develop several measurement parameters in order to be able to better describe the HES culture which it is wished to establish in the organisation.

In 1998 there was an industrial accident leading to a fatality at Norske Skog Saugbrugs, and there were also many near-accidents at our various mills. At Norske Skog Tofte, Forestia Sokna and Forestia Braskereidfoss there were serious fires. This underlines the importance of establishing an HES programme which embraces all levels of the organisation and all employees, and which is an integrated part of daily work in all departments.

The Group's management has taken a keen interest in HES efforts, and clearly demands that all units should take this matter seriously in operational activity. During 1998 the situation at the Group's companies was extensively mapped. On the basis of this information, work has started on an overall guidance document concerning HES in Norske Skog. Steps are being taken to train management and promote know-how about HES, and networks have been established which support individuals and groups in their work.

Where health is concerned, a Network for Health Personnel has been established which will enable such personnel to exchange experiences with one another, thereby allowing them to improve their advisory role. In 1998 the problem of absence due to illness has been given high priority. It has been decided to carry out a study, within the industry, concerning the presence of bacteria in a certain type of work environment.

Norske Skog now has 20 companies in Norway subject to industrial protection regulations, and of these four are in Class 1, which demands the highest standards of training, safety drills and equipment. In these companies, 15% of the employees are members of the Industrial Safety Corps. Norske Skog Skogn has for some time had its own training centre for smoke divers and fire-fighters, and a similar facility was opened at Norske Skog Follum in 1998. In several cases, the companies' industrial safety teams are a supplement to the local fire-fighting services.

The Industrial Safety Corps did an excellent job in 1998, as in previous years, and showed that it was capable of tackling its tasks and limiting damage when accidents occur. During the three large fires which occurred at Norske Skog companies in 1998, the industrial safety teams showed that the internal protection arrangements at the Group's units are good - a view shared by the Group's insurers.

Corporate Assembly

Nominated by the shareholders
Ivar B. Korsbakken, Oslo, chairman (27)
Karl Stalleland, Grimstad, vice chairman
Bjørn Arnestad, Stabekk
Bjørn Asp, Steinkjer
Halvor Bjørken, Verdal (100)
Bjørn Blakstad, Sørum (884)
Helge Evju, Skollenborg (355)
Einar Gjems, Rena (200)
Lars Wilhelm Grøholt, Hov (101)
Tellef Harstveit, Åmli (500)
Pål Haugstad, Ringebu (66)
Kurt Jessen Johansson, Mosjøen (194)
Idar Kreutzer, Oslo
Ola R. Kristiansen, Halden (413)
Bjørn Kristoffersen, Oslo
Tore Lindholt, Skjetten
Dieter Oswald, Bø i Telemark (560)
Tom Ruud, Oslo
Per Stamnes, Hønefoss (110)
Kjell Stendahl, Spillum (60)

Deputy members
1. Hans Olav Lahus, Lunde
2. Knut Reinset, Ålvundfjord (86)
3. Arne Bakken, Trysil (4)
4. Jens Nicolai Jenssen, Hommelvik (238)
5. Per Kjelstad, Sande i Sunnfjord

Nominated by the employees
Iver Engebretsen, Follum
Steinar Voldseth, Skogn
Tor Salater, Skogn (74)
Widar Israelsson, Hurum
Odd Kåre Dalen, Numedal
Ruth Bekkeli, Våler (19)
Finn Fløttum, Brumunddal
Connie I. Abelsen, Saugbrugs (50)
Martin M. Petersen, Saugbrugs (3)
Tormod Blomset, Folla (63)

Deputy members
Åse Roen, Follum (19)
Kjetil Bakkan, Skogn (25)
Hans Thore Kirknes, Skogn (164)
Kjell Torp, Tofte (64)
Hans Hagen, Kvam (38)
Arnt Saelor, Lyngdal (38)
Stein Ove Brun, Østerdalsbruket (38)
Torbjørn Fredriksen, Saugbrugs
Per Kristian Dahl, Saugbrugs (19)
Odd Vidar Vandbakk, Folla (25)

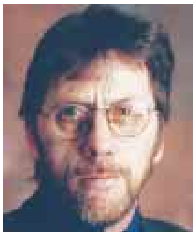
Observers from the employees
Rolf Bråthen, Follum (88)
Roger Harstad Olsen, Hurum (19)
Ove Magne Anseth, Braskereidfoss
Henrik Gundersen, Agnes (261)
Torbjørn Dybsand, Brumunddal

Deputy observers
Bjørn Løken, Follum (44)
Rolf Ingvar Lurud, Tofte (55)
Magne Eriksmoen, Våler
Svein Gunnar Snippen, Sokna
Frank W. Torgersen, Brumunddal

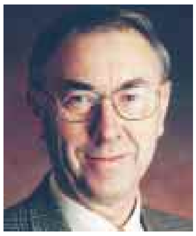
Board of Directors

Lage Westerbø, Aurdal, chairman (439)

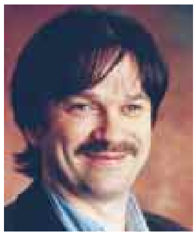
Jon R. Gundersen, Oslo, vice chairman (283)



Roy Eilertsen, Saugbrugs

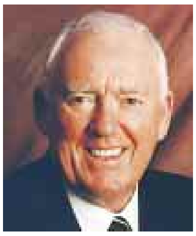


John Frøseth, Støren (188)



Kjell Hansen, Follum

Gisle Hegstad, Tofte (19)



Jan Reinås, Bærum (544)

Eivind Reiten, Oslo

Halvard Sæther, Lillehammer

Arne Rødø (observer) Van Severen

Deputy members by the employees
Kåre Leira, Skogn (117)
Roy Borgersen, Tofte (30)
Fred Lundberg, Saugbrugs ((19)

Observer
Arne Rødø, Van Severen

Deputy observer
Ole Ellingsrud, Braskereidfoss (50)

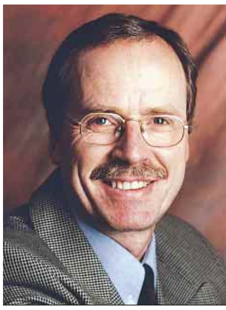
Auditors
Arthur Andersen & Co., Oslo

(Number of shares owned in parantheses)

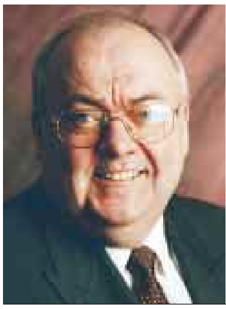
Executive Staff as of January 1, 1999


President and
Chief Executive
Officer
Jan Reinås
(544)


Executive
Vice President
Claes-Inge
Isacson,
Corporate
Development
(44)

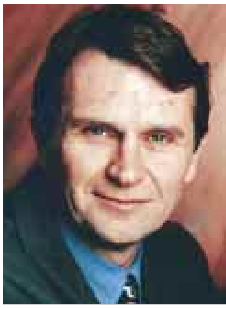

Executive
Vice President
Jan Kildal,
Economy,
Finance, Law
(1,495)

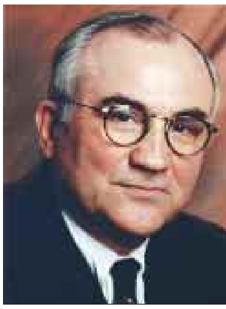

Senior
Vice President
Bjørn-Frode
Jacobsen,
Organisation
(5,063)


Vice President
Rolf Løvstrøm,
Public Affairs
(63)


Senior
Vice President
Thor H. Lobben,
Corporate
Resources
(357)

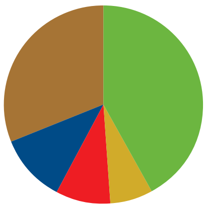

Executive
Vice President
Dag Tørvold,
Newsprint
(38)


Executive
Vice President
Jan Oksum,
Fibre and
Magazine paper
(220)

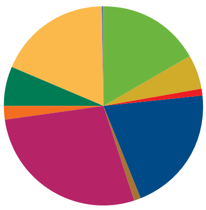

Senior
Vice President
Vidar Lerstad,
Sales and
Marketing -
Pulp and Paper
(113)

Value added

Distribution of the Group's value creation in 1998 (NOK mill.)



Distribution of employment at Norske Skog



Operating revenues for the Group totalled NOK 14,908 in 1998 and Norske Skog's production in Norway accounted for NOK 10,712 million of these revenues, whereof NOK 7,962 million from export sales and 2,750 million from sales in Norway.

Value added is the product of the Group's income less the value of depreciation and purchased goods and services, and it is that sum that is distributed among the company's owners, lenders and employees.

Total value generated in Norway in 1998 as a result of the Group's operations (NOK mill.)

Net operating revenues	10,712
Less purchased goods and services (at home and abroad)	- 6,934
Less depreciation	- 776
= Value generation in factories	3,002

Value generated in the Group benefits employees, the public sector, lenders, owners and the enterprise itself. For 1998 the total value generated was distributed as follows:

Distribution of value generated in the Group in 1998 (NOK mill.)

Employees	1,266
Lenders*)	215
Central and local governments	266
Owners**)	325
The enterprise	930
Total	3,002

*) Lenders: Net financial costs in Norway
**) Owners: Dividends distributed for the year

Thus, out of the value generated in Norway in 1998, totalling NOK 3 billion, a sum of NOK 1.27 billion flowed to the employees in the form of pay and social expenditure (excluding payroll tax). Other parts of the value generated pass to lenders as net financial costs, to the central and local governments, to the owners and to the enterprise.

Employment in the Group

The Group had a total of 6,823 employees as at December 31, 1998, of whom 2,138 were employed by Group companies abroad. Accordingly the number of employees in Norway was 4,685 at December 31, 1998.

Number of regular employees	
Østfold	**780**
Oslo/Akershus	**256**
Telemark	**39**
Hedmark	**961**
Oppland	**47**
Buskerud	**1,300**
Vestfold	**110**
Vest-Agder	**315**
Nord-Trøndelag	**864**
Nordland	**13**
Total	**4,685**

Regions	
Østre Østland	**1,827**
Oslo/Akershus	**256**
Vestre Østland	**1,410**
Midt-Norge	**864**
Other regions	**328**
Total	**4,685**

Indirect employment

Indirect employment in the forestry, transport and energy sectors and in other sectors that supply the Group with goods and services is calculated according to figures from the Norwegian Central Bureau of Statistics.

It is estimated that indirect employment as the effect of Group purchasing in 1998 was 10,100 man-years. Based on this the total effect Group activities had for employment in Norway was about 14,785 man-years in 1998.

Glossary

Raw material

Timber: General term for wood as a raw material. Primarily used as a general name for pulpwood and saw logs timber, but also of sawn timber as a raw material for wood-products factories.

Pulpwood: Logs suitable for the production of chemical or mechanical pulp.

Saw logs: Logs suitable for the production of timber.

Chips: Wood chopped into pieces, 20-50 mm long, 4-5 mm thick and 15-20 mm wide, produced from round logs, or as a secondary product from the sawmills.

Waste paper: Used newspapers and magazines, waste paper from offices and printshops, used packaging.

Pulp

Cellulose: Organic substance which is the most important component of the cell walls in wood fibre; it accounts for roughly 40%, while lignin makes up 30% and other substances the rest.

Lignin: Organic substance gluing the wood fibres together.

Mechanical pulp: A mixture of fibres having been separated through mechanical processing in refiners or grinders.

Refiner: A machine which makes mechanical pulp by pressing chips between rotating steel discs. The surface pattern of the discs helps separate the individual fibres in the wood.

Grinder: A machine which makes pulp from logs; the fibres in the wood are separated when the logs are pressed against a rotating grinding stone.

Thermo Mechanical Pulp (also called TMP): Mechanical pulp produced by refining chips that are pre-heated to 100-115 °C. The high temperature softens the wood structure and helps separate the fibres, thus yielding longer and stronger fibres than are produced by grinding.

CTMP (Chemi-Thermo-Mechanical Pulp): Pulp produced in refiners where the raw material - chips - is both pre-heated and chemically impregnated.

Chemical pulp: A mixture of fibres having been separated through a chemical cooking process where substances other than cellulose are dissolved and removed.

Sulphate (kraft) pulp: Chemical pulp produced by cooking the wood chips with a solution consisting mainly of caustic soda and sodium sulphide in a digester. The term sulphate reflects the fact that sodium sulphate was traditionally used in the chemical recovery process.

Long fibre pulp: Chemical pulp produced from softwood timber such as spruce or pine.

Short fibre pulp: Chemical pulp produced from hardwood timber such as birch or eucalyptus.

DIP (deinked pulp): Recycled newspapers, magazines and other printed material which are chemically treated to remove the ink.

Bleaching: Removal or modification of the coloured components in the pulp, primarily lignin, to improve its brightness. Acting chemicals include chlorine dioxide and hydrogen peroxide, giving the pulp higher brightness..

Market pulp: Pulp delivered to external end-users. Most pulp is converted to paper in an integrated mill.

Paper

Coating: A process in which the paper sheet is given a thin coating of clay and other pigments, to give the sheet a good printing surface.

Basis weight (substance): The weight of the paper sheet per unit area, normally in grammes per square metre. In North America other units of measurement are used (lb per 3,000 square feet).

Wood containing paper (publication paper): General term for paper containing mainly mechanical pulp. The most common grades are newsprint, SC magazine paper and LWC magazine paper.

Newsprint: Paper for newspapers containing of up to 100% mechanical pulp and/or deinked pulp. Deinked pulp is increasingly used as a raw material for the production of newsprint.

SC (Super Calendered) magazine paper: Uncoated printing paper, mainly for magazines and catalogues, consisting of about 50% mechanical pulp, 20% chemical pulp and 30% clay. This paper is given a surface treatment (super calendered) to give it a smoother surface and better printing characteristics.

LWC (Light weight Coated) magazine paper: Coated printing paper with a base sheet of mechanical and chemical pulp given a coating to improve its surface - used for magazines, catalogues and free sheets.

Fine paper: General term for writing and printing paper of high quality, made from bleached chemical pulp.

Sawn timber and board

Timber: Wood product for structural purposes and carpentry, or for further processing to other timber products. Used as a common name for sawn timber and planed timber.

Sawn timber: Materials produced straight from the log.

Planed timber: Timber planed on all surfaces.

Drying: Removal of moisture from the timber until the moisture content satisfies the requirement to what the timber shall be used for.

Kiln: Plant for artificial drying of timber with controlled climate conditions (temperature, air humidity and air velocity).

Particle board: A board produced by blending chips and glue and subjecting it to high temperature and pressure.

Other

Biological treatment: A method of cleansing waste water in which micro organisms convert dissolved organic material in the effluent to water, CO_2 and combustible sludge.

Boiler house: The section that produces the thermal energy (steam/hot air) required during the production process to give the finished products (pulp, paper, board, sawn timber) the desired dry matter content.

Addresses

Norske Skogindustrier ASA

Head Office
N-7620 SKOGN
Tel.: +47 74 08 70 00
Fax: +47 74 08 71 00

Corporate Centre
Oksenøyveien 80
N-1366 LYSAKER
Tel.: +47 67 59 90 00
Fax: +47 67 59 91 81

Area Paper
Norske Skog Skogn
N-7620 SKOGN
Tel.: +47 74 08 70 00
Fax: +47 74 08 71 09

Norske Skog Follum
N-3500 HØNEFOSS
Tel.: +47 32 11 21 00
Fax: +47 32 11 22 00

Norske Skog Golbey S.A.
B.P. 109
Route Jean-Charles Pellerin
F-88 194 GOLBEY Cedex
France
Tel.: +333 29 68 68 68
Fax: +333 29 68 68 60

Norske Skog Steti a.s.
Litomericka 272
CZ-411 08 Steti
Czech Republic
Tel.: +42 0 411 512 337
Fax: +42 0 411 500 465

A/S Union (Union Co.)
Klostergata 33
N-3730 SKIEN
Tel.: +4735 58 50 00
Fax: +47 35 58 51 00

Area Magazine Paper
Norske Skog Saugbrugs
N-1756 HALDEN
Tel.: +47 69 17 40 00
Fax: +47 69 17 43 30

Norske Skog Bruck GmbH
Fabriksgasse 10
A-8600 BRUCK a.d. Mur
Austria
Tel.: +43 3862 800
Fax: +43 3862 800 300

Norske Skog Hurum
N-3482 TOFTE
Tel.: +47 32 79 95 00
Fax: +47 32 79 40 80

Area Fibre
Norske Skog Tofte
N-3482 TOFTE
Tel.: +47 32 79 90 00
Fax: +47 32 79 90 95

Norske Skog Folla
N-7796 FOLLAFOSS
Tel.: +47 74 15 95 00
Fax: +47 74 15 94 27

Sales and public relations - fibre og paper
Norske Skog Sales
Oksenøyveien 80
N-1366 LYSAKER
Tel.: +47 67 59 90 00
Fax: +47 67 59 91 97

Area Resources
Norske Skog Supply
Grønland 81
N-3045 DRAMMEN
Tel.: +47 32 20 63 30
Fax: +47 32 20 63 31

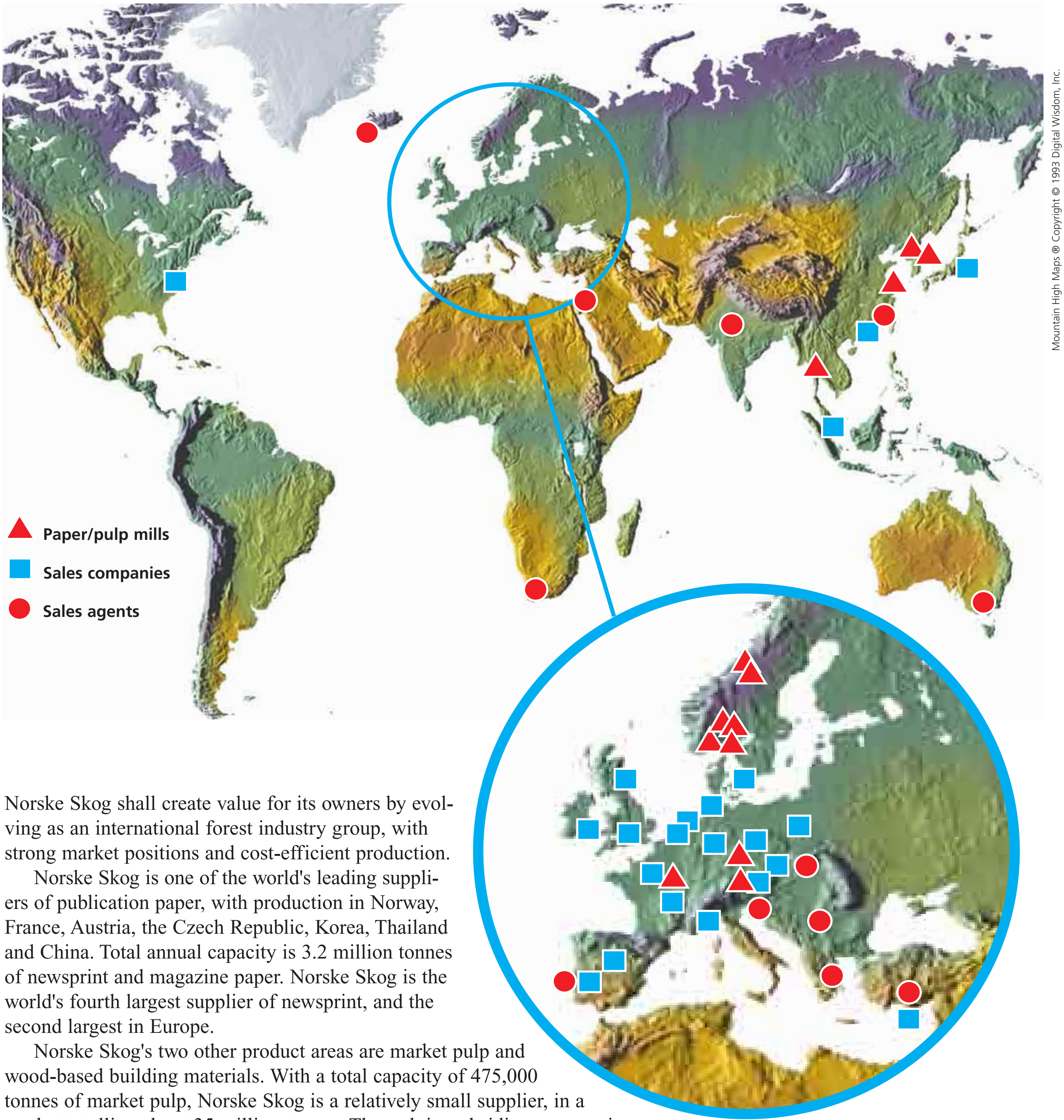
Norske Skog Skogene
N-1756 HALDEN
Tel.: +47 69 17 40 00
Fax: +47 69 17 44 04

Asia
Norske Skog Asia Pacific Pte Ltd
Amoy Street 94A
Singapore 066914
Tel.: +65 324 4677
Fax: +65 324 3577

Forestia AS
N-2435 BRASKEREIDFOSS
Tel.: +47 62 42 82 00
Fax: +47 62 42 39 23

Norske Skog Flooring AS
Vollsveien 13D
N-1327 LYSAKER
Tel.: +47 67 11 83 00
Fax: +47 67 11 83 30

This is Norske Skog



Norske Skog shall create value for its owners by evolving as an international forest industry group, with strong market positions and cost-efficient production.

Norske Skog is one of the world's leading suppliers of publication paper, with production in Norway, France, Austria, the Czech Republic, Korea, Thailand and China. Total annual capacity is 3.2 million tonnes of newsprint and magazine paper. Norske Skog is the world's fourth largest supplier of newsprint, and the second largest in Europe.

Norske Skog's two other product areas are market pulp and wood-based building materials. With a total capacity of 475,000 tonnes of market pulp, Norske Skog is a relatively small supplier, in a market totalling about 35 million tonnes. Through its subsidiary companies Forestia AS - sawn timber and board - and the flooring manufacturer Norske Skog Flooring AS, the Group is Norway's largest producer of building materials. Forestia AS is one of the Nordic area's largest suppliers of sawn timber and board.

Norske Skog has a strong financial basis, with total booked assets of NOK 24.2 billion, and an equity capital ratio of 41%. The company's ownership structure is stable. More than two thirds of its shares are owned by institutional investors such as organisations, funds and financial institutions.

The Group's growth will be concentrated on publication paper. The building material companies shall - through sale, cooperation or strategic alliances - become anchored in owner circles which have a main business focus on these product areas.

Since it was established in 1962, Norske Skog has grown rapidly through mergers, acquisitions and investments in sizeable new plant in Norway and abroad. In the 1990's, its newsprint capacity more than doubled, to 2.5 million tonnes. In 1998, publication paper accounted for 74% of the Group's operating revenue. This proportion will increase in 1999.

Main financial figures

(NOK million)

1. Profit and loss account	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**	**1991**	**1990**	**1989**
Operating revenue	**14,908**	13,312	13,265	12,548	9,170	7,338	7,557	8,640	9,879	9,248
Operating profit	**1,780**	1,083	1,916	2,500	732	299	-47	500	1,128	1,001
Profit for the year	**1,020**	590	1,317	1,699	206	-47	-516	246	773	802
2. Main financial figures										
Cash flow from operating activities	**2,859**	1,615	2,616	2,555	866	492	256	1,405	1,001	918
Depreciation	**1,323**	1,140	1,132	832	616	552	575	553	548	487
Investments in operational fixed assets	**3,983**	1,814	1,053	926	565	1,127	2,220	1,190	1,001	1,373
Gearing	**0.72**	0.46	0.63	0.61	0.67	1.13	1.07	0.49	0.65	0.63
3. Profitability										
Return on assets % *	**9.4**	7.8	14.1	21.4	7.1	5.0	0.4	8.0	15.0	17.0
Return on equity % *	**10.8**	7.1	18.6	30.1	4.8	-1.2	-12.8	6.5	25.3	33.4
4. Shares and shareholder structure										
Net earnings per share after tax * NOK	**26.68**	16.40	40.38	52.39	6.91	-1.79	-21.28	10.18	32.05	35.99
Net earnings per share fully diluted * NOK	**26.68**	16.40	35.89	45.99	6.91	1.68	-13.03	11.30	30.25	34.59
Equity per share NOK	**257.75**	237.20	233.91	200.67	148.84	146.72	155.42	175.95	135.52	116.61

* See definitions page 43

Main figures per Area

(NOK million)

		1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Newsprint											
Operating revenue		**6,414**	5,672	5,445	5,049	3,837	3,251	3,574	4,189	4,982	4,410
Operating profit		**1,192**	761	1,371	987	358	419	51	434	573	373
Operating margin	%	**18.6**	13.4	25.2	19.5	9.3	12.9	1.4	10.4	11.5	8.5
Magazine paper											
Operating revenue		**4,125**	3,612	4,048	3,017	1,994	1,480	1,199	1,666	1,751	1,358
Operating profit		**754**	373	707	721	96	50	44	222	148	25
Operating margin	%	**18.3**	10.3	17.5	23.9	4.8	3.4	3.7	13.3	8.5	1.8
Asia											
Operating revenue		**485**	-	-	-	-	-	-	-	-	-
Operating profit		**61**	-	-	-	-	-	-	-	-	-
Operating margin	%	**12.6**	-	-	-	-	-	-	-	-	-
Area Fibre											
Operating revenue		**1,425**	1,376	1,222	2,171	1,498	1,052	1,202	1,247	1,709	2,025
Operating profit		**-28**	49	-127	682	178	-187	-176	-164	327	615
Operating margin	%	**-2.0**	3.6	-10.4	31.4	11.9	-17.8	-14.6	-13.2	19.1	30.4
Forestia											
Operating revenue		**1,944**	1,964	2,001	1,780	1,581	1,316	1,337	1,411	1,624	1,593
Operating profit		**4**	19	3	35	83	23	17	8	92	86
Operating margin	%	**0.2**	1.0	0.1	2.0	5.2	1.7	1.3	0.6	5.7	5.4
Flooring											
Operating revenue		**668**	703	577	553	467	388	351	314	336	318
Operating profit		**-67**	-35	24	61	63	62	47	1	15	7
Operating margin	%	**-10.0**	-5.0	4.2	11.0	13.5	16.0	13.4	0.3	4.5	2.2

Photo: Knut Vadseth Design: Trondheim Reklamebyrå Print: Lade Offset Stock: 5.000

Contents

Shareholders' General Meeting

The ordinary General Meeting will be held on Wednesday May 5, 1999 at 12 o'clock at Festiviteten, Kirkegaten 18, Levanger.

Financial information 1999

Shareholders' General Meeting May 5.
Shares will be listed ex-dividend May 6.

Payment of dividend to shareholders who are listed in the company's register of shareholders as of May 5, May 25.

Publication of quarterly results 1999:

First quarter	May 5
Second quarter	August 19
Third quarter	November 4

Additional information on the Internet

Additional financial information concerning Norske Skog may be found on the Internet
http://www.norske-skog.com
For example:

- All result reports
- Press releases
- Presentations to the stock market
- Basic information about the Group's organisation, management and activity
- Information about mills, products, markets, environmental questions and research
- Links to other relevant sources

Norske Skogindustrier ASA

Head Office
N-7620 Skogn
Telephone: +47 74 08 70 00
Telefax: +47 74 08 71 00

Corporate Centre
Oksenøyveien 80
Postal address:
PO Box 329
N-1326 Lysaker
Telephone: +47 67 59 90 00
Telefax: +47 67 59 91 81

http://www.norske-skog.com

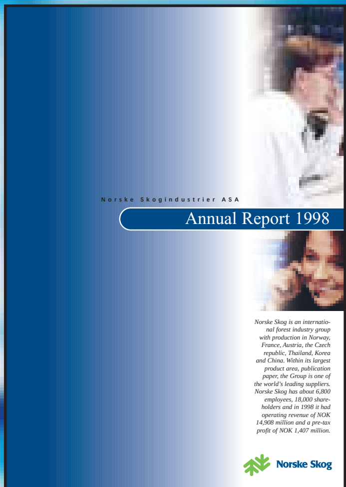
Norske Skogindustrier ASA

Annual Report 1998

Norske Skog is an international forest industry group with production in Norway, France, Austria, the Czech republic, Thailand, Korea and China. Within its largest product area, publication paper, the Group is one of the world's leading suppliers. Norske Skog has about 6,800 employees, 18,000 shareholders and in 1998 it had operating revenue of NOK 14,908 million and a pre-tax profit of NOK 1,407 million.

Norske Skog

Norske Skog



HUGIN
Investor Relations Made Easy