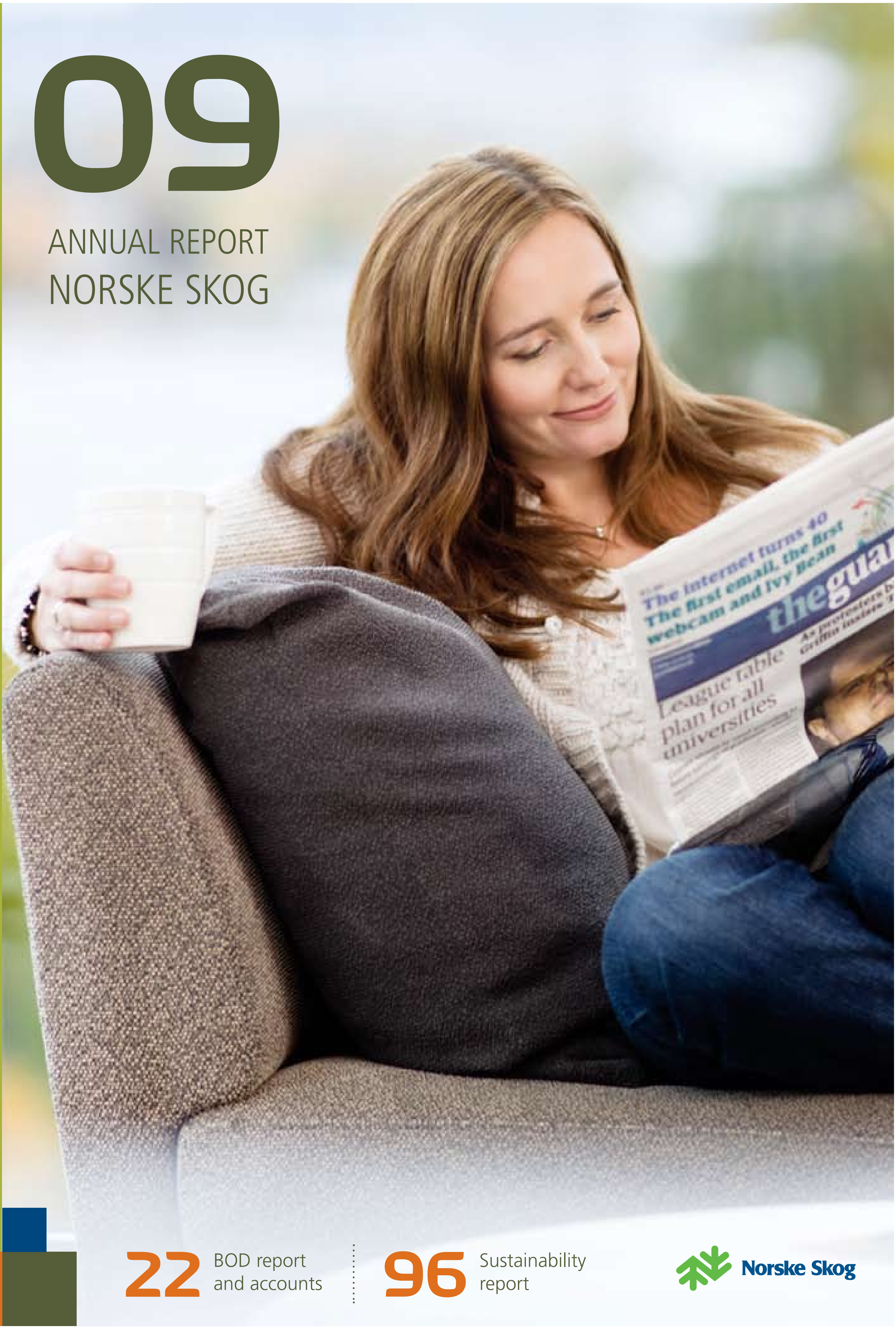
09

ANNUAL REPORT
NORSKE SKOG



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Norske Skog

KEY FINANCIAL FIGURES

	DEFINITIONS	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Income statement (NOK million)											
Operating revenue		20 362	26 468	27 118	28 812	25 726	25 302	24 068	23 471	30 354	26 635
Gross operating earnings	1	2 185	2 723	3 932	4 704	3 957	4 353	4 686	5 198	8 419	6 599
Operating earnings		(1 325)	(1 407)	677	(2 527)	630	757	1 536	1 306	5 096	4 211
Earnings before financial expenses	2	(1 209)	(1 242)	785	(2 275)	(51)	868	1 383	1 833	5 581	4 575
Profit/loss before income taxes		(1 019)	(2 779)	235	(3 480)	(1 004)	210	770	806	3 894	3 021
Net profit/loss for the year		(1 400)	(2 765)	(683)	(3 017)	(848)	629	406	1 168	2 660	2 184
Balance sheet (NOK million)											
Non-current assets		23 546	26 980	29 307	37 577	43 740	36 861	39 219	38 197	45 417	43 717
Current assets		9 609	18 211	13 953	7 653	8 293	7 238	7 119	6 769	10 855	17 510
Total assets		33 155	45 191	43 260	45 230	52 033	44 099	46 338	44 966	56 272	61 227
Total equity		12 015	13 632	15 957	18 550	22 679	18 894	19 416	17 921	19 526	22 351
Non-current liabilities		17 316	23 277	21 533	18 802	21 700	20 052	21 402	18 814	30 858	31 906
Current liabilities		3 824	8 282	5 770	7 878	7 654	5 153	5 520	6 210	5 888	6 970
Total equity and liabilities		33 155	45 191	43 260	45 230	52 033	44 099	46 338	42 945	56 272	61 227
Net interest-bearing debt		9 595	14 047	16 408	17 320	19 063	16 871	17 759	18 204	22 820	20 535
Profitability											
Gross operating margin %	3	10.73	10.30	14.50	16.30	15.40	17.20	19.50	22.10	27.70	24.80
Net operating margin %	4	(6.51)	(5.30)	2.50	(8.80)	2.40	3.00	6.30	5.60	16.80	15.80
Net profit margin %	5	(6.88)	(10.40)	(2.30)	(9.70)	(3.30)	2.60	1.70	5.00	8.20	7.40
Return on assets %	6	(3.09)	(2.80)	1.80	(4.70)	(0.10)	1.90	3.00	3.60	9.50	10.60
Return on equity %	7	(10.92)	(18.70)	(4.00)	(14.60)	(4.10)	3.30	2.20	6.30	12.70	12.80
Equity ratio %	8	36.24	30.20	36.90	41.50	43.60	42.80	41.90	39.90	34.70	36.50
Gearing	9	0.80	1.05	1.05	0.96	0.84	0.89	0.91	1.02	1.17	0.92
Net earnings per share (NOK)	10	(6.36)	(14.33)	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17
Net earnings per share fully diluted (NOK)	10	(6.36)	(14.33)	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17
Cash flow per share (NOK)	11	8.95	10.43	11.43	14.60	21.42	22.04	22.45	27.89	58.47	48.18
Cash flow per share fully diluted (NOK)	11	8.95	10.43	11.43	14.60	21.42	22.04	22.45	27.89	23.29	48.18
Liquidity											
Liquid assets (NOK)	12	4 241	6 195	1 886	485	902	889	930	868	4 158	8 629
Cash flow (NOK)	13	1 697	1 977	2 166	2 763	3 061	2 948	2 973	3 687	7 052	4 922
Current ratio	14	2.51	2.20	2.42	0.97	1.08	1.40	1.29	1.09	1.84	2.51

Definitions main financial figures:

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses + Other gains and losses + Impairments
2. Earnings before financial expenses = Operating earnings + Interest income + Share of profit in affiliated companies
3. Gross operating margin = Gross operating earnings : Operating revenue
4. Net operating margin = Operating earnings : Operating revenue
5. Net profit margin = Net profit/loss for the year : Operating revenue
6. Return on assets = Earnings before financial expenses : Total assets (average)
7. Return on equity = Net profit/loss for the year : Equity (average)
8. Equity ratio = Equity : Total assets
9. Gearing = Net interest-bearing debt : Equity
10. Net earnings per share = Net profit/loss 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

THE WORLD OF NORSKE SKOG

PRODUCTION CAPACITY PER BUSINESS UNIT 31.12.2009

		Newsprint (including improved NP)	SC (magazine paper)	LWC (magazine paper)	MFC (magazine paper)	Directory paper	Total
1	Norske Skog Skogn, Norway	600 000					600 000
2	Norske Skog Saugbrugs, Norway		550 000				550 000
3	Norske Skog Follum, Norway	150 000			140 000		290 000
4	Norske Skog Golbey, France	640 000					640 000
5	Norske Skog Bruck, Austria	128 000		275 000			403 000
6	Norske Skog Walsum, Germany			435 000			435 000
7	Norske Skog Parenco, The Netherlands	245 000					245 000
	Total Europe	**1 763 000**	**550 000**	**710 000**	**140 000**	**0**	**3 163 000**
8	Norske Skog Singburi, Thailand	130 000					130 000
	Total Asia	**130 000**	**0**	**0**	**0**	**0**	**130 000**
9	Norske Skog Tasman, New Zealand	320 000					320 000
10	Norske Skog Albury, Australia	270 000					270 000
11	Norske Skog Boyer, Australia	290 000					290 000
	Total Australasia	**880 000**	**0**	**0**	**0**	**0**	**880 000**
12	Norske Skog Pisa, Brazil	185 000					185 000
13	Norske Skog Bio Bio, Chile	60 000				65 000	125 000
	Total South America	**245 000**	**0**	**0**	**0**	**65 000**	**310 000**
	Total	**3 018 000**	**550 000**	**710 000**	**140 000**	**65 000**	**4 483 000**

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EVENTS//2009

JANUARY

Chairman Kim Wahl announced that he will not stand for re-election. Norske Skog's CEO Christian Rynning-Tønnesen named CEO of the year in the European pulp and paper industry.

FEBRUARY

Norske Skog presented a satisfactory financial result for the forth quarter of 2008. The result was significantly impacted by a weakening in the Norwegian kroner (NOK) through the latter part of 2008. Eivind Reiten was nominated as new chair of the board of directors.

MARCH

Södra and Norske Skog announced termination of the joint venture for fibre sourcing in Norway, Wood and Logistics AS. Norske Skog launched a tender offer to buy-back 2011 USD bonds in the range of 68-75 per cent of par value.

APRIL

Norske Skog's annual general meeting re-elected Tom Ruud as chair of the corporate assembly. Eivind Reiten was elected new chair of the board. Norske Skog received a long term loan of NOK 250 million from Innovation Norway.

MAY

Norske Skog announced a weak financial result for the first quarter after significant drop in volumes. At the Hebei mill in China we experienced a fatal injury. The deceased was employed by an eternal logistics company.

JUNE

The biggest shareholder in Norske Skog at that time, Unionen AS, sold all their shares. Øystein Stray Spetalen withdrew as deputy chair an member of the board of directors in Norske Skog. Svein Rennemo was elected new deputy chair

Norske Skog launched a number of new measures to reduce cost. One paper machine at Norske Skog Parenco in The Netherlands was closed and additional downsizing in particular at Norske Skog Parenco and Norske Skog Follum were announced.

The group placed a five year bond of NOK 750 million. This constituted 580 million on a 15.5 per cent fixed interest rate and 170 million on floating interest rate, NIBOR + 1 150 basis points.

JULY

Norske Skog sold all it's share in the Chinese newsprint mill Shanghai Norske Skog Potential Paper i Shanghai and announced a restructuring of the group's remaining activities in China.

AUGUST

Norske Skog announce financial results for the second quarter slightly better than previous quarter due to effects from cost reductions, but the market was still very challenging.

SEPTEMBER

Norske Skog sells the newsprint mill Norske Skog Hebei in China for around NOK 800 million to Shandong Huatai Paper. Ellen Cathrine Rasmussen hired as new managing director of Norske Skogs's bio fuel subsidiary Xynergo AS.

OCTOBER

Norske Skog ranked as no. 1 in Nordic climate reporting by the Carbon Disclosure Project. The Norwegian government proposed to add auto diesel tax on bio fuel.

NOVEMBER

The financial results for the third quarter were announced. The result was slightly better than the second quarter results mainly due to somewhat higher volumes and continued positive impact from cost cuts. The result was still considered to be too weak. CEO Christian Rynning-Tønnesen announced his resignation as CEO of Norske Skog to become the new CEO of the Norwegian energy company Statkraft.

DECEMBER

The Norwegian parliament decided to add auto diesel tax on bio fuel in Norway. Sven Ombudstvedt was named new CEO of Norske Skog. He took up the position from 1 January 2010.

GOOD PLATFORM. DEMANDING TIMES.

2009 was a very difficult year for the paper industry. The market for Norske Skog's products dropped by about 15 per cent both globally and in our European home markets.

We have implemented comprehensive changes in recent years. Mills and production lines in Europe have been closed as a response to changes in demand, and we have sold four mills in Asia to improve the group's financial position. In addition, fixed costs have been significantly reduced through downsizing and streamlining of operations and administrative processes.

Despite these efforts, substantial surplus capacity in the sector and non-sustainable prices mean that we are facing a challenging financial situation in 2010. At the end of 2009, the company had cash reserves of NOK 4.2 billion, and good control over upcoming loan maturities. One of our highest priorities is to improve the overall maturity profile and further secure the company's long-term financial position. The goals of reducing net debt through sale of assets outside the core business and cash flow from operations remain firm. However, in contrast to 2009, there is little reason to believe that the cash flow under the current market conditions will provide much leeway for any significant reduction of debt in 2010.

The biggest challenges Norske Skog faces are linked to profitability in the European part of the business, which currently accounts for 70 per cent of the group's total production capacity. For this reason, my focus, and that of the corporate management, will be on redoubling our efforts in Europe in 2010, without downgrading the substantial contributions and values that lie in our operations in Asia, Australasia and South America.

I believe in paper. Paper has unique properties for communicating knowledge, entertainment and advertising. Information on paper can be read and used regardless of other infrastructure, or lack thereof. Paper will continue to live alongside other information channels, and will gradually assume a natural position as a competitive medium in an increasingly eco-conscious world.

Norske Skog has around 5 600 employees around the world. I want to thank each and every one of them for the job they do every single day. Together we will take the necessary steps to restore Norske Skog's results to a satisfactory level, and to bring the sector into a sustainable future.

Sven Ombudstvedt
President and CEO

MARKET DEVELOPMENT IN 2009

At the beginning of 2009, there were clear signs that the demand for publication paper would fall compared with 2008. Norske Skog's annual report stated that the company expected a reduction in newsprint demand of five to ten per cent in Europe and other mature markets.

The reality was much worse, with a reduction in the global demand for newsprint of 14 per cent, and a total reduction for publication paper of about 16 per cent. This is an unprecedented reduction, resulting from a combination of weak advertising markets and structural causes in several mature markets. The largest reduction in newsprint demand was seen in North America, where demand plummeted about 25 per cent and prices fell accordingly to a very low level. Towards the end of 2009, the price level in North America was on the rise.

In 2008, comprehensive shut-down of production capacity was implemented in both Europe and North America, ensuring that the market balance at the beginning of 2009 was reasonably good. No shut-downs of importance were made in 2009, resulting in overall low capacity utilisation in the industry. A new newsprint machine started operation in England in the autumn of 2009, and this was the only new project of significance in 2009.

NEWSPRINT

Europe: For standard newsprint, demand in 2009 was about 14 per cent lower than in 2008. There were significant differences between the individual countries, with a reduction of five per cent in Germany and 15 per cent or more in England, Italy and France. Imports from Canada to Europe were 18 per cent lower than in 2008, in spite of prices in Europe being significantly higher than in North America.

As in previous years, annual contracts were entered into for newsprint for 2009 in Europe, and with a price increase of about five per cent compared with 2008. The price increase was carried out on the basis of a relatively good balance between supply and demand at the end of 2008. Norske Skog shut down PM 2 at Parenco in the Netherlands in June 2009, but no other shut-downs have been carried out in the European newsprint industry.

For the qualities book paper and improved newsprint, the demand has largely been as for standard newsprint.

At the end of 2009, there was surplus newsprint production capacity in Europe and uncertainty relating to future demand trends. Significantly lower prices must therefore be expected.

Norske Skog's production capacity in Europe for standard newsprint and similar qualities totals 1.76 million tonnes, corresponding to 39 per cent of the group's overall production capacity.

Asia: Several Asian countries saw major reductions in newsprint demand in 2009, while other countries experienced only minor reductions or even modest increases. Sales prices were lower throughout large parts of 2009.

Following the sale of the activities in South Korea and China, Norske Skog's activities in the region consist of a mill in Thailand with a capacity of 130 000 tonnes, or three per cent of the total production capacity. In addition, Norske Skog owns 33.7 per cent of a mill in Malaysia.

Australasia: In Australasia, newsprint demand fell by about 13 per cent in 2009. As a result of clauses in the long-term agreements, price increases were implemented in New Zealand from the beginning of 2009, and in Australia from 1 July 2009.

Norske Skog is the only producer of newsprint in Australasia. Total production capacity at the three mills is 885 000 tonnes, which amounts to 20 per cent of the group's total capacity.

South America: The demand in South America was about 20 per cent lower in 2009 than in 2008. Norske Skog's main markets, Brazil and Chile, saw demand fall by 27 and 17 per cent, respectively . The prices in South America mostly follow North America, due to large imports from the north. However, there is a time lag in the process, resulting in a falling trend for prices in South America throughout most of the year.

At the end of 2009, there were signs of some improvement in the markets, and price increases will be implemented.

Norske Skog has a total production capacity in South America of 310 000 tonnes, representing seven per cent of the total capacity.

MAGAZINE PAPER

The demand for magazine paper in Europe was also weak in 2009, with a decrease of about 17 per cent from 2008. For SC (uncoated) magazine paper, demand was nine per cent lower than in 2008, while the reduction was 22 per cent for LWC (coated) magazine paper. The much larger reduction for LWC is due to a large price difference between the two qualities in the first half of 2009. This resulted in customers converting to the more reasonable SC quality to some degree.

Due to comprehensive capacity shut-downs in 2008, price increases were implemented from the beginning of 2009. However, magazine paper is sold under shorter price agreements than newsprint, and prices fell in the second half of 2009.

As for newsprint, there is surplus capacity for magazine paper in Europe. Prices will therefore be lower from the beginning of 2010, but the price reduction will be less than for newsprint, relatively speaking.

Norske Skog's production capacity for magazine paper is 1.4 million tonnes, corresponding to 31 per cent of the company's overall production capacity.

NORSKE SKOG PRODUCTS

This overview presents the complete product range, including printing methods and production sites.

NORCOTE
Lightweight coated (LWC) paper is produced in several variants with standard and improved brightness levels, gloss or matt finish and a wide selection of basis weights for printing magazines, catalogues, promotion materials and other commercial literature. The physical qualities of the paper, including uniform web profile and high winding quality, makes the product range truly easy to handle.

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

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

Product brand: BioBio Directory, Tasman Directory
End use: Telephone directories, catalogues
Printing method: Cold set web offset, heat set web offset
Mills: Bio Bio, Tasman

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

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

NORBRIGHT, NORSTAR AND NORX
This product range embraces paper grades suited for both cold set and heat set web offset printing. The feel and appearance of these products are different from newsprint in terms of brightness and bulk. This allows their use for innovative and cost effective advertising, inserts and flyer production.

Product brand: Norbright, Norstar, NorX
End use: Supplements, inserts/flyers, direct mail, newspapers, freesheets, directories, magazines, books
Printing method: Cold set web offset, heat set web offset, letterpress
Mills: Bio Bio, Boyer, Follum, Golbey, Parenco, Bruck, Tasman

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

Product brand: Norset
End use: Magazines, catalogues, supplements,inserts/flyers, direct mail, books
Printing method: Heat set web offset
Mills: Follum

NORNEWS
Newspapers today must cover a broad range of activities, and must present them in new ways to new readers. Norske Skog's Nornews brand is a high-quality newsprint product recognised for its excellent printability and runnability characteristics. It is suitable for use on all types of cold set newspaper printing presses. Newsprint from Norske Skog is manufactured around the world using a combination of virgin and recycled fibres.

Product brand: Nornews
End use: Newspapers, free-sheets, directories, supplements, insert/flyers
Printing method: Cold set web offset, flexo, letterpress
Mills: Albury, Bio Bio, Boyer, Bruck, Golbey, Parenco, Pisa, Singburi, Skogn, Tasman

Over some time now, Norske Skog has dedicated itself to reducing its debt and improving the group's financial position.

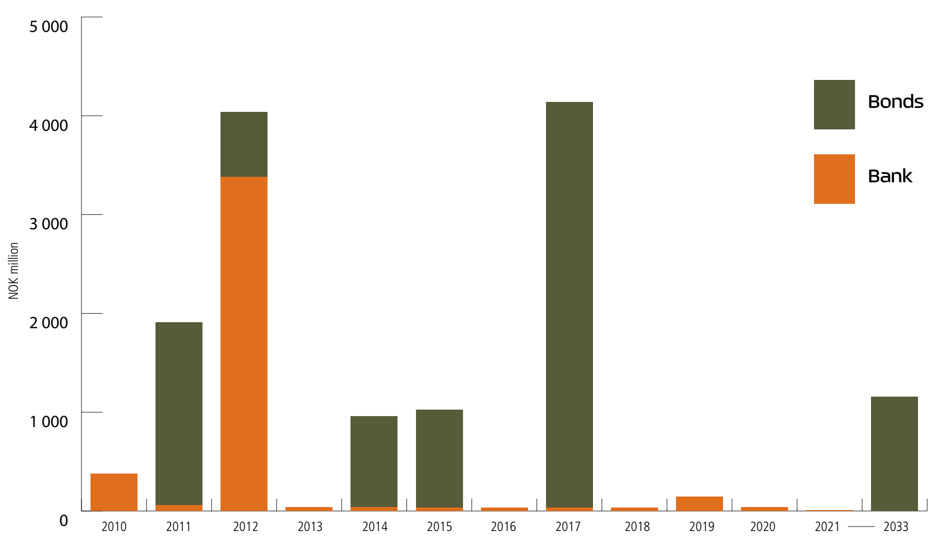
CONTINUED FOCUS ON DEBT REDUCTION

In 2008, Norske Skog sold its activities in South Korea, as well as its head office and other properties in order to reduce the debt. This resulted in a debt reduction totalling NOK 4.4 billion. In 2009, the group has divested its two mills in China, resulting in a further debt reduction of about NOK 1 billion. In addition, Norske Skog has maintained a vigilant focus on cash flow through comprehensive cost reductions and a low investment level. In total, Norske Skog has achieved a debt reduction totalling NOK 6.8 billion over the last two years. At the end of 2009, Norske Skog had a net interest-bearing debt of NOK 9.6 billion.

Norske Skog has also worked on measures to improve the maturity profile. In April 2009, the company availed itself of a credit facility of EUR 400 million, which falls due in 2012. Along with funds from the group's cash reserve, the amount was used to pay back a loan of EUR 500 million which would have fallen due in 2010. In addition, Norske Skog has taken out loans from Innovation Norway of NOK 250 million, as well as new five-year bond loans in Norway of NOK 750 million. In connection with the Norwegian bond loan, an offer was made to the holders of a loan which falls due in 2012 to trade their bonds for bonds in the new loan. These measures have helped to improve the group's maturity profile. Bonds with a nominal value of NOK 1 050 million have been redeemed, partly in the open market and partly in the form of a public offer to all bond holders in the US loan which falls due in 2011. All bonds have been redeemed at a discount and have yielded a gain of NOK 284 million. Bonds were redeemed in 2008 as well, and the total gain in 2008 and 2009 is NOK 643 million. In the first quarter of 2009, Norske Skog terminated large parts of the long-term currency and interest swaps portfolio. This resulted in a net disbursement of NOK 460 million. After the terminations, Norske Skog's loans mainly have fixed interest rates.

Norske Skog aims to achieve an average term to maturity for its loan portfolio of more than five years. At the end of 2009, the average term to maturity was 5.8 years. At the end of 2009, the group had a cash reserve of NOK 4.2 billion, sufficient to pay the instalments until the end of 2011 without including the cash flow from the operations. For a more detailed overview of Norske Skog's maturity profile, see the graph below.

Debt maturity schedule as of 31.12.2009



Some of Norske Skog's loan agreements contain requirements relating to financial key figures:

- net equity (equity less intangible assets) must amount to minimum NOK 9 billion, and
- net interest-bearing debt/equity must not exceed 1.4.

Norske Skog was in compliance with these requirements as of 31 December 2009 with a relatively comfortable margin. However, a weak profit in 2010 and possible changes in value of the power portfolio could reduce this margin.

Norske Skog has credit ratings from Moody's and Standard & Poor's. At the end of last year, the Moody's credit rating was B2, with a negative outlook. The rating from Standard & Poor's was B+ with a negative outlook.

CURRENCY HEDGING OF CASH FLOW AND BALANCE SHEET

Norske Skog incomes and costs are distributed over various currencies, and changes in the exchange rates can therefore have a major influence on the group's profit. Norske Skog has a heavy cost base in NOK through its activities in Norway. The group's income is mainly generated in other currencies, and the group will thus benefit from a weak NOK. The effects of currency changes are reduced by Norske Skog hedging major parts of the net cash flow for the next 12 months per currency.

The main part of Norske Skog's assets and liabilities is recorded in other currencies than NOK. When converting to NOK, this can affect both the size of the debt and the debt/equity ratio. The group's loan agreements contain financial conditions related to these key figures. The risk of failing to meet these conditions is handled through allocation of debt in the same currencies in which the group has assets. If the group has sufficient flexibility as regards the loan terms, the debt is distributed over the currencies where the group has a positive cash flow. Norske Skog primarily has debt in euros, US dollars and Australian dollars, all currencies where the group has a positive underlying cash flow.

NORSKE SKOG'S SHAREHOLDER POLICY

The shareholder policy is as follows:

- Norske Skog’s goal is to provide good return for the shareholders.
- Norske Skog's shares shall be freely negotiable and based on the principle one share – one vote.
- The dividend policy shall be competitive and responsible.
- Norske Skog's capital structure shall be adapted to the company's strategy and business risk.
- The work of the board and the corporate management shall be based on the principle of equal treatment of all the company's shareholders.

DIVIDEND

The dividend policy is as follows:
Norske Skog wants to disburse competitive and stable dividend to the shareholders. As an average during a business cycle, the dividend should be 15–25 per cent of the cash flow from operations, after paid financial costs and taxes.

PROPOSED DIVIDEND FOR 2009

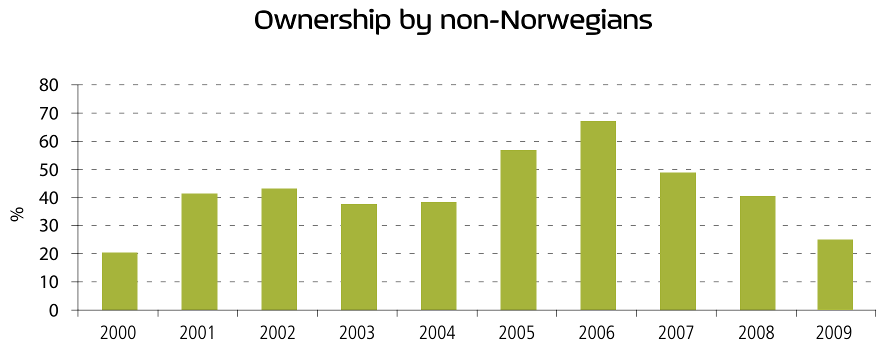
On the basis of Norske Skog's financial position, the board recommends that no dividend should be disbursed for the accounting year 2009.

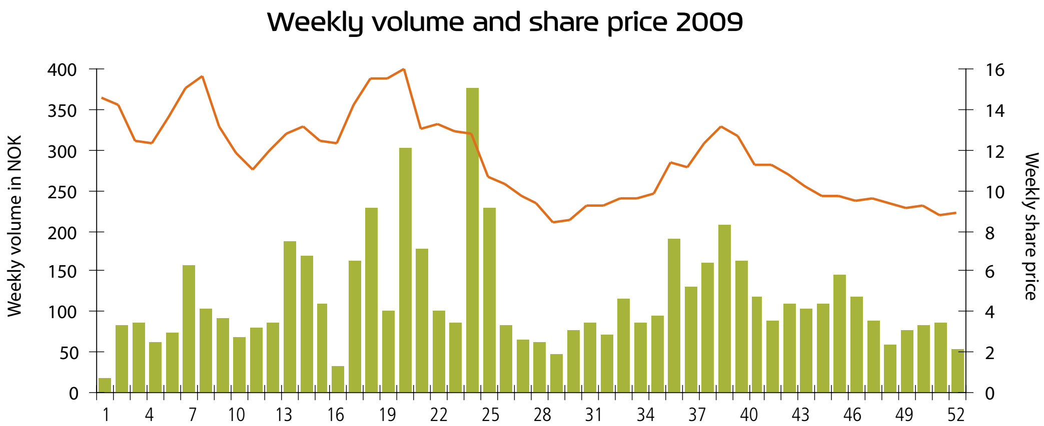
THE SHARE SAVINGS SCHEME

Through the annual sale of shares, the entire organisation focuses on the owners' role in Norske Skog, and gains insight in the share markets. The shares are sold at a discount compared with market value. The scheme was introduced for the group's employees in Norway in 1996 and was later expanded to currently include employees in all units worldwide where Norske Skog has an ownership interest of more than 90 per cent. The upper limit for share purchases has been 3/5 G (basic amount in the National Insurance Scheme) for each individual, but this is amended with effect from 2010 so that the upper limit is adapted to the maximum tax discount pursuant to Norwegian tax rules. Shareholder-elected members of the board and corporate assembly are also included in the scheme. The shares sold are taken from Norske Skog's own holdings. During the sale of shares in 2009, 569 persons bought 1 212 597 shares in total.

LONG-TERM INCENTIVE PROGRAM

Norske Skog has a long-term incentive program for the corporate management, based on a relative share return. The disbursements under this program depend on the return (dividend + share price development) from Norske Skog's shares in relation to a defined group of other listed paper industry compa-





nies, including Norske Skog. The scheme will take effect if Norske Skog is among the companies in the upper half of this reference group. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The potential profit increases in stages from 30 per cent and reaches 100 per cent if Norske Skog is among the companies in the top quartile. The development is measured in three-year periods, and a new period starts every year. There will be no disbursement for the first period, from the first quarter of 2007 to the first quarter of 2010. The next periods started in the first quarter of 2008 and the first quarter of 2009, respectively, with potential disbursements in 2011 and 2012.

Under the above-mentioned program, the maximum annual allocation will amount to the value of 35 000 shares before tax for the CEO and 17 500 shares before tax for other members of the corporate management. The allocation in a given year can at most correspond to 1.25 times the annual wage.

Pending approval from the next general meeting, this program will undergo some changes from 2010. The requirements related to absolute and relative return for Norske Skog's shares remain unchanged, but the maximum disbursement will be set at NOK 4 million for the CEO and NOK 2 million for other members of the corporate management. Of the disbursed net amount, 50 per cent must be used to purchase Norske Skog shares until the held shares amount to 200 000 for the CEO and 100 000 for other members of the corporate management.

The long-term incentive program has no dilution effect.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2009, a total of 527.5 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 787 million shares in 2008. On average, each share was traded 2.8 times in 2009.

The Norske Skog share price was NOK 9.55 on 30 December 2009, compared with NOK 14.45 on 2 January 2009. The highest price in 2009, based on close-of-trading prices, was NOK 17.60 on 5 May, and the lowest price was NOK 7.93 on 14 July.

At 31 December 2009, the share capital in Norske Skog was NOK 1 899 456 260, divided among 189 945 626 shares with a nominal value of NOK 10 each. All shares have equal rights. There were no changes in the company's share capital in 2009, and there are no authorisations for the board to expand the share capital.

At the beginning of 2009, Norske Skog owned 294 090 treasury shares. In March, 1 150 000 shares were bought, and 1 212 597 shares were later sold to employees in connection with the annual share sale program. Norske Skog's holding of own shares was 231 493 shares as of 31 December 2009. The board has been authorised to buy back up to 10 per cent of the outstanding shares.

As of 31 December 2009, the largest individual Norwegian shareholder was Viken Skog BA, with an ownership interest of 5.7 per cent. In total, the Norwegian forest owner federations owned 16.8 per cent of Norske Skog. As of 31 December 2009, foreign ownership was 26 per cent, compared with 40 per cent on 31 December 2008.

With the exception of employees in Norske Skog's companies outside of Norway, the foreign shareholders are to a large degree registered through investment banks. No foreign shareholders held more than 5 per cent of the shares. Based on the information in the Norwegian Registry of Securities, Norske Skog had 26 936 shareholders in total as of 31 December 2009, of which 1 320 resided outside Norway.

INFORMATION TO THE FINANCIAL MARKET

For several years, Norske Skog has assigned high priority to providing information to the financial market. In addition to printed and electronic information provided via the website (www.norskeskog.com) and through other channels, the company holds quarterly webcast conferences for the Norwegian and international financial markets. In addition, Norske Skog holds a large number of meetings with investors and analysts, both in the equity and credit markets.

About 20 Norwegian and international brokerage firms follow Norske Skog and publish analyses of the company. An overview of these companies can be found on Norske Skog's website.

FINANCIAL CALENDAR FOR 2010:

- 4 February: Result for the fourth quarter of 2009 and preliminary financial reporting for the full year
- 22 April: General meeting
- 6 May: Result for the first quarter of 2010
- 5 August: Result for the second quarter of 2010
- 4 November: Result for the third quarter of 2010

PRINCIPAL SHAREHOLDERS AT 31.12.2009

	Number of shares	%
VIKEN SKOG BA	10 897 825	5.74%
FOLKETRYGDFONDET	9 254 155	4.87%
AT SKOG BA	6 671 000	3.51%
SKAGEN VEKST	5 622 000	2.96%
STATE OF NEW JERSEY PENSION FUND, C/O BANK OF NEW YORK, USA	5 000 000	2.63%
ALLSKOG BA	3 458 990	1.82%
MJØSEN SKOG BA	3 407 270	1.79%
GLOMMEN SKOG AB	3 348 000	1.76%
UTHALDEN A/S	2 585 500	1.36%
A/S HAVLIDE	2 272 136	1.20%
CLEARSTREAM BANKING S.A., LUX (NOM)	2 104 574	1.11%
A/S HERDEBRED	2 036 585	1.07%
JPMORGAN CHASE BANK, GBR (NOM)	1 930 600	1.02%
BANK OF NEW YORK MELLON, USA (NOM)	1 897 435	1.00%
ASTRUP FEARNLEY A/S	1 856 000	0.98%
ALLSKOG HOLDING AS	1 802 424	0.95%
SYDBANK, DNK (NOM)	1 754 951	0.92%
BNP PARIBAS LONDON BRANCH - EQUITY, GBR	1 642 500	0.86%
GOLDMAN SACHS INT., GBR (NOM)	1 555 021	0.82%
SEB ENSKILDA ASA	1 550 000	0.82%
SKIENS AKTIEMØLLE ASA	1 507 623	0.79%
DANSKE BANK A/S, DNK (NOM)	1 324 429	0.70%
DNB NOR NORGE SELEKTV (III)	1 266 894	0.67%
VP DANSKE INVEST AK INST I	1 221 600	0.64%
UBS AG, LONDON BRANCH, GBR	1 200 623	0.63%
SKANDINAVISKA ENSKILDA BANKEN, FIN (NOM)	1 197 052	0.63%
DEUTSCHE BANK AG FRANKFURT, DEU (NOM)	1 130 386	0.60%
TS INDUSTRI INVEST AS	1 050 000	0.55%
NORDNET BANK AB, SWE (NOM)	1 039 756	0.55%
NO OF SHARES <0.5%	108 360 297	57.05%
TOTAL	**189 945 626**	**100%**

KEY FIGURES RELATED TO SHARES

	DEFINITIONS	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Nominal value (NOK/share)		10	10	10	10	10	10	10	10	20	20
Average number of shares excluding treasury shares (1 000)		189 663	189 501	189 412	189 258	142 878	132 430	132 415	132 194	120 604	102 159
Net earnings per share after tax (NOK)	1	(6.36)	(14.33)	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17
Cash flow per share after tax (NOK)	2	8.95	10.43	11.43	14.60	21.42	22.04	22.45	27.89	11.00	48.18
Dividend per share (NOK)		0.00	0.00	0.00	5.50	5.50	6.00	6.00	6.00	6.00	6.00
Price/earnings ratio	3	-	-	-	-	-	26.50	41.80	11.10	8.20	7.90
Price/cash flow ratio	4	1.07	1.29	3.95	7.35	5.01	5.90	5.70	3.50	15.30	3.10
Payout ratio (%)		-	-	-	-	-	121.2	197.4	68.3	29.0	26.9
Number of shares 31.12. (1 000)	A share	189 946	189 946	189 946	189 946	189 946	133 137	133 137	133 137	133 137	67 972
	B share	-	-	-	-		-	-	-	-	25 172
	Total	**189 946**	**189 946**	**189 946**	**189 946**	**189 946**	**133 137**	**133 137**	**133 137**	**133 137**	**93 144**
Share prices high		17.60	45.85	118.50	114.00	124.86	146.50	139.00	175.50	168.50	172.10
Share prices low		7.93	13.15	30.75	83.00	86.50	110.00	86.50	82.50	115.00	90.11
Share prices 31.12.	A share	9.55	13.50	45.20	107.50	107.25	131.00	127.00	98.00	168.00	150.59
	B share	-	-	-	-	-	-	-	-	-	146.00
Trading volume (Oslo Stock Exchange) 1 000 shares		527 525	786 990	659 648	230 507	186 297	157 839	119 400	107 649	116 458	54 118
Number of shareholders 31.12.	A share	26 936	26 812	23 871	22 967	23 646	23 851	23 212	21 083	22 587	19 431
	B share	-	-	-	-	-	-	-	-	-	14 915
	Total	**26 936**	**26 812**	**23 871**	**22 967**	**23 646**	**23 851**	**23 212**	**21 083**	**22 587**	**21 779**
Number of foreign shareholders 31.12.	A share	1320	1355	1400	1361	1 355	1 271	1 222	1 210	1 092	546
	B share	-	-	-	-	-	-	-	-	-	133
	Total	**1 320**	**1 355**	**1 400**	**1 361**	**1 355**	**1 271**	**1 222**	**1 210**	**1 092**	**589**
Foreign shareholding 31.12.	A share	25.1%	40.5%	48.9%	67.0%	56.9%	38.2%	37.6%	43.1%	41.3%	25.1%
	B share	-	-	-	-	-	-	-	-	-	8.3%
	Total	**25.1%**	**40.5%**	**48.9%**	**67.0%**	**56.9%**	**38.2%**	**37.6%**	**43.1%**	**41.3%**	**20.5%**
Market value (NOK million)		**1 812**	**2 564**	**8 586**	**20 419**	**20 372**	**17 441**	**16 908**	**13 047**	**22 367**	**16 284**

Definitions

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

The A and B share classes were merged in May 2001.

CORPORATE GOVERNANCE IN NORSKE SKOG

Norske Skog's goal is to create good shareholder values in the paper industry. Good corporate governance principles and a clearly defined allocation of roles and responsibilities between the company's governing bodies are important instruments in achieving this target.

Norske Skog's activities are based on our core values transparency, honesty and cooperation. These values constitute the basis for both cooperation between employees from many different countries and cultures and our ethical business conduct. Our ethical guidelines also include protection of whistleblowers and can be found on the company's website www.norskeskog.com. Norske Skog's corporate governance report has been adopted by the board and is based on The Norwegian Code of Practice for Corporate Governance of 21 October 2009, which can be found at www.nues.no and www.oslobors.no.

ACTIVITIES

The purpose of the company is to operate wood processing and related activities. The company can also participate in other commercial activities through share contributions or other means. Norske Skog is a world leader in the production of publication paper containing wood and maintains a strong focus on restructuring and further developing this industry. In addition, the company wishes to develop other related activity areas on a global basis, such as purchase/sale and distribution of recovered paper, both for own raw materials consumption and resale. In a joint venture with the Norwegian Forest Owners' Association, Norske Skog has established the company Xynergo AS, which aims to build a prototype facility for bio-diesel production from wood in connection with Norske Skog Follum.

SHARE CAPITAL AND DIVIDEND

Norske Skog's equity is adapted to the company's goals, strategies and risk profile. The board considers the company dividend profile regularly. For more information, see page 10 of the annual report. The 2009 general meeting issued an authorisation valid until the next ordinary general meeting to purchase treasury shares for up to NOK 185 000 000 at par value, maximum 10 per cent of the outstanding shares. The intention is resale to employees and other purposes.

EQUAL TREATMENT OF SHAREHOLDERS

Norske Skog has one class of shares, and each share equals one vote. Pursuant to the authorisation issued by the general meeting, the company's transactions in its own shares shall take place at the listed market price.

THE BOARD'S INDEPENDENCE

The members of the board shall act independently and in a manner ensuring that no one achieves unreasonable benefits. The company's rules of procedure for the board stipulate that members must inform the board of any personal and/or significant business relationships which could give rise to questions concerning their independence and objectivity. The group CEO's authorisations entail that the board will handle the company's contractual relationships only in exceptional cases. Norske Skog's ethical guidelines instruct all employees to avoid possible conflicts of interest between Norske Skog and the employee, and to be unconcealed about any matter if a possible conflict of interest occurs.

FREELY NEGOTIABLE

The company's shares are freely negotiable.

THE GENERAL MEETING

The general meeting is the company's highest authority and is chaired by the chair of the corporate assembly, according to the articles of association. The summons to the general meeting is issued within the deadlines stipulated in the Public Limited Liability Companies Act and shall contain sufficient documentation to enable the shareholders to form an opinion of the issues. The summons, case documents and the proxy form are simultaneously made available on the company's website (www.norskeskog.com). The recommendations of the election committee are enclosed with the summons.

Maximum participation is facilitated for the company's general meeting. The deadline for registering for participation is three days before the meeting. In 2009, 46 per cent of the share capital was represented at the ordinary general meeting in person or by proxy. The company has prepared a letter of attorney, which gives information about the procedures to be represented by a proxy, opportunities to vote in all matters and to vote for eligible candidates.

Proxies with an open or limited mandate can be used. All shareholders can raise issues for the agenda of the general meeting, provided that these are communicated to the board in writing no later than one month before the general meeting is held. Issues which have not been stated in the summons require the consent of all shareholders represented at the general meeting to add them to the agenda. The leader of corporate assembly chairs the annual meeting.

At the general meeting in 2009, the entire board, with the exception of the resigned board member Øystein Stray Spetalen, was present. The company's auditor and all members of the election committee were present, with the exception of Henrik A. Christensen, who could not attend.

THE ELECTION COMMITTEE

Norske Skog's articles of association stipulate an election committee consisting of the chair of the corporate assembly, as well as three

THE CORPORATE GOVERNANCE IS REGULATED BY:

- Norske Skog's articles of association (cf. page 21)
- The Public Limited Liability Companies Act of 13 June 1997 No. 45
- Instructions for the board of Norske Skog
- Instructions for and authorisations issued to the CEO
- Mandate for the audit committee
- Mandate for the compensation committee
- Corporate governance recommendations (see http://www.oslobors.no)
- Norske Skog's guidelines for ethical business conduct (www.norskeskog.com)
- Norske Skog's core values: honesty, openness and cooperation

IN 2009, THE MEMBERS OF THE ELECTION COMMITTEE WERE:

- **Tom Ruud**
  (Chair of the corporate assembly)
  Senior vice president/CFO Umoe gruppen
- **Ole H. Bakke**
  Managing director of Allskog BA
- **Henrik A. Christensen**
  Attorney and partner of
  Ro Sommernes Advokatfirma DA
- **Otto Søberg**
  Senior Advisor, AT Kearney AS

The committee members are not members of the company's board. Neither the CEO nor other senior executives are members of the committee. The election committee represents the various shareholder interests in a satisfactory manner.

members elected by the general meeting for one year at a time. The election committee proposes candidates to the company's governing bodies and remuneration for the members of these bodies. The committee should be composed with a view towards safeguarding the interests of the shareholders as a whole in the best possible manner. The election committee presents its reasoned recommendation of candidates following thorough analysis of the company's needs and the consideration for the widest possible expertise, capacity and diversity.

THE CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

According to Norwegian law, Norske Skog has a corporate assembly, consisting of 12 members elected by the shareholders and six members elected by and among the employees. In addition, the employees have three observers. The legislation relating to corporate assemblies is based on the regard for corporate democracy and employee influence and codetermination. The corporate assembly elects its own chair and deputy chair for a year at a time. The majority of the company's shareholders are based abroad and are less active in electing members to the governing bodies. Norwegian forest owner federations have traditionally been a major shareholder in the company and are still widely represented in the corporate assembly.

The corporate assembly shall supervise the board's and the CEO's management of the company and make the final decisions in issues with substantial investments or operational changes with wide-ranging effects for the employees. The corporate assembly makes recommendations to the general meeting about the board's proposed income statement and balance sheet, allocation of profit or coverage of loss, and can make recommendations to the board on all issues.

The board currently has nine members (see page 18) and has been composed to ensure competence, diversity and good teamwork. The corporate assembly elects board members for one year at a time, cf. Section 5 of the articles of association.

The members of the corporate assembly are elected by the shareholders, while the employee representatives are elected by and among Norske Skog's employees.

In 2009, Norske Skog met the prevailing requirements for representation of both genders among the members of the board elected by the shareholders. The majority of the members of the board elected by the shareholders are independent of the company's main shareholders. This applies to the board members Eivind Reiten, Svein Rennemo, Wenche Holen, Gisèle Marchand og Ingrid Wiik.

The board works independently of the company's management, however the CEO and other members of corporate management attend all board meetings. The members of the board are encouraged to own shares in the company.

THE WORK OF THE BOARD OF DIRECTORS

The board determines the overall objectives for the company's strategic development, and regularly considers the vision, goals and strategies. The board prepares an annual plan for its work. In 2009, the board focused intensively on the company's strategic development, sales of assets, profitability improvements and refinancing the company's long-term debt.

The board is continuously briefed on all important aspects of the company's activities inclusive health, safety and environment (HSE), including health, safety and environmental challenges and social responsibility. A special set of regulations ensures a clear allocation of roles and responsibilities between the board and the administration.

The board evaluates its work and competence annually. The election committee is briefed about the conclusion of the evaluation. The board has established an audit committee and a remuneration committee. In cases where the chair cannot or should not lead the board's work, the deputy chair takes over. The meeting attendance percentage for board members in 2009 was 95 per cent.

RISK MANAGEMENT AND INTERNAL CONTROL

In 2007, Norske Skog established a group-wide risk management system, based on COSO's Enterprise Risk Management framework (Committee of Sponsoring Organizations of the Treadway Commissions). This is a practical management tool used to identify, evaluate, handle and report risk. The system is based on the management teams, in each business unit and in selected group functions, reviewing the potential risk factors annually and preparing an overall risk report for the entire group including corrective action plan. Each year, the CEO submits the risk report to the company's board of directors, including a description of how the internal control system manages these risks.

Norske Skog's systems for internal control of financial reporting are based on COSO's Internal Control–Integrated Framework. The framework consists of five components: control environment, risk assessment, control activities, information and communication, as well as follow-up. The company has an overall structure for governing documents which includes rules for ethical conduct, notification procedures, internal audit, rules of procedure for the board and the authorisation system. Routines for internal control over financial reporting are defined in the company's financial handbook and in a separate handbook for the periodic accounting closing process. The group uses a standardised model for interim accounting which entails that all critical processes in the accounting work are carefully described and that the allocation of responsibility is clearly defined, both as regards execution, documentation and control.

The follow-up of the company's internal control routines takes place through the management's daily activities. In addition, the system is safeguarded through regular monitoring and testing carried out by the internal audit department. The board has in 2009 paid special attention to internal control and follow-up of the company's ethical guidelines.

BOARD REMUNERATION

Remuneration to members of the board is stipulated by the general meeting, and reflects responsibility, competence and time spent. Remuneration is not linked to results, and share options are not issued to the board members. All remuneration to the members of the board is stated on page 49.

REMUNERATION TO EXECUTIVE EMPLOYEES

The board stipulates wages and other remuneration to the CEO and other members of corporate management based on input from the compensation committee. Compensation to and remuneration of executive employees shall contribute to long-term creation of value for all company shareholders. In accordance with the provisions of the law, guidelines and principles for stipulating the wages of executive employees, as well as an account of the executive wage policy for the previous fiscal year, must be subject to special consideration by the general meeting.

INFORMATION AND COMMUNICATION

The board has not specified special guidelines for the company's contact with shareholders outside of the general meeting, but it must ensure that information and communication concerning the company's activities is correct, timely and based on the consideration for equal treatment of shareholders and other financial parties. A calendar overview of important events can be found on the company's website (www.norskeskog.com). Outside of the general meeting, contact with the shareholders is handled by the company's administration, which seeks to maintain an active dialogue with the investor market.

TAKE-OVER OF THE COMPANY

The board has approved principles for its behaviour in a potential take-over situation, in accordance with applicable recommendations for corporate governance.The principles state that the board shall not without due reason attempt to prevent or impede any party from making a bid for the company's shares.

AUDITOR

PriceWaterhouseCoopers is the company's external auditor, and responsible for financial auditing of the parent company and the group accounts. The auditor attends all meetings where the board processes annual and quarterly accounts. The board and the audit committee regularly discuss matters with the auditor without the administration being present. The auditor annually discusses the company's routines for internal control and management systems with the board and audit committee. The external auditor's fee is approved by the general meeting. For details, see page 49.

REMUNERATION RELATED TO EMPLOYMENT AND ELECTED POSITIONS IN NORSKE SKOG

CORPORATE ASSEMBLY

The remuneration is stipulated annually by the general meeting. The chair of the corporate assembly receives a remuneration of NOK 155 000 per year. Other members receive a remuneration of NOK 6 000 per meeting. Committee meetings are remunerated with NOK 6 000 per meeting. These amounts are fixed. The total disbursement to the members of the corporate assembly including committee work was NOK 509 000 in 2009.

THE BOARD

Remuneration is stipulated annually by the corporate assembly. The annual remuneration for the chair of the board is NOK 510 000, the deputy chair receives NOK 365 000, and the other board members NOK 280 000. Committee meetings are remunerated with NOK 5 600 per meeting. These amounts are fixed. The total disbursement to the board, including NOK 5 600 per meeting for attending deputy board members and for committee work, was NOK 3 368 700 in 2009.

THE CEO

Wages and other terms for the CEO are negotiated by the remuneration committee and stipulated by the board with involvement by the company's general meeting in accordance with applicable provisions. Wages and other remuneration for the CEO and other information relating to pension matters and pay after termination of employment are detailed in Note 4 in the group accounts. Please refer to pages 10 and 11 for an account of long-term incentive and bonus programs for the CEO, and page 83 for information regarding executive wages.

THE CORPORATE MANAGEMENT

The remuneration committee reviews the principles for wage determination and other terms for the other members of the corporate management as well. Reference is also made to pages 10 and 11 for an account of long-term incentive and bonus programs for senior executive employees, and page 83 for information regarding executive wages.

INTERNAL BOARD REMUNERATION

No remuneration is disbursed to Norske Skog employees for board positions in group companies. Likewise, remuneration for elected positions in companies where Norske Skog owns an interest falls to the company. This applies to cases where the employees have been elected to these positions as a result of their position in Norske Skog.

THE AUDIT COMMITTEE

The chair of the audit committee is remunerated with NOK 75 000 per year. The other members of the audit committee receive a compensation of NOK 50 000.

OTHER CONSIDERATIONS

Information relating to share options and bonus schemes for executive employees is detailed in Note 4 to the group accounts. Reference is also made to pages 10 and 11, as well as page 83 for information regarding executive wages.

SHARE PURCHASES FOR EMPLOYEES

All employees in Norske Skogindustrier ASA and in subsidiaries where Norske Skog owns more than 90 per cent receive an offer to purchase shares at a discount every year. The shares are paid through wage deductions over 12 months. The scheme also includes shareholder-elected members of the corporate assembly and the board.

THE NORSKE SKOG SHARE OWNERSHIP OF ELECTED OFFICIALS AND THE GROUP MANAGEMENT

At year-end 2009, the members of the corporate assembly held a total of 783 818 shares in Norske Skog. Correspondingly, the members of the board held 20 046 shares. The corporate management held a total of 54 932 shares.

// THE MEMBERS OF THE BOARD

EIVIND REITEN (56)
Chair of the board, elected 2009. Cand. Oceon (social economist) University of Oslo (1978). Prior CEO of Norsk Hydro ASA. Chair of the board in Constructor Group, board member in Backe Gruppen and AGR Group.

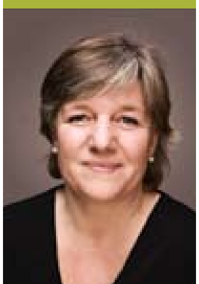
SVEIN RENNEMO (62)
Deputy chair of the board since June 2009. Board member since 2008. Cand. Oceon (social economist) University of Oslo (1971). Chair of the board of Statoil ASA, Tomra Systems ASA, Pharmaq AS and Integrated Optoelectronics AS.

HALVOR BJØRKEN (55)
Board member since 2000. Forest owner and farmer. Chair of the board of TGG, deputy chair of the board of Midtnorsk Tømmerimport, member of the corporate assembly of the insurance company Skogbrand and member of the board of the Ministry of Education and Research's development fund.

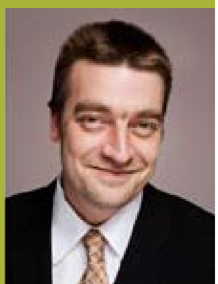
STEIN-ROAR ERIKSEN (55)
Board member since 2005, elected by the employees. Chair of Follum Works Council. Member of Norske Skog Norwegian Works Council, European Works Council (EWC) and Global Works Council. Member of the executive committee of Norwegian United Federation of Trade Unions.

WENCHE HOLEN (45)
Board member since 2008. Director in Bama-Gruppen AS. Business economist from the Norwegian School of Economics and BA, technical engineer from Gjøvik School of Engineering. Board member Birdstep ASA, the Association for the Promotion of Skiing and New Media Network, member corporate assembly and election committee of the Confederation of Norwegian Enterprise (NHO).

PAUL KRISTIANSEN (54)
Board member since 2009, elected by the employees. Chair of Saugbrugs Works Council, chair of Norske Skog Norwegian Work Council, member and secretary of the company's European Works Council (EWC), member of Norske Skog Global Works Council. Member of section council of Norwegian United Federation of Trade Unions.



GISÈLE MARCHAND (51)
Board member since 2002. CEO of Eksportfinans ASA. Deputy chair of the board of Scandinavian Property Development ASA and Oslo Børs VPS Holding ASA, board member of Oslo Børs ASA, GK Kredittforsikring AS and Norwegian Refugee Council.



INGE MYRLUND (40)
Board member since 2009, elected by the employees. Line manager at Norske Skog Follum. Chair of Council of Management and Engeneering at Follum (FLT-LO), board member and treasurer of the regional FLT-LO at Ringerike and member of Norske Skog Norwegian Works Council.

INGRID WIIK (65)
Board member since 2005. Cand. Pharm. University of Oslo, MSc. in Biopharmacy London University, MBA Norwegian School of Management (BI). Prior CEO of Alpharma Inc. Board member of Coloplast AS (DK), Biotech Pharmacon ASA, Algeta ASA and Human Care AB (S).

CORPORATE MANAGEMENT//

SVEN OMBUDSTVEDT (43)
PRESIDENT AND CEO

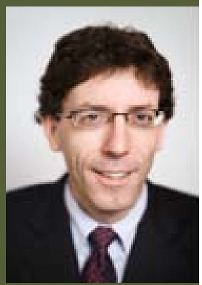
In Norske Skog since 1 January 2010. College candidate Oslo University College. BSc. of BA, Pacific Lutheran University (USA). MSc. of International Management Thunderbird University (USA). System Analyst Hydro Data 1991, System Developer Hydro Aluminium 1992, Market Analyst Hydro Agri 1993-95, VP market strategy Hydro Agri 1995-99, SVP commercial policy and industrial restructuring Hydro Agri 1999-2002, SVP corporate strategy Norsk Hydro ASA 2002-2003, SVP upstream operations 2003-06. CFO Yara International 2006-08. SVP SCD SAS 2008-09.

AUDUN RØNEID (53)
CHIEF FINANCIAL OFFICER (CFO)

In Norske Skog since November 2008. MSc. in International Business Norwegian School of Management (BI). Finance consultant Sørumsand Verksted 1982-84. Chief accountant Kværner Rosenberg Verft 1984-89. Controller Mech. Eng. Div. in Kværner 1989-91. SVP Finance Kværner Eureka 1992-94. SVP Kværner Ship Equipment 1994-98. CFO Aker Yards 1998-99. SVP Finance Kværner Oil & Gas Field Dev. 1999-02. CFO Jotun 2002-07. CFO Davie Yards Inc. 2007-08. CFO Norske Skog since 1 November 2008.

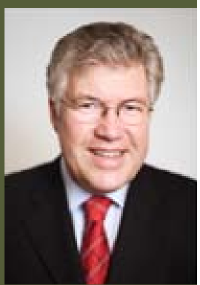
RUNE GJESSING (47)
SENIOR VICE PRESIDENT ASIA, AUSTRALASIA AND SOUTH AMERICA

With Norske Skog since 2002, BSc. in Wood Science, University of British Columbia, MBA in finance and marketing, Simon Fraser University in Vancouver and Chartered Financial Analyst. Finance and market analyst in Simons Consulting Group, Vancouver 1992-99. Equity analyst, National Bank Financial, Vancouver 1999-02. Director of investor relations & group management secretary Norske Skog 2002-06. VP controlling Norske Skog 2006. VP strategic business analysis Norske Skog 2006-07. SVP strategy Norske Skog 2007-10. SVP Asia, Australasia and South America from 4 February 2010.



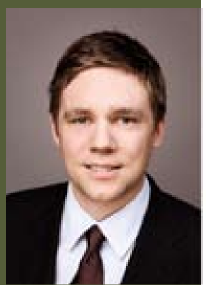
TERRY HAMILTON (47)
SENIOR VICE PRESIDENT EUROPE

In Norske Skog (Fletcher Challenge) since 1987. BSc. in Mechanical Engineering, MSc. In Engineering University of British Columbia, MBA Simon Fraser University in Vancouver. Engeneering positions Fletcher Challenge, Canada, 1987-96. Mill manager Fletcher Challenge Crofton 1996-00. Managing director (MD) Malaysian Newsprint Industries 2000-03. MD PanAsia Paper Thailand 2003-05. VP operations and strategy Norske Skog PanAsia 2006. VP NSPS Norske Skog 2006-08. SVPAsia and Australasia 2008-09. SVP Asia, Australasia and South America 2009.10. SVP for Europe from 4 February 2010.



JAN-HINRICH CLASEN (52)
SENIOR VICE PRESIDENT COMMERCIAL OPERATIONS

In Norske Skog 1992-1996 and from 1999. Chartered engineer with a Master of Engineering and Doktor-Ing. Technical University of Claustral-Zellerfeld, Germany. Sales director magazine 1992-1996 and print-shop manager Axel Springer Verlag AG (Ahrensburg) 1996-1998. SVP and Chief Sales Officer Pan Asia Paper 1999–03. VP Newsprint Norske Skog Europe 2003-04. SVP sales and marketing Norske Skog 2004-06. General manager Norske Skog Walsum 2006-08. SVP Europe 2008-10. SVP commercial operations since 4 February 2010.



GAUTE HJELMBREKKE ANDREASSEN (34)
SENIOR VICE PRESIDENT STRATEGY

In Norske Skog since 3 March 2010. MSc. of Economics and BA Norwegian School of Economics (NHH). Elementary and intermediate subject in psychology University of Bergen. Sergeant Norwegian Army 1995-97. Analyst Morgan Stanley 2000. Consultant The Boston Consulting Group 2001-05 and 2007. Project manager Yara International 2005-07. Director business development Hydro Polymers/Kerling 2007. Director strategy and business development Yara 2007-10.

CHRISTIAN RYNNING-TØNNESEN (50)
CEO UNTIL 31 DECEMBER 2009

In Norske Skog since 2005. Chief Financial Officer Norske Skog 2005-2006. CEO from 6 June 2006 until 31 December 2009.

KRISTIN SLYNGSTAD KLITZING (44)
SENIOR VICE PRESIDENT HR & ORGANISATION UNTIL 4 FEBRUARY 2010

In Norske Skog since 2007. Senior vice president HR & Organisation from 1 January 2007 until 4 February 2010.

SHARES OWNED BY MEMBERS OF CORPORATE BODIES

AS OF 31 DECEMBER 2009, NUMBER OF SHARES IN PARENTHESES:

CORPORATE ASSEMBLY

Members elected by the shareholders
Tom Ruud, Oslo (chair) (410)
Helge Evju, Skollenborg (deputy chair) (195)
Emil Aubert, Porsgrunn (754 421)
Ann Kristin Brautaset, Oslo (0)
Thorleif Enger, Oslo (0)
Ove Gusevik, Oslo (0)
Even Mengshoel, Lillehammer (860)
Christian Ramberg, Bø i Telemark (71)
Tom Rathke, Bergen (4 038)
Torbjørn Skjerve, Steinkjer (0)
Otto Søberg, Bærum (0)
Karen Helene Ulltveit-Moe, Bærum (0)

Employee-elected members
Trond Andersen, Saugbrugs (0)
Harald Bjerge, Saugbrugs (21 306)
Trond Bjørken, Skogn (1 154)
Erik Josephson, Follum (0)
Freddy Sollibråten, Follum (0)
Stig A. Stene, Skogn (648)

Employee-elected observers
Kjetil Bakkan, Skogn (585)
Marianne Grønvold, Follum (0)
Jan Magnar Hansen, Saugbrugs (130)

Shareholder elected alternate members
Svein Haare, Hønefoss (0)
Ole H. Bakke, Trondheim (53)
Kjersti Narum, Stange (977)
Uta Stoltenberg, Oslo (0)

Employee-elected alternate members
Morten Bagaasen, Follum (1 577)
Geir Ove Brenne, Skogn (0)
Øystein Bruce, Saugbrugs (2 305)
Thor Granaune, Skogn (2 127)
Thor Øystein Henningsen, Follum (576)
Randi J. Nessemo, Skogn (0)
Carl Fredrik Nilsen, Saugbrugs (1 049)
Jørn Steen, Follum (367)

BOARD OF DIRECTORS

Eivind Reiten, Oslo (chair) (0)
Svein Rennemo, Oslo (deputy chair) (0)
Halvor Bjørken, Verdal (6 885)
Stein-Roar Eriksen, Hønefoss (0)
Wenche Holen, Oslo (0)
Paul Kristiansen, Ski (4 395)
Gisèle Marchand, Oslo (838)
Inge Myrlund, Hønefoss (1 730)
Ingrid Wiik, Bærum (6 198)

Employee-elected alternate board members (personal)
Kjell Runar Evju (for Stein-Roar Eriksen), Hønefoss (1 304)
Jonas Kartum (for Paul Kristiansen), Halden (38)
Wenche Redzepi (for Inge Myrlund), Hønefoss (0)

THE CORPORATE MANAGEMENT

CEO Sven Ombudstvedt (0)
Senior vice president Gaute Hjelmbrekke Andreassen (0)
Senior vice president Jan-Hinrich Clasen (7 167)
Senior vice president Rune Gjessing (9 057)
Senior vice president Terry Hamilton (3 294)
Senior vice president Audun Røneid (5 109)

CEO Christian Rynning-Tønnesen (33 120) (resigned 31 December 2009)
Senior vice president Kristin Slyngstad Klitzing (30 305) (resigned 4 February 2010)

AUDITOR

PricewaterhouseCoopers (0)

ARTICLES OF ASSOCIATION FOR NORSKE SKOGINDUSTRIER ASA

(LAST AMENDED IN GENERAL ASSEMBLY 24 APRIL 2008)

ARTICLE 1
THE COMPANY'S FORM AND NAME

The company is a public limited company.

The company's name is Norske Skogindustrier ASA.

ARTICLE 2
OBJECTS

The object of the company is to pursue pulp and paper operations and activities connected with these. The company can also participate in other commercial activity by subscribing to shares or in other ways.

ARTICLE 3
REGISTERED OFFICE

The company is registered in Norway, and has its management and registered office in Bærum local authority.

ARTICLE 4
SHARE CAPITAL AND SHARES

The company's share capital amounts to NOK 1 899 456 260, divided into 189 945 626 shares each with a nominal value of NOK 10.

The company's shares will be registered with the Norwegian Central Securities Depository (VPS).

ARTICLE 5
BOARD OF DIRECTORS

The company's board of directors will consist of a minimum of seven and a maximum of 10 directors. Directors are elected by the corporate assembly for terms of one year. No person can be elected to the board after reaching the age of 70.

The corporate assembly will elect the chair and deputy chair of the board every year. The corporate assembly will determine the remuneration payable to directors. The board of directors is responsible for appointing a chief executive, to be known as the president and chief executive officer, and for determining his/her remuneration. The board of directors can authorise its members, the chief executive or certain other designated employees to sign for the company.

ARTICLE 6
CORPORATE ASSEMBLY

The company will have a corporate assembly consisting of 18 members, including 12 members and four alternate members elected by the annual general meeting. Members elected by the annual general meeting serve for terms of two years. Alternate members are elected for terms of one year.

The corporate assembly itself elects two of its members to act as chair and deputy chair for terms of one year.

ARTICLE 7
ELECTION COMMITTEE

The company will have an election committee consisting of the chair of the corporate assembly and three members elected by the general meeting for terms of one year. The election committee will be chaired by the chair of the corporate assembly.

ARTICLE 8
GENERAL MEETING

Notice of a general meeting must be given within the time limit stipulated in the Norwegian Act on Public Limited Companies through the publication of notices in the Aftenposten and Dagens Næringsliv newspapers. This notice can specify that any shareholder wishing to attend the general meeting must notify the company within a certain time limit, which must not expire earlier than five days before the general meeting. Shareholders failing to notify the company within the specified time limit may be denied entrance to the general meeting. The general meeting will be held in the local authority in which the company has its registered office or in Oslo.

The annual general meeting will:

1. Adopt the annual accounts, including the directors' report, and the consolidated accounts, and approve the profit and loss account and balance sheet.
2. Determine the application of the profit or coverage of the loss for the year in accordance with the approved balance sheet, including the declaration of any dividend.
3. Determine possible remuneration to be paid to members and alternate members of the corporate assembly.
4. Elect the shareholders' representatives and alternate representatives in the corporate assembly.
5. Elect three members of the election committee.
6. Approve the auditor's fee.
7. Deal with any other business stated in the notice of the meeting.

Shareholders wishing to have any matters dealt with at the general meeting must give notice in writing of these to the board of directors at least one month prior to the general meeting. Notice of the general meeting will be given, and the general meeting will be chaired, by the chair or deputy chair of the corporate assembly or, in their absence, by the chair of the board of directors.

STATUS AND THE WAY FORWARD FOR NORSKE SKOG

Paper has unique properties for the dissemination of information, knowledge, entertainment and advertising. Paper will continue to have a large and important role in the overall media picture.

Norske Skog is the world's fourth largest producer of newsprint and magazine paper, with its main activity in Europe, and with operations in Australasia, South America and Asia.

The group has a very strong market position in Australasia with two mills in Australia and one in New Zealand. There are no other newsprint producers in this part of the world.

Norske Skog has two mills in South America, in Brazil and Chile. This gives the company a strong presence in a region with good underlying growth combined with access to fast-growing plantation forests and clean energy.

Norske Skog has reduced its activities in Asia during the last two years through sale of two mills in South Korea in 2008 and sale of two Chinese mills in 2009. The group still owns the only newsprint paper mill in Thailand and has a part-ownership of 34 per cent in the only newsprint paper mill in Malaysia.

After the restructuring measures carried out in the group during the last year, the European mills constitute approximately 70 per cent of Norske Skog's total production capacity.

The European market for newsprint and magazine paper experienced a decline of 15-20 per cent in 2009, largely as a result of the global financial crisis. There will be a structural decline in the consumption of newsprint in Europe. At the same time, it is expected that demand for magazine paper will have a more positive development than newsprint.

Overcapacity on the production side leads to the prices being close to the cash cost of production. This is a situation that is not financially sustainable. The quality of the production equipment is weakened by the lack of investment and the industry is not attractive in the competition for capital. It is reasonable to expect a major restructuring of the European newsprint and magazine industry over the next few years.

In recent years, Norske Skog has delivered financial results which are not satisfactory and that are not sufficient to ensure the necessary development of the company. The cost of procurement of the most important input factors, energy, wood and recovered paper, increases as other industries with better solvency request the same raw materials.

The company has faced the difficult market situation in Europe with significant cost reductions over several years, and sales of assets to strengthen its financial position. The company's net interest-bearing debt has thus been significantly reduced. The investment level has also been significantly reduced and adapted in line with the lower cash flow in the company. Projects have been initiated within the bio-energy area to enhance the company's opportunities for future growth in new business areas.

The newsprint and magazine paper industry must take responsibility for ensuring an economically robust and environmentally sustainable production of paper for today's and tomorrow's customers. Norske Skog has a global presence, a mill portfolio and a corporate culture that constitutes a good basis for continuing to play a role in the future of the newsprint and magazine paper industry.

MEASURES TO IMPROVE PROFITABILITY AND REDUCE DEBT

CONTINUOUS IMPROVEMENT

Norske Skog completed an improvement programme in 2008, the objective of which was to improve the group's overall cost position by NOK 3 billion on an annualised basis, compared with the base year 2005. The result from the improvement programme was a cost improvement of NOK 2.95 billion, which offset the cost increases on input factors as well as price changes on the company's products.

Norske Skog has focused on further cost improvements in 2009 through continuous improvement at all units as well as specific measures initiated by corporate management. It was decided to reduce manning levels by 600 people through a substantial downsizing programme for all units including head office and other administrative units. This amounts to around ten per cent of the total manning level and will have full effect from 2010.

NORSKE SKOG IN 2009

Demand for newsprint and magazine paper in most countries and regions was very weak throughout 2009. Based on preliminary statistics, the global demand for newsprint was approximately 14 per cent lower in 2009 compared with 2008 and the demand for publication paper was approximately 16 per cent lower. The largest fall in demand occurred in North America with a fall of 25 per cent in the demand for newsprint. The fall in Europe was 14 per cent and the total fall in other parts of the world was around ten per cent. Demand for magazine paper in Europe was 17 per cent lower in 2009 compared with 2008. With the exception of one newsprint machine at Norske Skog Parenco in the Netherlands, there was no significant capacity reduction during 2009, so the utilisation rate of the mills was consistently low. Norske Skog's average capacity utilisation was 79 per cent in 2009 compared with 93 per cent in 2008.

Due to the contractual structure of price agreements in Europe and Australasia, the price level for newsprint in 2009 only reflected the weak demand to a small extent. Average prices in local currency in these regions were slightly higher than in 2008. In other parts of the world, the low demand lead to a substantial fall in prices. There were some price increases at the beginning of 2009 for magazine paper in Europe, whilst prices were lower during the second half of the year.

The paper industry has in general been exposed to rising cost levels for most key input factors for several years. This changed towards the end of 2008, with lower prices for recovered paper and a levelling out of other variable costs. There were no major changes in cost levels on the whole through 2009, although recovered paper prices started to increase to some extent towards the end of the year. Norske Skog has, as before, focused heavily on fixed costs, and announced a number of measures in June 2009 which will result in a cost reduction of NOK 600 million to 700 million during 2010. These include lower maintenance and office costs, as well as staff reductions. At the end of 2009, measures were undertaken which will give a cost reduction on an annual basis of around NOK 200 million.

The NOK was weak against most currencies at the end of 2008, but appreciated again during the course of 2009. On average in 2009 compared with 2008, the NOK was weaker against EUR and USD, and stronger against GBP. The most significant income statement effects of this are recognised within financial items.

Net interest-bearing debt was reduced by NOK 4.5 billion in 2009. The reduction is due to currency effects, free cash flow and sales of operations. Gearing (net interest-bearing debt in relation to equity) was 0.80 as at 31 December 2009.

COMMENTS TO THE ACCOUNTS

COMPARABILITY

In June 2009, it was decided to indefinitely idle PM 2 at Norske Skog Parenco in the Netherlands with a production capacity of 225 000 tonnes. This machine was temporarily idled for much of the first half of 2009. In July 2009 an agreement was entered into for the sale of Norske Skog's 56 per cent stake in Shanghai Norske Skog Potential Paper (SNP) in China, with a production capacity of 145 000 tonnes. SNP was de-consolidated with effect from 1 July. Norske Skog entered into an agreement in September 2009 regarding the sale of the mill Norske Skog Hebei in China, with production capacity of 330 000 tonnes. Hebei was de-consolidated with effect from 1 November.

Norske Skog shut down two newsprint machines in Europe in the second quarter of 2008, and two mills in South Korea were sold with accounting effect from the third quarter of 2008. The main factor affecting comparability between 2009 and 2008 is the two sold mills in South Korea. Operating revenue from these in the first half of 2008 amounted to NOK 1 649 million and gross operating earnings before depreciation amounted to NOK 188 million.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating income in 2009 was NOK 20.4 billion (NOK 26.5 billion in 2008). The main reason for the reduction is significantly lower delivery volumes in 2009 as a result of weak demand, as well as the sales and capacity closures described above and lower exports from Europe. Measured in NOK, the average sales price achieved was slightly higher in 2009 than in 2008. Gross operating earnings before depreciation and special items was NOK 2 185 million in 2009 (NOK 2 723 million). Depreciation in 2009 was NOK 2 465 million (NOK 2 623 million) and the reduction is largely related to the sold operations. Gross operating earnings after depreciation but before special items, were minus NOK 280 million in 2009 (NOK 100 million).

Special items included in operating earnings were in total minus NOK 1 046 million in 2009 (minus NOK 1 508 million). These consist of restructuring costs of minus NOK 396 million in 2009 (minus NOK 221 million), other gains and losses of NOK 1 233 million (minus NOK 502 million) and impairments of minus NOK 1 883 million (minus NOK 785 million). Restructuring costs for both years are provisions for severance pay and other costs relating to the closure of paper mills and the general downsizing. Other gains and losses in 2009 consist mainly of the increase in value of the group's energy portfolio. The corresponding amount in 2008 relates to the increase in the value of energy contracts, as well as negative cumulative currency translation differences relating to the sold mills and termination costs on an investment project in Brazil that was cancelled. Impairments in 2009 relate to the value of manufacturing equipment at Norske Skog Parenco and Norske Skog Walsum, the net reversal of previous impairments at Norske Skog Saugbrugs, and most of the losses on the sale of two mills in China.

Gross operating earnings after special items were minus NOK 1 325 million (minus NOK 1 407 million).

Net financial items in 2009 amounted to an income of NOK 280 million (minus NOK 1 402 million). Net interest costs including interest rate instruments were minus NOK 914 million (minus NOK 1 285 million). Total currency items, consisting mainly of realised and unrealised gains/losses from currency hedging, amounted to an income of NOK 1 097 million (minus NOK 258 million). The income in 2009 is largely due to NOK being significantly stronger against other currencies throughout the year. Financial items for 2009 also include gains on the buy-back of own bonds amounting to NOK 284 million in total (NOK 359 million).

The income tax expense in 2009 was NOK 380 million (positive amount of NOK 13 million in 2008). Some of the impairments charged in the year do not form part of the basis for calculating deferred tax asset.

Net loss after tax and minority interests in 2009 was NOK 1 205 million (NOK 2 715 million). The improvement is mainly due to the increase in value of the energy contracts and the result from financial items. Earnings per share in 2009 were minus NOK 6.36 (minus NOK 14.33).

Cash flow from operating activities, after paid financial items and paid taxes, was NOK 1 697 million in 2009 (NOK 1 977 million). There was a reduction in working capital both years. Paid taxes in the cash flow statement amounted to NOK 166 million in 2009 (NOK 361 million). Cash flow per share was NOK 8.95 in 2009 (NOK 10.43).

DIVIDEND PROPOSAL

Based on the company's financial position, the board recommends that no dividend be paid for the accounting year 2009.

BALANCE SHEET

Total assets were NOK 33 155 million per 31 December 2009 compared to NOK 45 191 million per 31 December 2008. Approximately NOK 3.5 billion of the total reduction of NOK 12 036 million is due to currency translation differences resulting from the stronger NOK throughout 2009. Other contributory factors are that the depreciation and impairment charge was significantly higher than capitalised investments, the operations in China were sold, and there has been a transition from gross to net accounting of the estimated cleanup costs of mill facilities.

Non-current assets were NOK 23 546 million as at 31 December 2009, which is a reduction of NOK 3 434 million from the previous year-end. The calculated value of the energy portfolio that applies to the years 2011 and later is now classified under non-current assets. This was previously classified under other current assets. This change has been offset to some extent by the currency effects and other factors mentioned above.

Current assets were NOK 9 609 million per 31 December 2009, which is a reduction of NOK 8 602 billion from the previous year-end. The reduction is due to currency effects, the use of liquid assets in connection with refinancing, reduced working capital and the re-classification of part of the values relating to the energy portfolio. Cash and cash equivalents amounted to NOK 4 241 million as at 31 December 2009.

Net interest-bearing debt was NOK 9 595 million as at 31 December 2009, which is a reduction of NOK 4 452 million from the previous year-end. The reduction is due to currency effects, sale of mills, free cash flow from operations and gains on the buy-back of bonds. In April 2009, EUR 400 million was drawn under a credit facility provided by a group of banks. This amount, together with funds from cash reserves, was used to repay a bank loan of EUR 500 million due in 2010. Furthermore, Norske Skog received a loan of NOK 250 million from Innovation Norway in connection with an investment project at Norske Skog Skogn, and in June 2009 placement of a five year Norwegian bond loan of NOK 750 million was completed. In connection with the Norwegian bond loan, an offer was made to the holders of a loan maturing in 2012 to switch to the new loan. In April, significant repurchases were made at a discount on a USD-nominated bond loan maturing autumn 2011. These efforts have collectively contributed to an increase in the average time to maturity on interest-bearing debt, which was 5.8 years per 31 December 2009. Debt maturing in 2010 amounts to approximately NOK 300 million, whilst there are considerably larger amounts maturing both in 2011 and early 2012.

Gearing (net interest-bearing debt in relation to equity) was 0.80 as at 31 December 2009 compared with 1.05 as at 31 December 2008.

Norske Skog has credit ratings from Moody's and Standard and Poor's. At the end of 2009, the credit rating from Moody's was B2 med negative outlook, and from Standard and Poor's B+ with negative outlook. In February 2010, the credit rating from Standard and Poor's was changed to B with negative outlook.

Equity excluding minority interests was NOK 11 987 million as at 31 December 2009, which is a reduction of NOK 1 376 million from the previous year-end. The reduction is mainly due to the loss for the year of NOK 1 400 million.

Equity per share was NOK 63 as at 31 December 2009.

The board confirms that the directors' report and financial statements give a true and fair view of the financial position of the company, and that the financial statements have been prepared on a going concern basis.

INVESTMENTS

Capitalised investments in 2009 amounted to NOK 580 million (NOK 1 283 million). Most of these were pure maintenance investments. Projects have also been carried out to replace eucalyptus wood with plantation pine at Norske Skog Boyer, and for the partial replacement of wood with mineral substances at Norske Skog Skogn.

SEGMENT ACTIVITY

Norske Skog's reporting structure consists of the main segments newsprint, magazine paper and energy. The main segment newsprint is further divided into four geographical sub-segments.

NEWSPRINT TOTAL

The segment encompasses Norske Skog's production and sale of newsprint. Total production capacity as at 31 December 2009 was 3.1 million tonnes. Capacity was reduced by 700 000 tonnes through 2009, as a result of the idling of the paper machine at Norske Skog Parenco in the Netherlands and sales of the operations in China. The segment makes up 69 per cent of Norske Skog's total production capacity.

Operating revenue in 2009 was NOK 13 073 million (NOK 17 933 million in 2008) and gross operating earnings were NOK 1 684 million (NOK 2 102 million). Gross operating earnings in 2009 were higher in the South American and Australasian regions, but lower in Europe and Asia. Produced and sold volumes in 2009 were 32 per cent lower than in 2008 and 22 per cent lower when the sold mills in South Korea are excluded. The main reason for the lower volumes was a global decline in demand of around 14 per cent, but there was also some impact from closures, sales of mills and lower exports out of Europe. Measured in NOK per tonne sold, both operating revenue and operating costs were higher in 2009 compared with 2008.

NEWSPRINT EUROPE

The region includes the newsprint mills Norske Skog Skogn, Norske Skog Golbey and Norske Skog Parenco, as well as one of the paper machines at Norske Skog Follum and one of the paper machines at Norske Skog Bruck. Total production capacity as at 31 December 2009 was 1 763 000 tonnes, which represents 39 per cent of the group's total capacity. Capacity has been reduced by 225 000 tonnes during 2009, after one of the paper machines at Norske Skog Parenco was indefinitely idled.

Operating revenue in 2009 was NOK 6 199 million (NOK 8 076 million) and gross operating earnings were NOK 779 million (NOK 931 million). After significant capacity reductions in the industry in 2008, price increases of around five per cent were negotiated at the start of 2009. There were on the whole no large changes in the cost level for input factors during 2009, however there was some increase in the cost for recovered paper during the second half of the year.

Capacity utilisation for Norske Skog's newsprint operations in Europe was 75 per cent (92 per cent). For the industry seen as a whole, capacity utilisation in Europe was 85 per cent in 2009. As mentioned earlier, there was some effect from the lower level of exports out of the region, in addition to the 14 per cent drop in demand. It is estimated that approximately one third of the fall in demand in Europe is due to fewer newspaper copies sold, while the rest is the reduction in page numbers. There were large differences between individual countries, with about five per cent lower demand in Germany and 15 per cent or more in England, Italy and France.

ASIA

After the sale of the mills in South Korea in 2008 and in China in 2009, the Asian region consists of the one mill Norske Skog Singburi in Thailand, with a production capacity of 130 000 tonnes. From 2010 and onwards, this entity will be reported together with the Australasian region in the external reporting.

Operating revenue in 2009 was NOK 1 071 million (NOK 3 390 million) and gross operating earnings were minus NOK 7 million (NOK 272 million). The numbers are not comparable, due to the mill sales referred to earlier. Sales prices were lower in Asia in 2009 compared with 2008. Costs for the most important input factor, recovered paper, were low at the start of 2009, but increased during the course of the year.

There were large differences between the individual countries in terms of demand development in 2009. Based on preliminary statistics, total demand was around eight per cent lower in 2009 compared with 2008.

AUSTRALASIA

The region includes the mills Norske Skog Boyer and Albury in Australia, and Norske Skog Tasman in New Zealand. Total production capacity as at 31 December 2009 was 885 000 tonnes, which is 20 per cent of the group's total capacity.

Operating revenue in 2009 was NOK 3 571 million (NOK 3 757 million) and gross operating earnings were NOK 650 million (NOK 628 million). The increased operating revenue is largely due to price increases that were implemented in New Zealand from 1 January 2009 and in Australia from 1 July 2009. This offset the impact from lower volumes, with a capacity utilisation in 2009 of 90 per cent (97 per cent).

Both in Australia and New Zealand, newsprint has been sold under long-term agreements with major customers. These agreements expire in 2010 and are currently being renegotiated.

Demand in the region was around 13 per cent lower in 2009 than in 2008.

SOUTH AMERICA

The region includes the mills Norske Skog Skog Pisa in Brazil and Norske Skog Bio Bio in Chile. Production capacity as at 31 December 2009 was 310 000 tonnes of standard newsprint and book paper.

Operating revenue was NOK 1 256 million in 2009 (NOK 1 316 million) and gross operating earnings were NOK 239 million (NOK 211 million). Capacity utilisation was 86 per cent (95 per cent). The price level in South America reflects that in the North American market with some time lag, and was significantly reduced during the year. Therefore, earnings were significantly weaker at the end of the year.

Based on preliminary statistics, demand in South America was around 20 per cent lower in 2009 than in 2008. Norske Skog's deliveries were approximately ten per cent lower compared with 2008

MAGAZINE PAPER EUROPE

The segment includes the mills Norske Skog Saugbrugs and Norske Skog Walsum, as well as one paper machine at Norske Skog Follum and one paper machine at Norske Skog Bruck. Total production capacity as at 31 December 2009 was 1.4 million tonnes. This is made up of 550 000 tonnes of uncoated (SC) magazine paper and 850 000 tonnes of coated (LWC and MFC) magazine paper. The segment represents 31 per cent of the group's total production capacity.

Operating revenue was NOK 6 272 million in 2009 (NOK 7 244 million) and gross operating earnings were NOK 689 million (NOK 816 million). Capacity utilisation was 79 per cent (94 per cent). Some price increases were negotiated at the beginning of 2009, but prices were lower again in the second half of the year. The result in 2009 was negatively impacted by higher chemical pulp costs.

Demand for magazine paper in Europe was 17 per cent lower in 2009 than in 2008, and Norske Skog's deliveries had the same percentage reduction. Uncoated magazine paper (SC) fell by around six per cent, and coated magazine paper (LWC and MFC) fell by over 20 per cent. This different development is mainly because there was a big price difference between the two paper types in the first half of the year, which resulted in some customers requesting the affordable SC-quality at the expense of the more expensive LWC-quality.

ENERGY

The ordinary activities of the segment consist primarily of the purchase and sale of energy for the Norwegian mills. For accounting purposes, purchase of energy in Norway is recognised as a cost of materials in the segment, with resale at contract prices to the Norwegian mills. Operating revenue also includes sale of excess energy to external parties, constituting mainly excess energy after the shut-down of PM 2 at Norske Skog Follum.

Operating earnings under IFRS in the energy segment also include changes in the value of energy contracts and embedded derivatives. The contracts are recognised in the balance sheet in accordance with IAS 39, which means that the value consists of the difference between the estimated market price and the contract price over the contract period, discounted to present value. The value can fluctuate significantly from quarter to quarter because of changes in future energy prices, as well as currency effects, price indices and discount rates. The most significant energy contracts presented in the balance sheet are in Norway, Brazil and New Zealand. During the course of 2009, the value of the energy contracts increased by NOK 990 million.

COST DEVELOPMENT

Norske Skog's total costs (excluding depreciation) in 2009 were NOK 18 billion (NOK 23.6 billion in 2008). Variable costs amounted to 73 per cent of total costs in 2009 (77 per cent) and fixed costs were 27 per cent (23 per cent). Both the absolute cost reduction and the change in distribution between variable and fixed costs are largely due to significantly lower production volumes which resulted in reduced consumption of raw materials, energy and other input factors. There were also lower prices for several input factors, measured as an average over the year, as well as the impact of cost reduction measures.

WOOD

Norske Skog's real consumption of logs and sawmill chips was approximately 5.2 million m^3 in 2009 (6.3 million m^3), and wood amounted to around ten per cent of total costs. Wood is the dominant raw material for the Norske Skog mills in Norway, Australasia and South America. Prices in Norway were slightly lower in 2009 compared with 2008, and there were no significant price changes on the European continent. Norske Skog has long-term purchase contracts with price-regulating clauses in Norway, and also purchases wood under long-term contracts in Australasia and South America.

RECOVERED PAPER

Norske Skog's consumption of recovered paper in 2009 was 1.4 million tonnes (2.8 million tonnes), and recovered paper amounted to around eight per cent of total costs. After the sale of the operations in South Korea and China, Norske Skog has a substantially lower exposure to the recovered paper market. As a result of a sharp fall in prices towards the end of 2008, the average price for recovered paper was lower in 2009 compared with 2008. However, there was a slight increase in price through the year.

ENERGY

Energy is the largest single cost for Norske Skog, and amounted to approximately 20 per cent of total costs in 2009. The majority of the energy cost comes from purchased electricity. The total consumption of energy (including self-generated heat energy) was 14 600 GWh (22 000 GWh), of which electricity was 8 300 GWh.

Around 75 per cent of the group's electricity consumption is purchased under long-term contracts entered into in Norway, South America, Australia and New Zealand.

The group's exposure to spot prices in the electricity market is mainly in Continental Europe. Price levels were slightly lower in 2009 compared with 2008.

FIXED COSTS

In June 2009 it was decided to indefinitely idle one of the two paper machines at Norske Skog Parenco. In addition, it was decided to implement headcount reductions and reductions in maintenance costs at all units, as well as cost reductions at head office. The estimated total effect is a cost reduction of NOK 600-700 million compared with the level in the first half of 2009. Cost reductions of around NOK 200 million were achieved during 2009, and the remaining impact is expected during 2010.

HEALTH AND SAFETY

Norske Skog has a target of zero injuries among employees. Health and safety is the individual business unit's responsibility, but the results and efforts relating to health and safety of all units are followed up by head office. All accidents and injuries are reported in a global system, and lessons learned from each incident are shared with the entire organisation.

Norske Skog had an absence rate due to illness of four per cent in 2009. In 2008, this was three per cent. The H-value (number of lost-time injuries per million hours worked) was 1.9 in 2009, up from 1.4 in 2008.

There is significant variation in sickness absence and the H-value between the various mills and also between regions. The lowest absence rate due to illness in 2009 was at Norske Skog Singburi in Thailand, with 0.4 per cent. The highest absence rates due to illness were registered at Norske Skog Walsum in Germany, where the absence rate due to illness in 2009 was 7.4 per cent. The average absence rate due to illness in Australasia was 2.0 per cent in 2009, in South America 4.3 per cent, in Asia 0.5 per cent and in Europe 5.4 per cent.

Increased focus will be given in 2010 to the high absence rates due to illness at the individual mills.

An H-value of 0.0 was registered at Norske Skog Bruck, Norske Skog Walsum, Norske Skog Boyer and Norske Skog Singburi in 2009, while Norske Skog Bio Bio in Chile had the highest H-value of 7.8 in 2009.

RESEARCH AND DEVELOPMENT

Norske Skog's research and development work is performed at the individual business units and through collaboration with external research institutions. The work is coordinated by the wholly-owned Norske Skog subsidiary, NSI Focus AS, to exploit synergies and learning across the organisation.

Norske Skog spent nine million dollars on research and development in 2009 and uses, among others, the Norwegian scheme "Skattefunn" to finance research activities. The activities include focus on optimising the use of mechanical pulp and recycled paper mass in production. Studies have also been carried out regarding new product opportunities based on the company's current production. Around a third of research and development is initiated from the group's central leadership, while the rest arises from mill initiatives.

Norske Skog is also involved in several projects to improve customers' printing processes.

Research and development costs are not capitalised.

ORGANISATION, MANAGEMENT AND EMPLOYEES

CORPORATE MANAGEMENT

Norske Skog's corporate management at the beginning of 2010 consisted of Sven Ombudstvedt (president and CEO), Audun Røneid (chief financial officer - CFO), Kristin Slyngstad Klitzing (senior vice president HR & organisation), Rune Gjessing (senior vice president strategy), Jan-Hinrich Clasen (senior vice president Europe) and Terry Hamilton (senior vice president Asia, Australasia and South America).

Christian Rynning-Tønnesen was CEO until 31 December 2009. He resigned his position in Norske Skog to become CEO of Statkraft. Sven Ombudstvedt took over as CEO on 1 January 2010.

On 4 February 2010, changes in corporate management were announced. The changes were made to increase management's focus on the European operations and to simplify operations at head office. The position senior vice president HR & organisation was taken out of the corporate management, while responsibility for Europe was divided between two senior vice presidents focused on, respectively, the operation of business units and commercial activities. In addition, Gaute Andreassen was appointed senior vice president strategy.

The new corporate management team comprises: Sven Ombudstvedt (CEO), Audun Røneid (CFO), Terry Hamilton (senior vice president Europe), Jan-Hinrich Clasen (senior vice president commercial activities), Rune Gjessing (senior vice president Australasia, Asia and South America) and Gaute Andreassen (senior vice president strategy).

EMPLOYEES

Norske Skog had 5 668 employees at the end of 2009. At the end of 2008, the number was 6 428.

EQUALITY, GENDER BALANCE AND DIVERSITY

The paper industry has traditionally had few female employees. This is still the case, and the proportion of women employees in Norske Skog has been stable at around 15 per cent for many years.

Norske Skog's board of directors consists of six shareholder-elected members and three members elected by and among the employees. Among the shareholder-elected members, there are three women and three men. The three employee-elected representatives on the board are all men. Norske Skog's board of directors thus consists of three women and six men.

An exception from the gender balance requirement for employee-elected board members is granted for companies with a total share of female employees of less than 20 per cent. Norske Skog therefore meets the requirement of gender balance on the board of directors for Norwegian public limited companies.

As a global company, Norske Skog recognises that there is a significant value in having an internationally diverse administration and management. Three nationalities are represented in the company's corporate management, and employees from a total of 17 nations are employed at the head office in Lysaker.

Non-discrimination is not just about compliance with laws and regulations. Norske Skog needs the best qualified management team and workforce. This means that it would be in violation of the company's needs to discriminate between co-workers and job applicants, on the basis of personal circumstances that are covered by either the Anti-Discrimination Act, or the Discrimination and Accessibility Act.

Norske Skog's continued efforts to improve performance through competence levels and the working environment will strengthen awareness of the fact that unfair and illegal discrimination is not only illegal, but also in violation of the company's interests and standards.

REMUNERATION AND INCENTIVE PROGRAMME FOR CORPORATE MANAGEMENT

In accordance with the provisions in section 6-16 a of the Public Limited Companies Act, the board of director's declaration relating to salary and other benefits to the company's corporate management, was presented at the general meeting. A complete overview of corporate management remuneration is included in Note 4 to the consolidated financial statements. Principles for the long-term, share-based incentive programme are discussed in the section "shares and share capital".

Corporate management has, among other things, an incentive programme with compensation based on the Norske Skog share's relative return compared with a defined group of listed paper manufacturers. This scheme is discussed further in the section "shares and share capital".

An additional bonus scheme was established in 2006, where the bonus payment was based on the results from the profit improvement programme which ended in 2008. The bonus scheme applied to all employees in the company who were employed prior to 1 July 2008. The goal of the profit improvement programme was a targeted improvement in annual earnings of NOK 3 billion for the group as a whole. The final result, adjusted for input factor price changes in the period, was NOK 2.95 billion. Bonus to members of corporate management in connection with this scheme is shown in Note 4 to the consolidated financial statements. Provisions were made for the bonus in the 2008 accounts, and the payment took place in 2009.

BOARD OF DIRECTORS

The board of directors of Norske Skogindustrier ASA consists of Eivind Reiten (chair), Svein Rennemo (deputy chair), Halvor Bjørken, Wenche Holen, Gisèle Marchand and Ingrid Wiik elected by the shareholders, and Inge Myrlund, Stein-Roar Eriksen and Paul Kristiansen elected by and among the employees.

Øystein Stray Spetalen resigned as deputy chair and member of the board on 8 June 2009. Svein Rennemo, who already was a member of the board, was elected as deputy for Spetalen on 23 June 2009.

There have been 14 meetings since the last general meeting, eight meetings of the audit committee and six meetings of the compensation committee.

PARTLY OWNED COMPANIES AND OTHER ACTIVITIES

XYNERGO AS

In 2008, Norske Skog and several Norwegian forest owner associations established the company Xynergo AS. Norske Skog owns 71 per cent of the shares. Xynergo's long-term goal is to establish full-scale production of second generation biodiesel based on wood in Norway.

Thorough studies were conducted in 2009 of the possibilities for production of bio- oil based on wood. Xynergo has concluded that it is technically possible to produce such oil.

The main focus of Xynergo's activities is on the biodiesel project, and the company participates in several national research projects for development of infrastructure and technology for the production of second generation biodiesel in Norway.

At the end of 2009, eight people were affiliated to Xynergo. The company does not currently have any income, and the result for 2009 was a loss of NOK 18.4 million. This is in line with expectations and budget.

NORSKE SKOG EIENDOM AS

Norske Skog Eiendom AS was established as a separate company in 2007 as the holding company for Klosterøya AS, Oxenøen Eiendom AS, Ranheim Eiendomsutvikling AS and Eidsverket AS. The company and its subsidiaries have sold a number of smaller properties in 2009 for NOK 25 million in total. The company is working to facilitate the sale of Klosterøya AS which owns the property of the former paper mill Norske Skog Union in Skien. Norske Skog Eiendom AS has no employees.

REPARCO GLOBAL HOLDING

Reparco is a wholly owned subsidiary engaged in the trade and sorting of recovered paper. The company has three sorting plants in the Netherlands, and branch offices in the Netherlands, the United Kingdom, the United States and China.

Reparco delivers all recovered paper to Norske Skog Parenco in the Netherlands. About half of the recovered paper in the Netherlands is obtained from Reparco's own sorting plants, while the rest is traded in the market. In addition, Reparco provides supplies of recovered paper from the United Kingdom to Norske Skog Skogn in Norway, and from the United States to the former Norske Skog Hebei in China.

Reparco's gross operating earnings in 2009 were NOK 7 million, compared with NOK 18 million in 2008. In 2008 there was a strong demand for recovered paper, and prices rose sharply. The highest price was registered in July 2008 when the price was just over USD 300 per tonne. Towards the end of 2008, the demand fell significantly, and the price fell to around USD 100 per tonne. Through 2009, the price rose to around USD 200 per tonne at the end of the year.

In 2008, a quarter of Reparco's sales were to external customers. This increased in 2009 to around half. Reparco has 85 man-labour years in total.

NSI FOCUS AS

NSI Focus is a wholly owned subsidiary established in January 2009. The company is based on the expertise and methodology that was developed in conjunction with the standardisation and streamlining programme Norske Skog production systems (NSPS). The organisation consists of former Norske Skog employees who were affiliated to the global NSPS team or technical customer service.

The company provides services primarily to the Norske Skog mills, but also has some sales to other customers. NSI Focus has its competence fields within continuous improvement, customer service and technical research and development. At the end of 2009 there were 40 employees in NSI Focus. The company had gross operating earnings of NOK 1 million in 2009.

MALAYSIAN NEWSPRINT INDUSTRIES (MNI)

Norske Skog owns 33.65 per cent of MNI which is Malaysia's sole newsprint mill. Norske Skog uses the equity method of consolidation for MNI, which means that Norske Skog's share of MNI's net profit after tax is presented in the income statement on the line "share of profit in associated companies". The share amounted to NOK 19 million in 2009. The corresponding share in 2008 was NOK 29 million. Norske Skog received NOK 68 million in dividend from MNI in 2009.

RISK MANAGEMENT

The market situation in 2009 was characterised by economic fluctuations and uncertainty. The board of directors is therefore kept continuously updated on the group's performance with particular focus on market development and liquidity. The financial forecasts for the group are regularly updated, along with other factors that have significance for the group's financial position, such as currency and interest rate conditions and developments in capital markets. Norske Skog performs an annual enterprise risk management evaluation, which is based on reports from all operating units and key head office functions. The report is presented to the board of directors and is a part of the group's risk management activities.

The main exposure is linked to prices and sales volumes of newsprint and magazine paper, as well as the costs for important input factors such as wood, recovered paper and energy.

The paper industry has traditionally been cyclical with large swings in the results and cash flow. Price and demand for newsprint and magazine paper has largely been related to the financial economic situation. The global financial crisis has resulted in reduced advertisement volumes in printed media and a strong decline in the consumption of newsprint and magazine paper in virtually all geographic markets.

Competition from electronic media particularly affects the demand for newsprint and it is likely that this effect will continue in the years to come. It will reduce the need for production capacity. Despite significant capacity closures in North America and Europe in 2007 and 2008, the decline in demand in 2009 means that there is still significant overcapacity. This results in lower selling prices for paper. There are still market-related differences between the geographical regions and product groups. Norske Skog has production in several geographic regions and this mitigates risk to some extent in relation to if the group had all its capacity in Europe. Furthermore, the sale of magazine paper constitutes around half of the group's sales in Europe, which gives some product diversification. Norske Skog has implemented a series of measures to reduce the effect of the negative market development, in the form of significant cost reductions, capacity closures, conversions from standard newsprint to other qualities, as well as sales of the mills in Asia.

Norske Skog has a limited amount of own forest and fibre resources. The supply of these input factors is to a large extent covered by long-term contracts, which ensures stable framework conditions. The group has long-term wood contracts in Norway, for certain facilities in Europe and in Australasia and South America that ensures long-term, stable raw material access for the business units in those regions. Recovered paper is largely purchased by mills based on local contracts. In addition, Norske Skog has established its own trading activities for recovered paper which supplies the group mills to some extent. A large amount of the purchase of recovered paper occurs at variable market prices.

Energy is primarily secured through long-term energy contracts. Long-term contracts have been entered into in Norway, South America and Australasia that cover most of the expected consumption. These contracts also reduce the fluctuations in energy costs. It is a requirement under IFRS that contracts containing embedded derivatives should be valued, either with the whole contract or separately. The balance sheet value of energy contracts amounted to NOK 5.3 billion at the end of 2009. Changes in value are recognised over the income statement and can result in substantial income fluctuations due to the large volume and contract length. These accounting effects, however, do not have any cash flow impact. In addition, some of the energy exposure is covered by financial hedging contracts, primarily forward contracts. This applies particularly to Continental Europe.

Financial risk management includes primarily foreign exchange risk, interest rate risk and liquidity risk.

Currency conditions affect Norske Skog's cash flow and balance sheet. The group manages this risk through an active hedging programme. The group hedges much of the expected cash flows in foreign currency on a rolling 12 month basis. The purpose is to create better predictability of the group's cash flow. Forward contracts and options are used to hedge cash flow. Cash flow hedge is limited to countries with capital restrictions. Since the group has a significant share of its capitalised assets outside of Norway, currency fluctuations could affect book equity and debt-related key financial indicators. The balance sheet is primarily hedged by matching the currency composition of the loan portfolio to the currency distribution of assets and cash flow. In addition to borrowing in foreign currency, instruments such as short forward contracts and long-term currency swaps are used. In this way, fluctuations in equity and debt-related indicators are reduced. Norske Skog mainly pays fixed interest rates on the group's loans, to ensure high predictability of interest payments in the current situation where there is pressure on the group's earnings and cash flow. The allocation between fixed and floating interest rate is governed by the underlying borrowings and the use of interest rate hedging agreements.

Liquidity and refinancing risk is considered an important area. The global financial crisis has reduced liquidity in the bond and bank markets and made it more difficult to obtain financing. The finance market showed some signs of improvement at the end of 2009, but Norske Skog will still be exposed to a tight credit market. The company's credit rating has been downgraded in 2009 and this may affect the access to capital. The group strives to reduce liquidity risk by maintaining a steady and long-term repayment profile and an acceptable liquidity reserve. The goal is that the average maturity of the debt portfolio should be minimum five years. As at 31 December 2009, the average maturity period was 5.8 years. The group has repayments falling due in 2010 of around NOK 300 million. At year end, the group's cash position was NOK 4.2 billion.

Norske Skog has loan agreements which stipulate the fulfilment of certain financial indicators. The relationship between debt and equity (gearing) shall not exceed 1.4 and net equity (defined as equity minus intangible assets) shall be at least NOK 9 billion. The group complied with both these requirements at the beginning of the year with a relatively comfortable margin. However, a weak performance in 2010 and possible changes in value of the energy portfolio could weaken this situation.

Norske Skog carries out credit ratings of all financial trading counterparties. These counterparties consist primarily of international banks. Based on external ratings, individual limits for credit exposure are determined. Assessments are also made of counterparties in long-term contractual relationships.

Norske Skog carries out credit ratings of corporate customers. Internal credit limits are determined on the basis of information obtained from external sources and credit rating companies. Norske Skog has low losses on accounts receivable.

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

The group's risk factors are also discussed further in Note 23 to the consolidated financial statements.

SHARES AND SHARE CAPITAL

SHARE DEVELOPMENT

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2009, 527.5 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 787 million shares in 2008. On average, each share was traded 2.8 times in 2009.

The Norske Skog share price on 30 December 2009 was NOK 9.55, compared with NOK 14.45 on 2 January 2009. The highest price in 2009 based on closing prices was NOK 17.60 on 5 May and the lowest price was NOK 7.93 on 14 July.

SHARE CAPITAL

The share capital of Norske Skogindustrier ASA at 31 December 2009 was NOK 1 899 456 260, divided into 189 945 626 shares with nominal value NOK 10. All shares have equal rights. There were no changes in the share capital through 2009, and there is no authority for the board to increase the share capital.

Norske Skog owned 294 090 treasury shares at the beginning of 2009. In March 2009, 1 150 000 shares were purchased, and 1 212 597 shares were later sold to employees in connection with the employee share ownership scheme. Norske Skog's holding of treasury shares as at 31 December 2009 was 231 493 shares. The board is authorized to repurchase up to ten per cent of outstanding shares.

SHAREHOLDER STRUCTURE

The largest individual Norwegian shareholder as at 31 December 2009 was Viken Skog with a shareholding of 5.7 per cent. The Norwegian forest owners' federations owned a total of 16.8 per cent. The foreign ownership proportion was 26 per cent as at 31 December 2009, compared with 40 per cent at the end of the previous year.

With the exception of employees in the Norske Skog companies outside of Norway, foreign shareholders are mainly registered through investment banks. There are no foreign shareholders who own more than five per cent. On the basis of the information in the central securities depository, Norske Skog had a total of 26 936 shareholders as at 31 December 2009, of which 1 320 were located outside of Norway.

At the end of February 2010, the foreign ownership proportion was 24 per cent. The Norwegian forest owners' federation owned 16.3 per cent and the National Insurance Fund and Skagen Funds each held just under five per cent.

LONG-TERM INCENTIVE PROGRAMME

Norske Skog has a long-term incentive programme for corporate management, based on the relative share return. Disbursement under this programme depends on the return (dividend and share price development) of the

Norske Skog share in relation to a defined group of other listed companies within the paper industry, including the Norske Skog. The scheme will yield a payout if Norske Skog comes in the top half of this reference group. It is also an absolute requirement that the return on the Norske Skog share is positive for the period. The potential payout increases in incrementally from 30 per cent and reaches 100 per cent if Norske Skog comes within the best quartile. The development is measured over rolling three-year periods, in which a new period begins each year. There will be no payout for the first period, which started first quarter 2007 and ended first quarter of 2010. The following periods started in the first quarter of 2008 and the first quarter of 2009, with possible payouts in 2011 and 2012, respectively.

The maximum annual payout under the above programme amounts to the value of 35 000 shares before tax for the CEO and 17 500 shares before tax for the other members of corporate management. The payout in any given year can not exceed 1.25 times the annual salary.

This programme will, subject to approval in the general meeting, be slightly changed from 2010. The requirements for absolute and relative returns for the Norske Skog shares are unchanged; however the maximum payout is set at NOK 4 million for the CEO and NOK 2 million for other members of corporate management. Of the net amount, 50 per cent must be used to buy Norske Skog shares, up to a shareholding of 200 000 shares for the CEO and 100 000 shares for other members of corporate management.

The long-term incentive programme has no dilution effect.

EMPLOYEE SHARE OWNERSHIP SCHEME

The company sees it as positive that the employees own shares in the company. Therefore, employees are given the opportunity to purchase shares each year. The shares are offered at a price equivalent to the average price in a given period less a 20 per cent discount.

A total of 569 employees purchased shares under this programme in 2009, and in total 1 212 597 shares were purchased.

CAPACITY REDUCTION

Norske Skog reduced capacity within newsprint production in Europe by 225 000 tonnes through the indefinite idling of a paper machine at Norske Skog Parenco in June 2009.

MEASURES FOR DEBT REDUCTION

One of Norske Skog's main objectives is to reduce net debt by generating sufficient cash flow from operations and transactions.

Norske Skog's net debt was reduced from around NOK 14 billion as at 31 December 2008 to NOK 9.6 billion by the end of 2009. The most important events that contributed to the debt reduction was the sale of two factories Shanghai Norske Skog Potential Paper and Norske Skog Hebei in China, the buyback of bonds at discount, the strengthening of the NOK against borrowing currencies, together with around NOK 1 billion in free cash flow. Norske Skog's focus on debt reduction through cash flow from operations and transactions continues, but the market outlook means that the net debt reduction likely to be low in 2010.

NORSKE SKOG AND THE COMMUNITY

Norske Skog is a large and important workplace for local communities everywhere in the world where the company's business units are located. An open and trusting relationship between the company and the community is important. Each business unit has an independent responsibility for maintaining an open dialogue and good communication with relevant stakeholders in their communities.

Norske Skog is a Norwegian company, listed on the Oslo Stock Exchange with its head office and three of its 14 business units in Norway. The company therefore attracts a particularly high level of attention in Norway.

To ensure understanding of the company's strategy and organisation, an open dialogue with the authorities and national trade unions is given high priority.

Relationships with the media and the outside world are based on Norske Skog's communication platform, with the company's core values of honesty, openness and cooperation as a foundation.

The aim of public relations work is to create understanding and insight among key stakeholder groups into Norske Skog's activities, improve Norske Skog's reputation, contribute to make Norske Skog a preferred supplier and promote Norske Skog as a good place to work.

CORPORATE SOCIAL RESPONSIBILITY

Norske Skog sets high goals for the group's environmental performance, social responsibility and ethical standards in business conduct.

Clear environmental objectives are set for each unit and the company has in place procedures for structured internal reporting of environmental performance.

Norske Skog supports the greatest possible transparency in the external environment reporting.

The company's internal audit function has an important task to verify that the working- and decision making processes take place in accordance with the laws and regulations in the respective countries as well as the company's own rules for ethical business conduct. Internal audit conducts periodic audits of the group's units, and prepares audit reports covering the status of compliance with ethical guidelines, improvements since the previous audit and mapping of areas that need improvement or change. The reports are submitted on a routine basis to the company's corporate management and the board's audit committee. Annual reports from internal audit are dealt with by the board of directors, along with the administration's recommendations for improvements.

Based on internal audit's work and input, the group's ethical guidelines were expanded in 2009, with a new corporate standard regarding the handling and payment of agent commissions and discounts to ensure adequate control of these payment streams in the group.

RECOVERED PAPER

Norske Skog used 1.4 million tonnes of recovered paper in 2009. Use of recovered paper is an important element in the group's energy- and climate policy. Recovered paper requires less energy for production of new paper than fresh wood, and thereby results in lower emissions of greenhouse gases.

PURCHASE OF WOOD

Norske Skog gives priority to the purchase of timber and wood chips from certified forestry. The company's procurement policy is that all wood should come from sustainable forestry.

All Norske Skog's business units have traceability certificates for documentation of the origin of wood.

ENERGY, WASTE AND EMISSIONS

Norske Skog's strategy emphasizes that the company must work for sustainable development through high environmental standards and socially responsible business practices. Norske Skog aims to reduce the environmental impact of its activities to a minimum. The company strives to make the same environmental standards also apply in partly owned companies and among its suppliers.

All Norske Skog business units operate within the national laws and regulations. There have been no incidents in 2009 which have resulted in serious breaches in relation to this. Norske Skog frequently sets higher environmental goals than required by national and local authorities.

In 2009, 582 000 tonnes of dry waste were generated from operations. Of this, 73 per cent was utilised as bio energy. The company produced 2 000 GWh in this manner in 2009.

GREENHOUSE GAS EMISSIONS

Norske Skog has resolved to reduce its greenhouse gas emissions by 25 per cent by 2020 compared with 2006. The reduction goal includes direct greenhouse gas emissions from paper production, and indirect emissions from the production of purchased electricity and heat. The goal is to be achieved by a combination of energy conservation and use of alternative energy sources. Norske Skog reduced its greenhouse gas emissions by 13.7 per cent in 2009 to four per cent in 2008 and has thus reduced emissions by 18.2 per cent compared with 2006. The reduction in actual greenhouse gas emissions in 2009 is strongly influenced by the reduced production. Because of low capacity utilisation, emissions per tonne of produced paper increased by five per cent from 2008 to 2009.

ENVIRONMENTAL INVESTMENTS

Norske Skog conducted environmental investments amounting to NOK 223 million in 2009. Most of the investments were made in measures to improve the content of recycled fibre and fillers in our products, in addition to cleaning water discharges and energy saving measures.

ENVIRONMENTAL CERTIFICATION

All of Norske Skog's business units are ISO 14001 certified.

ENVIRONMENTAL REPORTING

Norske Skog supports efforts to reach a global standard for reporting on sustainable development, and prepares the annual report according to GRI (Global Reporting Initiative). Norske Skog also reports the development of the company within the principles of the UN Global Compact.

The international Carbon Disclosure Project (CDP), which evaluated safety data from 200 companies in the Nordic region, voted Norske Skog as the best company in the Nordic region when it comes to reporting of greenhouse gas emissions and openness about the climate challenges faced by the company.

CDP represents 475 institutional investors worldwide, and ranks companies in an annual report based on the reporting of emissions and emission reducing measures.

ICEM

Norske Skog has signed the ICEM agreement, which is a global agreement aiming to ensure the rights of all employees. The agreement has been signed with the Norwegian United Federation of Trade Unions and the International Federation of Chemical, Energy, Mine and General Workers' Unions. The agreement is revised every second year, most recently in 2009.

GLOBAL EMPLOYEE REPRESENTATIVE FORUMS

Norske Skog has global and regional forums for employee representatives. This scheme was established in 2004, and is regulated by a separate agreement between the corporate management and the company's employee representatives.

All of the regional forums have held one meeting each in 2009.

UN GLOBAL COMPACT

The UN Global Compact was initiated by the UN in 1999. Companies which sign the UN Global Compact commit themselves to a set of principles for human rights, employee rights, environment and work against corruption. Norske Skog signed the UN Global Compact in 2003.

YOUNG READERS

Through cooperation with the World Association of Newspapers (WAN), Norske Skog contributes to reading and writing education among children in large parts of the world. The programme is called "Young Readers", and use of newspapers and magazines in schools forms the basis for this initiative.

SHAPING THE FUTURE OF THE NEWSPAPER

Norske Skog sponsors an initiative from the World Association of Newspapers called "Shaping the future of the newspaper". Together with the major newsprint publishers and other players in the industry, the initiative works on a number of projects aimed at the development of future-orientated newspaper products.

OTHER

EVENTS AFTER 31 DECEMBER 2009

Norske Skog Bio Bio in Chile was hit by a severe earthquake on 27 February 2010. The mill is located in Concepción and has an annual production capacity of 130 000 tonnes of newsprint. There are around 240 employees at the mill. None of the employees were injured as a result of the earthquake.

Norske Skog is insured against property damage and business interruption caused by the earthquake.

Production at the mill was halted as a result of the earthquake. Details of the technical condition of the mill after the earthquake are not available at the time of writing.

Other events after 31 December 2009 are reported in the other relevant parts of the annual report.

OUTLOOK FOR 2010

The board emphasizes that there is considerable uncertainty associated with the assessment of future prospects.

Norske Skog expects that sales volumes in most markets in 2010 will be in line with, or higher than 2009. Moderate price increases are expected on the group's products in Australasia, Asia and South America. In Europe, there is reason to expect significantly lower prices. It is assumed that the cost of recovered paper, wood fibre and energy will be higher in 2010 than in 2009. Based on price and cost expectations, it is expected that operating cash flow will be weak in 2010 and 2011.

Reduced demand in some markets, as well as the influence of electronic media is a significant challenge for producers of publication paper. There will still be a large global market for newsprint and magazine paper. The board of Norske Skog believes that consolidation would be positive for the industry's overall profitability and the companies' ability to provide a long-term competitive return on capital.

NORSKE SKOG-INDUSTRIER ASA (THE PARENT COMPANY)

The parent company of the group, Norske Skogindustrier ASA, comprises most of the group's operations in Norway. Paper-making operations consist of eight paper machines at the mill facilities at Skogn in Levanger, Saugbrugs in Halden and Follum in Hønefoss.

The company has conducted quarterly reviews of the recoverable amount in 2009. The result of these assessments is that net impairments of NOK 372 million related to Norske Skog Saugbrugs have been reversed. This relates to the impairments that were made in 2007. The reversal is due to changes in foreign currency assumptions, as well as a reduction in the price of energy. The calculation of recoverable amount is discussed further in Note 7 to the consolidated financial statements. Reversed impairments in 2008 of NOK 1 000 million and in 2009 of net NOK 372 million are the main explanations for the higher depreciation cost, from NOK 221 million in 2008 to 431 million in 2009.

Norske Skog has entered into energy contracts for a volume that is higher than expected future demand for their own use.

Change in the value of energy contracts in Norway affects the parent company's income statement in a similar manner to the consolidated financial statements. During 2009, the value of energy contracts has fluctuated significantly between quarters. At the end of 2009, the value of the Norwegian energy contracts is reduced by NOK 864 million compared with the end of 2008. The value of the company's energy contracts is presented in the balance sheet as other non-current assets and other current assets, while changes in value are presented in the income statement as other gains and losses.

Financial instruments (including energy contracts) were classified as current assets in 2007 and 2008, both in the consolidated financial statements and in the parent company financial statements. This was based on the assessment that financial instruments were held for trading according to IAS 39 Financial Instruments: Recognition and Measurement and should therefore be classified as current assets in the balance sheet. During 2009, the interpretation of IAS 39 has changed so that the general guidelines for classification according to IAS 1 Presentation of Financial Statements will also apply for financial instruments. As a basis for assessing whether financial instruments are current or non-current assets, the reality of whether they are held for sale or not and whether they are current or not should prevail. Following this change, the main portion of the group's financial instruments (energy contracts) was reclassified from current to non-current assets during 2009. For energy contracts, only the volume for the first year is classified as current assets.

In 2009, new measures were announced to reduce costs in the group. In addition to a general downsizing in Norway, it was decided to reduce the number of employees at Norske Skog Follum by 80. Restructuring costs relating to Norske Skog Follum amounted to NOK 31 million in 2009. Further restructuring costs related to Norske Skog Skogn and the head office, and amounted to NOK 7 million in total.

Net financial expenses in 2009 amounted to NOK 1 620 million. This amount included impairment of the carrying value of shares in subsidiaries amounting to NOK 6 738 million and dividends from subsidiaries of NOK 3 285 million. Impairment of shares in subsidiaries is a consequence of reduced values of the underlying assets, partly as a result of the indefinite idling of PM2 at Norske Skog Parenco. Other items included interest costs and the positive currency effects in net financial expenses.

Cash flow from operations in the parent company was negative with NOK 139 million in 2009. This was mainly as a result of net financial payments.

At the end of 2009, Norske Skogindustrier ASA had 1 679 employees, of which 162 were women.

PROFIT ALLOCATION

Net income for Norske Skogindustrier ASA (the parent company) in 2009 was minus NOK 2 681 million. Of this amount, NOK 995 million has been allocated to retained earnings and NOK 1 686 million to other paid-in equity. After this, distributable equity in Norske Skogindustrier ASA amounts to NOK 2 345 million.

EFFORTS IN 2009

2009 was marked by the effects of the global financial crisis and a continued challenging market for the company's products in Europe and North America. In order to improve Norske Skog's profitability, the company has implemented major changes in the form of downsizing, cost cutting and capacity reductions in 2009. The number of employees was reduced by 800 persons in 2009 and fixed costs have been reduced by around NOK 200 million.

Cost reductions have been crucial for the company. Successful restructuring requires great effort from everyone. The measures carried out in 2009 confirm the value of the initiative and solution orientation at the individual mills, as well as the good working relationship with the employee organisations. The board would like to thank each employee for their efforts in 2009.

Lysaker, 3 March 2010
The board of directors of Norske Skogindustrier ASA

Eivind Reiten
Chair

Svein Rennemo
Deputy chair

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Paul Kristiansen
Board member

Gisèle Marchand
Board member

Inge Myrlund
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

ACCOUNTS GROUP

INCOME STATEMENT

NOK MILLION	NOTE	2009	2008	2007
Operating revenue	3	**20 362**	**26 468**	**27 118**
Distribution costs		(1 749)	(2 340)	(2 400)
Cost of materials		(11 445)	(15 771)	(15 214)
Change in inventories		(132)	(176)	144
Employee benefit expenses	4, 5	(3 100)	(3 381)	(3 495)
Other operating expenses	4, 6, 8, 31	(1 751)	(2 077)	(2 221)
Gross operating earnings		**2 185**	**2 723**	**3 932**
Depreciation	7	(2 465)	(2 623)	(2 878)
Gross operating earnings after depreciation		**(280)**	**100**	**1 054**
Restructuring expenses	9, 26	(396)	(221)	0
Other gains and losses	10, 23	1 233	(502)	4 463
Impairments	7	(1 883)	(785)	(4 840)
Operating earnings		**(1 325)**	**(1 407)**	**677**
Share of profit in associated companies	11, 31	25	30	37
Financial items	12	280	(1 402)	(479)
Profit/loss before income taxes		**(1 019)**	**(2 779)**	**235**
Income taxes	14	(380)	13	(918)
Net profit/loss for the year		**(1 400)**	**(2 765)**	**(683)**
Majority share of net profit/loss for the year		(1 205)	(2 715)	(618)
Minority share of net profit/loss for the year	15	(194)	(50)	(65)
Basic/diluted earnings per share (in NOK)	16	(6.36)	(14.33)	(3.26)

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	NOTE	2009	2008	2007
Net profit/loss for the year		**(1 400)**	**(2 765)**	**(683)**
Other comprehensive income				
Currency translation differences		(1 742)	2 221	(1 700)
Tax expense on translation differences		30	217	4
Hedge of net investment in foreign operations		1 770	(2 406)	801
Tax expense on net investment hedge		(130)	(113)	(4)
Cash flow hedge		44	(78)	34
Reclassifications to income statement, divestment of operations		(155)	722	0
Tax expense on reclassifications		0	17	0
Other items		(1)	(18)	(7)
Tax expense on other items		(34)	0	(4)
Other comprehensive income		**(218)**	**562**	**(876)**
Other comprehensive income for the year before taxes		(83)	441	(872)
Tax expense on other comprehensive income		(135)	121	(4)
Other comprehensive income		**(218)**	**562**	**(876)**
Comprehensive income		**(1 618)**	**(2 203)**	**(1 559)**
Majority share of comprehensive income		(1 377)	(2 214)	(1 478)
Minority share of comprehensive income		(241)	11	(81)

BALANCE SHEET

NOK MILLION	NOTE	31.12.2009	31.12.2008	31.12.2007
Assets				
Deferred tax asset	14	128	73	11
Other intangible assets	7	208	287	132
Property, plant and equipment	3, 7, 8, 29	17 561	25 139	28 401
Investments in associated companies	11	228	295	234
Other non-current assets	5, 18, 19, 22, 23, 24	5 420	1 186	529
Total non-current assets		**23 546**	**26 980**	**29 307**
Inventories	3, 20	2 003	2 703	2 731
Receivables	19, 22	2 511	3 885	3 811
Cash and cash equivalents	13, 21, 22, 23	4 241	6 036	1 792
Other current assets	13, 20, 22, 23, 24	853	5 587	5 619
Total current assets		**9 609**	**18 211**	**13 953**
Total assets		**33 155**	**45 191**	**43 260**
Shareholders' equity and liabilities				
Paid-in equity		12 302	12 310	12 310
Retained earnings and other reserves	17	(315)	1 052	3 282
Minority interests	15	28	269	365
Total equity		**12 015**	**13 632**	**15 957**
Pension obligations	5	665	644	519
Deferred tax liability	14	1 836	1 588	2 033
Interest-bearing non-current liabilities	22, 23, 25, 29	13 892	18 820	17 294
Other non-current liabilities	22, 26	922	2 226	1 687
Total non-current liabilities		**17 316**	**23 277**	**21 533**
Interest-bearing current liabilities	22, 23, 27	355	2 339	1 141
Trade and other payables	22, 23	3 196	4 999	3 702
Tax payable	14	35	89	73
Other current liabilities	20, 22	237	855	854
Total current liabilities		**3 824**	**8 282**	**5 770**
Total liabilities		**21 140**	**31 559**	**27 303**
Total equity and liabilities		**33 155**	**45 191**	**43 260**

Lysaker, 3 March 2010
The board of directors of Norske Skogindustrier ASA

Eivind Reiten
Chair

Svein Rennemo
Deputy chair

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Paul Kristiansen
Board member

Gisèle Marchand
Board member

Inge Myrlund
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2009	2008	2007
Cash flow from operating activities				
Cash generated from operations		21 144	26 639	27 238
Cash used in operations		(18 734)	(23 574)	(23 547)
Cash from net financial items [1]		(548)	(727)	(1 011)
Taxes paid		(166)	(361)	(514)
Net cash flow from operating activities		**1 697**	**1 977**	**2 166**
Cash flow from investing activities				
Purchase of fixed assets	3	(580)	(1 283)	(1 746)
Sales of fixed assets		45	618	15
Net financial investments		68	30	87
Acquisition of shares in companies		(2)	(127)	0
Sales of shares in companies	10	(117)	3 051	0
Net cash flow from investing activities		**(587)**	**2 289**	**(1 644)**
Cash flow from financing activities				
New loans raised		4 753	1 511	9 238
Repayments of loans		(6 901)	(2 533)	(7 286)
Dividend paid		0	0	(1 049)
Purchase/sale of treasury shares		(1)	(3)	5
New equity		0	9	0
Net cash flow from financing activities		**(2 149)**	**(1 016)**	**908**
Foreign currency effects on cash and cash equivalents		(915)	1 059	(29)
Total change in cash and cash equivalents		**(1 954)**	**4 309**	**1 401**
Cash and cash equivalents 1 January	13, 21	6 195	1 886	485
Cash and cash equivalents 31 December	13, 21	4 241	6 195	1 886
Reconciliation of net cash flow from operating activities				
Profit/loss before income taxes		(1 019)	(2 779)	235
Depreciation/impairments		4 348	3 408	7 718
Share of profit in associated companies		(25)	(30)	(37)
Gain/loss on sale of fixed assets		(17)	(322)	(36)
Taxes paid		(166)	(361)	(514)
Changes in receivables		783	172	120
Changes in inventories		335	(73)	(195)
Changes in current liabilities		(525)	343	(316)
Non-cash financial items		(828)	675	(532)
Adjustments for non-cash working capital items, currency translation differences and other items [2]		(1 189)	945	(4 277)
Net cash flow from operating activities		**1 697**	**1 977**	**2 166**

[1] Cash paid from financial items is NOK 1 039 million in 2009, and cash received is NOK 491 million. In 2008 and 2007 cash paid from financial items was NOK 1 277 million and NOK 1 278 million respectively, and cash received was NOK 541 million and NOK 267 million respectively.

[2] Unrealised (gains)/losses on energy contracts for 2009, 2008 and 2007 amount to NOK 963 million, NOK (64) million and NOK (4 360) million respectively. The 2008 amount also include loss of NOK 606 million from the divestment of the two mills in South Korea.

STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	Paid-in equity	Retained earnings	Hedge accounting	Other equity reserves	Total before minority interests	Minority interests	Total equity
Equity 1 January 2007	**12 309**	**5 006**	**254**	**531**	**18 100**	**450**	**18 550**
Comprehensive income	0	(607)	1 051	(1 922)	(1 478)	(81)	(1 559)
Dividend	0	(1 045)	0	0	(1 045)	(4)	(1 049)
Change in holding of treasury shares	1	0	0	14	15	0	15
Change in ownership in subsidiaries	0	0	0	0	0	0	0
Equity 31 December 2007	**12 310**	**3 354**	**1 305**	**(1 377)**	**15 592**	**365**	**15 957**
Comprehensive income	0	(2 733)	(2 641)	3 160	(2 214)	11	(2 203)
Dividend	0	0	0	0	0	(2)	(2)
Change in holding of treasury shares	0	0	0	(1)	(1)	0	(1)
Change in ownership in subsidiaries	0	0	0	(15)	(15)	(105)	(120)
Equity 31 December 2008	**12 310**	**621**	**(1 335)**	**1 766**	**13 363**	**269**	**13 632**
Comprehensive income	0	(1 205)	1 684	(1 857)	(1 377)	(241)	(1 618)
Dividend	0	0	0	0	0	0	0
Change in holding of treasury shares	(8)	0	0	9	1	0	1
Change in ownership in subsidiaries	0	0	0	0	0	0	0
Equity 31 December 2009	**12 302**	**(583)**	**349**	**(81)**	**11 987**	**28**	**12 015**

1. GENERAL INFORMATION

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

The group has 14 fully and partly owned mills on four continents.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Lysaker outside of Oslo. The company is listed on the Oslo stock exchange. The consolidated financial statements were authorised for issue by the board of directors in Norske Skogindustrier ASA on 3 March 2010.

All amounts are presented in NOK million unless otherwise stated. There may be some small differences in the summation of columns due to rounding.

2. ACCOUNTING PRINCIPLES

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

The consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They have been prepared under the historical cost convention, as modified by the revaluation of biological assets, available-for-sale financial assets and financial assets at fair value through profit or loss.

Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date at which control is transferred to the group. They are de-consolidated from the date on which such control ceases.

The purchase method is used upon the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the acquisition cost over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of subsidiaries have been amended where necessary to ensure consistency with the policies adopted by the group.

b) Associates

Associates are all entities over which the group exercises significant influence but not control, generally held to accompany a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Use of the equity method means that the group's share of post-acquisition profits or losses made by its associates is recognised as share of profit in associated companies and is assigned to the carrying value of the investment together with the group's share of comprehensive income in the associated company and the impact from any errors or principle changes. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group's share of unrealised gains on transactions between the group and its associates are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been amended where necessary to ensure consistency with the policies adopted by the group.

c) Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the corporate management team which makes strategic decisions.

Foreign currency translation

a) Functional and presentational currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic location in which the entity operates (the "functional currency"). The exception from this is the activities in South America, where USD is the functional currency. The consolidated financial statements are presented in NOK, which is the both the functional and presentational currency of the parent company.

b) Transactions and balances

Foreign currency transactions are translated into the entity's functional currency at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Exchange differences arising from the settlement of accounts receivable/payable and unrealised gains/losses on the same positions are recognised in operating revenue/cost of materials respectively. Exchange differences arising from the settlement of other items are recognised within financial items. Gains and losses subject to hedge accounting and relating to currency positions qualifying as cash flow hedges or net investment hedges and which are hedge accounted are booked as part of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement as financial items.

c) Group companies

The results and financial position of all group entities which have a functional currency different from the presentational currency are translated into the presentational currency as follows:

(i) assets and liabilities for each of the balance sheets presented are translated at the closing rate at the date of that balance sheet.

(ii) income and expenses for each income statement are translated at average exchange rates.

(iii) all resulting exchange differences are booked to comprehensive income and presented in other equity reserves.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are booked as part of comprehensive income and is presented in other equity reserves. When a foreign operation is fully or partially sold, such exchange differences are booked out of comprehensive income and recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and translated at the closing rate.

Property, plant and equipment

Land and buildings comprise mainly mills, machinery and office premises. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation. Cost includes expenditure directly attributable to the acquisition of the items. The residual value of production equipment is defined as the realisable value after deduction of estimated cost of dismantling and removal of the asset. If the estimated cost exceeds the estimated value, the net liability is added to the cost of the related asset, and a provision is recognised as a liability in the balance sheet. Borrowing costs which are directly related to qualifying assets are recognised as part of the acquisition cost for the qualifying asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of PPE.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The residual value and useful life of the assets are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and included in the income statement.

Biological assets

Biological assets are measured upon initial recognition and at the end of each reporting period at fair value less estimated point-of-sale costs, unless fair value cannot be reliably measured. A gain or loss arising on initial recognition, and from changes in fair value during a period, is reported in net profit or loss for the period in which it arises. When fair value cannot be reliably estimated, the asset is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Patents and licenses

Patents and licenses have a finite useful life and are recognised at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the specific software and bring it into use, and amortised over their estimated useful lives. Costs associated with maintaining computer software are recognised as an expense as they are incurred. Costs which are directly associated with the development of identifiable and unique software products controlled by the group, and which are likely to generate economic benefits exceeding the costs beyond one year, are recognised as intangible fixed assets. Direct costs include the costs of software development personnel and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Impairment of non-financial assets

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

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets available for sale and investments held to maturity. This classification depends on the purpose for which the investments were acquired. Management determines the classification of an investment at initial recognition and re-evaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it was acquired principally for the purpose of short-term sale or if so designated by management. Derivatives are also categorised as held for trading unless designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Non-financial commodity contracts where the relevant commodity is readily convertible to cash and where the contracts are not for own use fall within the scope of IAS 39. Such contracts are treated as derivatives in accordance with IAS 39. Norske Skog currently has energy contracts which have resulted in surplus energy in Norway and South America. This means that certain non-financial commodity contracts are no longer considered to be in accordance with Norske Skog's expected usage requirements (IAS 39.5). When the own use exception no longer applies, these contracts must be treated as derivatives and booked to fair value through the income statement (see also Notes 22, 23 and 24). Commodity contracts within the scope of IAS 39 are classified as current assets, unless they are expected to be realised more than 12 months after the balance sheet date. In that case, they are classified as non-current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for those maturing later than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives which are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

d) Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities which the group's management has the positive intention and ability to hold to maturity. The group does not hold such assets.

Derivatives and hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates derivatives as either:

a) hedges of the fair value of fixed interest loans (fair value hedge);
b) hedges of probable forecast transactions (cash flow hedge);
c) hedging of a net investment in a foreign operation (net investment hedge);
d) derivatives at fair value through profit or loss.

The group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment of whether the derivatives that are used are highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is documented both at hedge inception and on an ongoing basis through the hedging period.

Accounting for derivatives follows the intentions underlying the associated contract. At the time a contract is entered into, it is defined as either a hedging or a trading contract. Norske Skog uses hedge accounting for a large amount of its economic hedging portfolio.

a) Fair value hedge

Changes in the fair value of derivatives that qualify as hedging and which are effective, are recorded in the income statement, together with any changes in the fair value of the of the hedged asset or liability that are attributable to the hedged risk. The ineffective part of the hedging relationship is booked as an interest cost within financial items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortized over the period to maturity. Hedging instruments that are terminated prior to maturity will be treated in the same way. If the underlying hedged item is realised or repurchased prior to maturity, any associated hedging reserve/amortised cost is recognised in the income statement on a one-to-one basis.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within financial items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. If a hedged transaction is no longer expected to occur, the cumulative gain or loss that was previously reported in equity is immediately transferred to the income statement within financial items.

c) Net investment hedge

Hedges of net investments in foreign operations are accounted for in the same way to cash flow hedges. Gains and losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

d) Derivatives at fair value over profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised in the income statement.

The fair value of quoted investments is based on the current market price. If the market for a financial asset is not active, the group applies valuation techniques to establish the fair value. These include the use of recent arm's length transactions, reference to other instruments which are substantially the same, and discounted cash flow analyses defined to reflect the issuer's specific circumstances (see also Note 24).

Shares, bonds, certificates, bills, etc.

Shares, bonds and certificates classified as financial assets at fair value through profit or loss are valued at market value, with changes in fair value recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Drawn bank overdrafts are shown as borrowings in current liabilities in the balance sheet.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, or average purchase price. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trace receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when objective evidence exists that the group will be unable to collect the entire amount due in accordance with the original terms of each receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds (net of transaction costs) and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Bond loans

The value of bond loans in the balance sheet is reduced by holdings of Norske Skog bonds. Amounts above or below amortized costs upon re-purchase are recognised in the income statement in the same period the re-purchase occurs.

Current and deferred income tax
The group's income tax expense include current tax based on taxable profit in group companies, change of deferred income taxes for the financial period and adjustments to previous periods. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the group, and that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets are offset against deferred tax liabilities when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is a legally enforceable right to set-off current tax assets against current deferred tax liabilities.

Employee benefits
a) Pension obligations
Group companies operate various pension schemes. These are generally funded through payments to insurance companies, as determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

A defined benefit plan is a one which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group makes fixed contributions to a separate entity. The group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds which are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating to the terms of the related pension liability, or alternatively a government bond interest rate if such bonds do not exist.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group makes contributions to publicly- or privately-administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been made. These contributions are recognised as an employee benefit expense in the period the contribution relates to. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share-based remuneration
The group has a long-term incentive plan where the allocation of synthetic options to members of corporate management is based on the development of the company's share price in relation to a defined group of listed paper producers. The programme results in a cash payout if the options are exercised. The fair value of the liability is measured at each balance sheet date and on the settlement date. See also Note 4.

c) Bonus arrangements
The group accrues for bonus arrangements when there exists a contractual obligation or past practice has created a constructive obligation.

Provisions
Provisions for environmental restoration, dismantling costs, restructuring activities and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events; an outflow of resources is more likely than not to be required to settle the obligation and the amount can be reliably estimated.

Restructuring provisions comprise mainly employee termination payments. Restructuring costs are costs which are not related to the ongoing operations. This includes for example severance (redundancy) payments, early retirement or other arrangements for employees leaving the company, external costs relating to coaching, counselling and assistance finding new jobs, or external costs to lawyers and legal advisors in relation to the de-manning process, and lease termination penalties. Provisions are not recognised for future operating losses.

Salary which is earned while the employee contributes to the ongoing operations is not classified as restructuring costs. This includes for example salary in the notice period when the employee is working during the notice period, or bonuses earned whilst the employee contributes to the normal operations. These are booked as normal salary costs. Costs for projects related to improvements are generally ordinary operating costs, unless they have been specially classified as restructuring costs.

Where a number of similar obligations exist, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised within financial items.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group's revenue consists almost exclusively of the sale of goods, and the principle for recognition of revenue is the same for newsprint and magazine paper.

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. This will depend upon the buyer's delivery terms and will be in the range from the finalisation of the production to delivery of the goods to the buyer.

The group's terms of delivery are based on Incoterms 2000, which are the official rules for the interpretation of trade terms issued by the International Chamber of Commerce. The timing of revenue recognition is largely dependent on these delivery terms. The group's sales are covered by the following main categories of terms:

• "D" terms, where the group delivers the goods to the purchaser at the agreed destination, usually the purchaser's premises. The point of sale is when the goods are delivered to the purchaser. If the customer is invoiced before delivery of the goods purchased, revenue is only recognised if the customer has taken over a significant part of the gain and loss potential related to those goods.

- "C" terms, where the group arranges and pays for the external transport of the goods, but the group no longer bears any responsibility for the goods once they have been handed over to the transporter in accordance with the terms of the contract. The point of sale is when the goods are handed over to the transporter contracted by the seller.
- "F" terms, where the purchaser arranges and pays for the transport. The point of sale is when the goods are handed over to the transporter contracted by the purchaser.

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

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

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

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Government grants
Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government grants in the form of compensation for losses which have already been incurred, or in the form of direct financial support which is not directly related to future costs, are recognised as income in the same period as they are awarded.

Government grants related to assets are presented in the balance sheet as deferred income or as a reduction of the cost price of the assets the grant relates to. The grant is then recognised in the income statement either through future periodic income recognition or as a future reduction in the depreciation charge.

Emission Rights
There is currently no accounting standard or interpretation within IFRS that deals specifically with the accounting for emission permits or renewable energy certificates. Norske Skog accounts for emission rights by recognising an intangible asset for the emission rights received at the market value on the date the rights are granted. The difference between the fair value and the nominal amount paid is recognised in the balance sheet as a government grant (deferred income).

Emissions are recognised in the income statement as cost of materials, and the government grant (deferred income) is recognised in line with the cost of emitting. Unused rights (deferred income) and used rights are offset against the intangible asset recognised in the balance sheet when the emission rights expire.

If the received rights are sufficient to cover the entity's emissions, there will be no net cost or net income in the income statement. If the entity is required to go to the market and acquire additional rights, these are accounted for at market value at the time of purchase and recognised in the income statement.

Dividend distribution
Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

Important accounting estimates and assumptions
The group prepares estimates and makes assumptions for the future. Accounting estimates derived from these will by definition seldom accord fully with the final outcome. Estimates and assumptions which represent a substantial risk for significant changes in the capitalised value of assets and liabilities during the coming fiscal year are discussed below.

a) Estimated decline in value of intangible assets and tangible fixed assets
The group performs periodic tests to assess whether there has been a decline in the value of intangible assets and tangible fixed assets. The recoverable amount from cash-generating units is determined by calculating the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Calculation of value in use requires use of estimates.

The group's cash-generating units are: Europe Newsprint, Europe light weight coated (LWC), Australasia, South America, Saugbrugs, Follum magazine paper and Singburi. The capitalised value of intangible assets and tangible fixed assets within the cash-generating units is measured against the value in use of intangible assets and tangible fixed assets within these units. A possible future change in the composition of the group's cash-generating units could mean changes in the value in use within cash-generating units, which could in turn mean a future decline in the value of intangible assets and tangible fixed assets.

Calculating the value in use of intangible assets and tangible fixed assets within the cash-generating units is based on discounted cash flows. Cash flow is calculated individually for up to ten years for each cash-generating unit based on estimated economic life. Sales prices and prices for input factors are based on management-approved short-term forecasts in the first two years and on long-term price prognoses thereafter. The estimated value of operation exceeding ten years is assessed as a terminal value based on the industry average for Enterprise Value/EBITDA, adjusted for the individual assets' technical state and cash-flow horizon.

The term "forecasts for long-term prices" refers to the estimated equilibrium price level which the least cost-efficient mills in the industry need in order to survive an economic cycle. For paper prices, this is supported by analysis of the marginal producers' means to survive which is affected by elements of cost as well as the market balance. Budgeted figures and long-term prices that have been applied when determining future cash flows might change. Changes in these factors will have the effect of altering the value of cash flows and thereby also the value in use within the cash-generating units. Significant changes in prognoses and long-term prices could accordingly mean a future fall in the value of intangible assets and tangible fixed assets.

The required rate of return applied when discounting future cash flows is crucial for the calculated value of intangible assets and tangible fixed assets. A future increase in the required return when discounting future cash flows will reduce value in use and could in turn mean a future decline in the value of intangible assets and tangible fixed assets.

b) Annual assessment of the remaining economic life of tangible fixed assets
The group makes annual assessments of the remaining economic life of tangible fixed assets. An increase or decrease in the remaining economic life could have an effect on future depreciation.

c) Provision for future environmental obligations
The group's provision for future environmental obligations is based on a number of assumptions made using management's best judgment. Changes in any of these assumptions could have an impact on the group's provision and group costs.

d) Residual value and dismantling provision
The residual value of the group's production equipment is valued as the anticipated realisable value on the balance sheet date, after deducting the estimated costs relating to asset dismantling, removal and restoration. If the estimated costs exceed the estimated residual values, the net liability is added to the fixed asset cost in the bal-

ance sheet and a provision is recognised as a liability. The group performs a review of the residual value its production equipment at the end of each accounting year. Residual value is affected by short-term changes in the underlying assumptions, for example scrap metal prices. A change in the residual value could have an impact on future depreciation costs. The provision for dismantling costs is based on a number of assumptions made using management's best judgment.

e) Fair value of derivatives and other financial instruments
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. See Note 22 for more information.

f) Pensions
The present value of the pension obligation depends on several input factors that are determined by means of a number of actuarial assumptions. The assumptions used in calculating the net pension expense (income) includes the discount rate. Changes in these assumptions will affect the carrying value of the pension obligation.

New and amended standards adopted by the group
The group has adopted the following new and amended IFRSs in 2009:

IFRS 7 Financial instruments – disclosures (amendment)
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IAS 1 Presentation of financial statements (revised)
The revised standard prohibits the presentation of items of income and expenses (non-owner changes in equity) in the statement of changes in equity. Non-owner changes in equity are required to be presented separately from owner changes in equity in a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation in the accounts, there is no impact on earnings per share.

IAS 1 Presentation of financial statements (amendment)
The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 will be classified as current assets and liabilities respectively. The amendment only impacts presentation in the accounts, so there is no impact on earnings per share.

IAS 19 Employee benefits (amendment)
There were a number of amendments to IAS 19, none of which have had a significant impact on the accounts:

- A plan amendment that results in a change to the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- IAS 37, Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent with IAS 37.

IAS 20 Accounting for government grants and disclosure of government assistance (amendment)
The benefit of a below-market government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment has not had a significant impact on the accounts.

IAS 23 Borrowing costs (amendment)
The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The amendment has not had a significant impact on the accounts.

IAS 28 Investments in associates (amendment)
An investment in an associate is treated as a single asset for the purpose of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. There are also changes regarding disclosure requirements when an investment in an associate is accounted for in accordance with IAS 39. The changes have not had a significant impact on the accounts.

IAS 39 Financial instruments – recognition and measurement
There are a number of amendments to IAS 39, none of which have had a significant impact on the accounts:

- There is a clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended.
- An amendment to the guidelines for designating and documenting hedges such that hedges will still be reported in the operating segment to which the hedged items relate, but the group will not formally document and test this relationship.
- When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

IFRIC 16 Hedges of a net investment in a foreign operation
The interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentational currency, and hedging instruments may be held anywhere in the group (but not in the net investment that is to be hedged). The requirements of IAS 21 apply to the hedged item. The group has previously applied accounting principles which are in line with the interpretation, and the change has therefore not had a significant impact on the accounts.

IAS 32 Financial instruments – presentation and IAS 1 Presentation of financial statements (amendment)
The amended standards require entities to classify puttable financial instruments and instruments, or components of instrument, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendment has not had a significant impact on the accounts.

IAS 36 Impairment of assets (amendment)
When fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The amendment has not had a significant impact on the accounts.

IAS 38 Intangible assets (amendment)
The amendment requires that costs relating to advertising and promotional activities are recognised in the income statement when the goods are made available to the company or when the services are received. The limitation in the depreciation method for immaterial assets is also removed. The amendment has not had a significant impact on the accounts.

New interpretations and changes to existing standards effective in 2009 but which are not relevant for the group
Listed below are new interpretations and changes to existing standards which are mandatory for accounting periods starting 1 January 2009 or later, but which are not relevant for the group:

IFRS 1 First time adoption of IFRS and IAS 27 Consolidated and separate financial statements (amendment)
The amendments are applicable to first-time adopters of IFRS and do not therefore have any impact on the group accounts.

IFRS 2 Share-based payment (amendment)
The amendment is related to vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The group does not have any share-based payment schemes which will be affected by this change.

IAS 16 Property, plant and equipment (amendment)
The amendment deals with the presentation of proceeds from the sale of assets for entities whose ordinary activities comprise renting and subsequently selling such assets. This is not expected to have any impact on the group's operations because none of the group companies' ordinary activities comprise renting and subsequently selling assets.

IAS 27 Consolidated and separate financial statements (amendment)
When an investment in a subsidiary which is accounted for according to IAS 39 is classified as held for sale under IFRS 5, IAS 39 would continue to apply. This has not had any impact on the group's operations because investments in subsidiaries are recorded at cost in the standalone financial statements of each entity.

IAS 29 Financial reporting in hyperinflationary economies, IAS 40 Investment property and IAS 41 Agriculture (amendments)
There are a number of minor changes to IAS 29, IAS 40 and IAS 41. None of these have had any impact on the group's operations.

IAS 31 Interests in joint ventures (amendment)
The amendment deals with disclosure requirements for interests in joint ventures which are accounted for according to IAS 39.

IFRIC 15 Agreements for construction of real estates
The interpretation clarifies whether IAS 18 *Revenue*, or IAS 11 *Construction contracts*, should be applied to particular transactions.

New interpretations and changes to existing standards
The following interpretations and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2010, but the group has not chosen to adopt early:

IFRS 3 Business combinations (revised)
The revised standard makes some significant changes to the acquisition method for business combinations. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The change is effective for accounting periods starting 1 July 2009 or later.

IFRS 5 Non-current assets held for sale and discontinued operations (amendment)
The amendment clarifies the disclosure requirements in respect of non-current assets (or disposal groups). The amendment is effective for accounting periods starting 1 July 2009 or later.

IAS 27 Consolidated and separate financial statements (revised)
The revised standard requires that the effects of all transactions with non-controlling interests are recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The amendment is effective for accounting periods starting 1 July 2009 or later.

IAS 32 Financial instruments – presentation (amendment)
The amendment allows rights issues whereby an entity issues a right, option or warrant on a pro rata basis to all existing shareholders to acquire a fixed number of additional shares at a fixed strike price to be classified as equity, when the price is denominated in a currency other than the entity's functional currency. The amendment shall be applied for accounting periods starting 1 February 2010 or later, and is not expected to have a significant impact on the accounts.

IAS 38 Intangible assets (amendment)
The amendment clarifies guidance for measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment is effective for accounting periods starting 1 July 2009 or later, and is not expected to have a significant impact on the accounts.

IAS 39 Financial instruments – recognition and measurement (amendment)
The amendment clarifies that inflation may only be hedged in the instance where changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument, and that the time value of a purchased option which is used as a hedging instrument is a one-sided risk and therefore an option designated in its entirety cannot be perfectly effective. The amendment is effective for accounting periods starting 1 July 2009 or after, and is not expected to have a significant impact on the accounts.

IAS 1 Presentation of financial statements (amendment)
The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. The amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment is applicable for accounting periods starting 1 January 2010 or later, and is not expected to have a significant impact on the accounts.

IFRIC 17 Distribution of non-cash assets to owners
The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS has also been amended to require that assets are classified as "held for distribution" only when they are available for distribution in their present condition and the distribution is highly probably. The interpretation is effective for accounting periods starting 1 July 2009 or later, and is not expected to have a significant impact on the accounts.

IFRIC 18 Transfers of assets from customers
The interpretation states that when an entity receives a transfer of an item of property, plant and equipment from a customer, it shall assess whether the transferred item meets the definition of an asset set out in the Framework. If it does, the asset shall be recognised as an item of property, plant and equipment and measured at its fair value. Income shall be recognised in accordance with IAS 18. The interpretation is effective for transfers in accounting periods starting 1 November 2009 or later, and is not expected to have a significant impact on the accounts.

IFRIC 19 Extinguishing financial liabilities with equity instruments
The interpretation clarifies the accounting treatment when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor. IFRIC 19 requires a gain or loss to be recognised in the income statement when a liability is settled through the issuance of the entity's own equity instruments. The interpretation is effective for annual periods beginning on or after 1 July 2010, and is not expected to have a significant impact on the accounts.

IFRS 2 Share based payment (amendment)
The change clarify the scope of IFRS 2 and how cash settled share-based payment transactions within a group arrangement should be booked in the company accounts for an entity that receives goods and services, and where that entity does not have any obligation to settle the transaction. The change is applicable for accounting periods starting 1 January 2010 or later, and is not expected to have a significant impact on the accounts.

IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial instruments - recognition and measurement
The change requires that an assessment is made of whether an embedded derivative must be separated from a host contract, for all financial instruments reclassified out of the "fair value through profit or loss" category. This assessment must be made at the time of re-classification.
The change is effective for accounting periods starting 1 January 2010 or later.

IFRS 9 Financial instruments
The standard replaces the measurement rules for financial assets in IAS 39. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest. The group and company are currently evaluating the impact of adoption of IFRS 9. The standard is effective for annual periods beginning 1 January 2013 or later.

IAS 24 Related party disclosures (revised)
The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities; and clarifies and simplifies the definition of a related party. The amendment is not expected to have a material impact on the disclosures given in the group or company financial statements and is effective for annual periods beginning 1 January 2011 or later.

3. OPERATING SEGMENTS

Accounting policies applied in the segment reporting
Recognition, measurement and classification applied in the segment reporting are consistent with the group's accounting policies described in Note 2. The option in IFRS 8 allowing different accounting policies to be applied in segment reporting and group reporting is, for transparency reasons, not applied by Norske Skog.

The group assesses the performance of the operating segments based on a measure of gross operating earnings (adjusted EBITDA) and gross operating earnings after depreciation (adjusted EBIT). These measurement bases exclude the effects of expenditure not deemed to be part of the regular operating activities of the segment, such as restructuring expenses, impairments, gains and losses from sales of non-current assets and changes in fair value of certain energy contracts and biological assets.

Implementation of IFRS 8 Operating segments
IASB issued IFRS 8 *Operating segments* in November 2006. The standard replaces IAS 14 Segment Reporting and is mandatory for accounting periods beginning on or after 1 January 2009. Norske Skog implemented IFRS 8 in the first quarter of 2008. Comparative figures for 2007 have been restated in accordance with the revised segment structure.

Reportable segments
Under IFRS 8, the activities in the group are divided into three operating segments: newsprint, magazine paper and energy. The segment selection is based on product and on the organisational structure used in the group to evaluate performance and make decisions regarding resource allocation. The newsprint segment is further segregated into four geographical regions.

The group has 14 fully or partly owned paper mills on four continents. Two of the mills produce only magazine paper, two produce both magazine paper and newsprint and 10 produce newsprint only. Both the newsprint and the magazine paper segment represent an aggregation of the paper machines in the group producing the two paper qualities.

Newsprint
The newsprint segment encompasses production and sale of paper qualities which, measured in grams per square meter, will normally be in the range 40-57 g/m^2. These paper qualities are used in newspapers, inserts and advertising materials. The group has an annual production capacity of newsprint of 3 083 000 tonnes as at the end of 2009.

Magazine paper
The magazine paper segment encompasses production and sale of the paper qualities super calendered (SC), machine finished coated (MFC) and light weight coated (LWC). These paper qualities are used in magazines, catalogues and advertising materials. The group has an annual production capacity of magazine paper of 1 400 000 tonnes as at the end of 2009.

Energy
The energy segment includes purchase and sale of energy for the group's mills in Norway and Brazil, sale of excess energy in the spot market and the fair value of certain energy contracts and embedded derivatives in energy contracts.

The sale of energy to the mills and in the spot market is reported as operating revenue in the energy segment, while changes in fair value of energy contracts and embedded derivatives are reported as other gains and losses.

Other activities
Activities in the group that do not fall into any of the three operating segments are presented under other activities. This includes corporate functions, real estate activities, trading and sorting of recovered paper, purchase and resale of wood and the group's activities related to bio-fuel.

Intercompany transactions
The revenue reported per operating segment includes both sales to external parties and sales to other segments. Intra-segment sales are eliminated in the consolidated group accounts. All sales transactions between operating segments are carried out at arm's length prices as if sold or transferred to independent third parties.

Revenues and expenses not allocated to operating segments
Norske Skog manages non-current debt, cash positions and taxes on a group basis. Consequently, financial items and tax expenses are presented only for the group as a whole.

The group's investment in associated companies accounted for in accordance with the equity method is primarily related to its 33.7% share in Malaysian Newsprint Industries Sdn. Bhd., which is described in more detail in Note 11 Investment in associated companies.

Major customers
Norske Skog had a total sales volume of newsprint and magazine paper of 3 894 000 tonnes in 2009, of which sales to the group's largest customer constituted approximately 450 000 tonnes.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

2009	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**13 073**	**6 272**	**1 736**	**2 064**	**(2 783)**	**20 362**
Distribution costs	(1 076)	(579)	0	(94)	0	(1 749)
Cost of materials	(7 136)	(3 374)	(1 752)	(1 465)	2 283	(11 445)
Change in inventories	(118)	(16)	0	3	0	(132)
Employee benefit expenses	(1 813)	(995)	0	(292)	0	(3 100)
Other operating expenses	(1 244)	(618)	(2)	(386)	500	(1 751)
Gross operating earnings	**1 684**	**689**	**(18)**	**(170)**	**0**	**2 185**
Depreciation	(1 775)	(645)	0	(45)	0	(2 465)
Gross operating earnings after depreciation	**(91)**	**44**	**(18)**	**(215)**	**0**	**(280)**
Restructuring expenses	(360)	(34)	0	(2)	0	(396)
Other gains and losses	201	0	990	41	0	1 233
Impairments	(1 833)	(49)	0	0	0	(1 883)
Operating earnings	**(2 083)**	**(39)**	**972**	**(175)**	**0**	**(1 325)**

2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**17 933**	**7 244**	**1 549**	**3 663**	**(3 920)**	**26 468**
Distribution costs	(1 512)	(710)	0	(118)	0	(2 340)
Cost of materials	(10 657)	(4 051)	(1 512)	(2 977)	3 426	(15 771)
Change in inventories	(140)	(16)	0	(19)	0	(176)
Employee benefit expenses	(1 996)	(991)	0	(393)	0	(3 381)
Other operating expenses	(1 525)	(660)	1	(386)	494	(2 077)
Gross operating earnings	**2 102**	**816**	**37**	**(231)**	**0**	**2 723**
Depreciation	(2 116)	(460)	0	(48)	0	(2 623)
Gross operating earnings after depreciation	**(14)**	**356**	**37**	**(279)**	**0**	**100**
Restructuring expenses	(201)	(3)	0	(17)	0	(221)
Other gains and losses	(731)	(2)	(24)	255	0	(502)
Impairments	(1 791)	1 000	0	7	0	(785)
Operating earnings	**(2 737)**	**1 352**	**12**	**(34)**	**0**	**(1 407)**

2007	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**19 793**	**6 509**	**1 117**	**3 686**	**(3 987)**	**27 118**
Distribution costs	(1 670)	(669)	0	(62)	1	(2 400)
Cost of materials	(10 808)	(3 725)	(1 170)	(3 149)	3 638	(15 214)
Change in inventories	177	(62)	0	30	(1)	144
Employee benefit expenses	(2 191)	(947)	0	(357)	0	(3 495)
Other operating expenses	(1 642)	(585)	0	(407)	413	(2 221)
Gross operating earnings	**3 659**	**521**	**(53)**	**(259)**	**64**	**3 932**
Depreciation	(2 228)	(585)	0	(66)	1	(2 878)
Gross operating earnings after depreciation	**1 430**	**(63)**	**(53)**	**(326)**	**65**	**1 054**
Restructuring expenses	0	0	0	0	0	0
Other gains and losses	(133)	2	4 591	54	(51)	4 463
Impairments	(2 834)	(2 032)	0	26	0	(4 840)
Operating earnings	**(1 537)**	**(2 093)**	**4 538**	**(246)**	**14**	**677**

SHARE OF OPERATING REVENUE FROM EXTERNAL PARTIES

	2009	2008	2007
Newsprint	99%	100%	100%
Magazine paper	98%	100%	100%
Energy	38%	36%	19%
Other activities	34%	25%	21%

OPERATING REVENUE PER GEOGRAPHICAL REGION

The allocation of operating revenue and expenses in the newsprint and magazine paper segments is based on the location of the production facilities. Sales offices, holding companies and administrative entities are not allocated to geographical regions.

2009	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	6 199	6 139	0	0	0	12 338
Asia	1 071	0	0	0	0	1 071
Australasia	3 571	0	0	0	0	3 571
South America	1 256	0	0	0	0	1 256
Activities not allocated to regions [1]	4 541	323	1 736	2 064	(2 783)	5 881
Eliminations	(3 566)	(190)	0	0	0	(3 756)
Total	**13 073**	**6 272**	**1 736**	**2 064**	**(2 783)**	**20 362**

2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	8 076	7 186	0	0	0	15 262
Asia	3 390	0	0	0	0	3 390
Australasia	3 757	0	0	0	0	3 757
South America	1 316	0	0	0	0	1 316
Activities not allocated to regions [1]	5 934	1 163	1 549	3 663	(3 920)	8 388
Eliminations	(4 540)	(1 105)	0	0	0	(5 645)
Total	**17 933**	**7 244**	**1 549**	**3 663**	**(3 920)**	**26 468**

2007	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	8 689	6 333	0	0	0	15 022
Asia	5 460	0	0	0	0	5 460
Australasia	3 725	0	0	0	0	3 725
South America	1 284	0	0	0	0	1 284
Activities not allocated to regions [1]	5 566	988	1 117	3 686	(3 987)	7 370
Eliminations	(4 931)	(812)	0	0	0	(5 743)
Total	**19 793**	**6 509**	**1 117**	**3 686**	**(3 987)**	**27 118**

[1] Sales offices, holding companies and other administrative entities not reported as an integral activity of the production entities.

OPERATING REVENUE PER MARKET

The allocation of operating revenue by market is based on customer location.

	2009	2008	2007
Norway	1 447	1 186	1 375
Rest of Europe	10 439	12 977	12 891
North America	451	1 210	1 089
South America	1 416	1 976	1 657
Australasia	3 763	3 678	3 967
Asia	2 578	5 279	5 944
Africa	269	162	195
Total operating revenue	**20 362**	**26 468**	**27 118**

GROSS OPERATING EARNINGS PER GEOGRAPHICAL REGION

2009	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	779	669	0	0	0	1 448
Asia	(7)	0	0	0	0	(7)
Australasia	650	0	0	0	0	650
South America	239	0	0	0	0	239
Activities not allocated to regions [1]	24	20	(18)	(170)	0	(144)
Eliminations	0	0	0	0	0	0
Total	**1 684**	**689**	**(18)**	**(170)**	**0**	**2 185**

2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	931	840	0	0	0	1 771
Asia	272	0	0	0	0	272
Australasia	628	0	0	0	0	628
South America	211	0	0	0	0	211
Activities not allocated to regions [1]	60	(24)	37	(231)	0	(158)
Eliminations	0	0	0	0	0	0
Total	**2 102**	**816**	**37**	**(231)**	**0**	**2 723**

2007	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Europe	1 638	513	0	0	0	2 151
Asia	817	0	0	0	0	817
Australasia	928	0	0	0	0	928
South America	257	0	0	0	0	257
Activities not allocated to regions [1]	19	8	(53)	(259)	64	(221)
Eliminations	0	0	0	0	0	0
Total	**3 659**	**521**	**(53)**	**(259)**	**64**	**3 932**

[1] Sales offices, holding companies and other administrative entities not reported as an integral activity of the production entities.

BALANCE SHEET ITEMS AND INVESTMENT IN FIXED ASSETS – KEY FIGURES

Certain balance sheet items, including taxes, non-current debt, cash and cash equivalents, are managed on a group basis. Consequently, these items are not allocated to the group's operating segments.

31 DECEMBER 2009	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
Property, plant and equipment	13 140	4 226	0	195	17 561
Inventories	1 169	782	0	53	2 003
Assets not allocated to operating segments					13 591
Total					**33 155**

31 DECEMBER 2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
Property, plant and equipment	19 081	5 813	0	245	25 139
Inventories	1 722	896	0	85	2 703
Assets not allocated to operating segments					17 349
Total					**45 191**

31 DECEMBER 2007	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
Property, plant and equipment	23 895	4 108	0	398	28 401
Inventories	1 906	738	0	86	2 731
Assets not allocated to operating segments					12 128
Total					**43 260**

INVESTMENTS IN OPERATIONAL FIXED ASSETS

	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
2009	421	93	0	66	580
2008	987	218	0	78	1 283
2007	1 195	493	0	58	1 746

PROPERTY, PLANT AND EQUIPMENT PER GEOGRAPHICAL REGION

The table below shows property, plant and equipment allocated to Norske Skog's country of domicile and other regions in which the group holds assets. The allocation is based on the location of the production facilities.

	31.12.2009	31.12.2008	31.12.2007
Norway	3 983	4 314	3 420
Rest of Europe	5 825	9 451	8 458
Asia	520	3 203	7 799
Australasia	5 326	5 496	6 182
South America	1 349	1 921	1 813
Activities not allocated to regions	558	754	729
Total	**17 561**	**25 139**	**28 401**

4. EMPLOYEE BENEFIT EXPENSES

	NOTE	2009	2008	2007
Salaries		2 331	2 628	2 730
Social security contributions		503	504	462
Pension costs	5	148	118	128
National insurance, pension and other social costs		118	131	175
Total		**3 100**	**3 381**	**3 495**

MAN-LABOUR YEARS BY GEOGRAPHICAL REGION

	2009	2008	2007
Europe	3 725	3 837	4 094
South America	556	574	587
Australasia	997	1 051	1 086
Asia	247	788	1 563
Corporate functions (head office)	143	176	242
Total	**5 668**	**6 426**	**7 572**

The former Chief Executive Officer (CEO), Christian Rynning-Tønnesen resigned from his position in November 2009. He will receive salary and other benefits from the company until he formally leaves the company 31 May 2010. An accrual of NOK 3 203 000 has been made for total salary, fringe benefits and pension costs in the notice period. The new CEO, Sven Ombudstvedt, took up the position on 1 January 2010.

The base salary for the former CEO was NOK 3 973 220 as at 31 December 2009. Total salary and other benefits received by Christian Rynning-Tønnesen during 2009 amounted to NOK 7 045 802.

The CEO's retirement age is 64, and his pension amounts to 65% of base salary from retirement age to 77 years, and thereafter 60%.

The mutual period of notice for the CEO and other members of corporate management is six months. If circumstances arise in which the company or the person concerned, by mutual agreement, terminates the contract of employment in the best interests of the company, the company guarantees to pay the affected person's base salary for a period of 18 months from the end of the period of notice.

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

Remuneration to members of the corporate assembly and the board amounted to NOK 509 000 and NOK 3 368 000 respectively in 2009.

For further information on remuneration to executive employees, please see Note 4 in the parent company accounts.

REMUNERATION FOR THE CEO AND OTHER MEMBERS OF THE CORPORATE MANAGEMENT
(in NOK 1 000)

In accordance with the code of practice for the corporate governance recommended by the Oslo Stock Exchange, remuneration for members of the corporate management is specified below.

	BASE SALARY 31.12.2009	PAYMENTS IN KIND ETC. FOR 2009 [1)]	BONUS 2009 [2)]
Christian Rynning-Tønnesen	3 973	221	2 851
Kristin Slyngstad Klitzing	1 725	204	916
Rune Gjessing	1 900	192	928
Jan-Hinrich Clasen	2 110	182	915
Audun Røneid	2 300	193	0
Terry Hamilton	2 100	190	644

1) Includes special benefits, car allowance, newspapers, free telephone etc.
2) Based on results achieved in 2008, paid in 2009. Includes in addition bonus for the Turnaround programme.

LONG-TERM OWNERSHIP PLAN

The board adopted new principles for the long-term incentive programme in 2007, whereby the criteria for awarding synthetic shares to the corporate management team are related to Total Shareholder Return (TSR – development of the share price including dividend payments), which must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 30% payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payout is 35 000 synthetic shares for the CEO and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50% of the allocation from this programme must be applied to purchasing shares, which must be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. There is no dilution effect as a result of the scheme.

OUTSTANDING OPTIONS AS AT 31 DECEMBER 2009

There are no outstanding options as at 31 December 2009. The number of options awarded in 2006 was 270 000. The strike price was higher than the share price at the time of realisation in 2009, and the options were therefore not exercised.

COST REDUCTION PROGRAMME TURNAROUND

As a special motivational measure to ensure the best possible execution of the programme for profit improvement "Turnaround", the board resolved that all employees, including corporate management, should be offered an additional bonus scheme. The bonus was calculated against a targeted improvement in earnings of NOK 3 000 million compared with the base year of 2005. The maximum payout was seven months pay for the CEO and four months pay for the other members of the corporate management team. The bonus basis was an average of profit improvements in the third and fourth quarters of 2008 and amounted to NOK 2 873 million, or 95.8% of the targeted cost reduction. This gave a payout amounting to 89.5% of the maximum amount. Bonus relating to the Turnaround programme was paid in 2009. The programme was an on-off bonus for the years 2006-2008.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEE MEMBERS

(in NOK 1 000)

	SALARY	DIRECTORS´ FEE	REMUNERATION FOR COMMITTEE WORK
Eivind Reiten	0	255	0
Svein Rennemo	0	308	0
Halvor Bjørken	0	280	45
Stein-Roar Eriksen	415	280	0
Wenche Holen	0	280	50
Paul Kristiansen	504	140	25
Gisele Marchand	0	280	75
Inge Myrlund	719	140	0
Ingrid Wiik	0	280	45
Kim Wahl [1)]	0	255	45
Øystein Stray Spetalen [1)]	0	229	0
Trond Andreas Andersen [1)]	372	140	0
Kjetil Bakkan [1)]	486	6	0
Kåre Leira [1)]	482	140	70

[1)] Previous members who left the board during 2009

AUDITORS FEES

(in NOK 1 000)

	PARENT COMPANY	SUBSIDIARIES AUDITED BY GROUP AUDITOR	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	2 700	7 772	410	10 882
Audit-related assistance [1)]	67	880	0	947
Tax assistance	80	180	0	260
Other fees	516	221	0	737
Total	**3 363**	**9 053**	**410**	**12 826**

[1)] Audit-related assistance includes services which only auditors can provide. These include a review of interim financial statements and assurance services related to prospectuses for share issues and bond loans.

5. PENSION COSTS AND OBLIGATIONS

Norske Skog has various pension schemes. Contributions to these schemes are made in accordance with local agreements. A total of 7 041 active and previous employees are covered by such schemes. Of these, 5 260 people are covered by defined benefit plans and 1 781 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

Norske Skog has three significant defined benefit plans.

	BENEFITS IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65	30	67	62	4 332
Norske Skog Parenco B.V.	70	40/37	65/62	60	268
Norske Skog Walsum GmbH	50-70	40	65	62	597

Plan assets of the pension scheme in Norske Skogindustrier ASA are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway.

Plan assets in Norske Skog Parenco B.V. are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands.

In evaluating plan assets, their estimated value at 31 December is used. This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the life insurance company.

Expected return on plan assets is based on historical return and the plan assets investment profile.

In measuring incurred obligations, the projected obligation at 31 December is used. This projected obligation is corrected every year in accordance with the figures on incurred pension obligations provided by the actuary.

In addition to the benefit obligation funded through insurance plans, the group has unfunded benefit obligations, of which Norske Skog Walsum GmbH is the largest. The unfunded obligation include estimated future obligations relating to the Norwegian early retirement scheme, obligations to former owners of subsidiaries as well as pensions for senior management and directors. Obligations relating to senior management pensions are partly funded through a supplementary retirement plan with a life insurance company.

In addition to defined benefit plans, the group has various defined contribution schemes.

ASSUMPTIONS MADE WHEN CALCULATING FUTURE BENEFIT OBLIGATIONS

	2009	2008	2007
Discount rate	4.5%	3.8%	4.7%
Expected return on plan assets	5.7%	5.8%	5.8%
Salary adjustment	4.3%	3.8%	4.5%
Social security increase/inflation	4.3%	3.8%	4.4%
Pension increase	3.0%	3.0%	2.0%

Subsidiaries can deviate from these assumptions if local conditions require this.

NET PERIODIC PENSION COST IN THE GROUP ACCOUNTS

	2009	2008	2007
Current service cost	109	102	107
Interest cost	109	142	137
Pensions cost contribution schemes	10	9	14
Expected return on plan assets	(101)	(138)	(114)
Periodic national insurance contributions	9	11	6
Expensed portion of changes in early retirement plan	5	(8)	(2)
Actuarial gains and losses	7	0	(20)
Net periodic pension cost	**148**	**118**	**128**

RECONCILIATION OF THE PENSION PLANS' FINANCIAL STATUS WITH THE GROUP ACCOUNTS PER 31 DECEMBER

UNFUNDED PENSION PLANS

	2009	2008	2007	2006	2005
Projected benefit obligations	(635)	(452)	(370)	(455)	(419)
Plan assets at fair value	0	0	0	0	0
Plan assets in excess of/(less than) obligations	**(635)**	**(452)**	**(370)**	**(455)**	**(419)**
Unamortised changes in early retirement plans	0	0	0	0	0
Differences in estimates not taken to income statement	0	(58)	(25)	0	0
Net plan assets/(pension obligations)	**(635)**	**(510)**	**(395)**	**(455)**	**(419)**
Accrual national insurance contributions	0	(22)	0	0	0
Net plan assets/(pension obligations) in the balance sheet	**(635)**	**(532)**	**(395)**	**(455)**	**(419)**

PARTLY OR FULLY FUNDED PENSION PLANS

	2009	2008	2007	2006	2005
Projected benefit obligations	(1 921)	(2 319)	(2 186)	(2 006)	(2 962)
Plan assets at fair value	1 692	2 122	2 347	2 080	2 973
Plan assets in excess of/(less than) obligations	**(229)**	**(197)**	**161**	**74**	**11**
Unamortised changes in early retirement plans	0	0	0	0	0
Differences in estimates not taken to income statement	370	250	(159)	(20)	83
Net plan assets/(pension obligations)	**141**	**53**	**2**	**54**	**94**
Accrual national insurance contributions	(54)	(24)	(36)	(32)	(26)
Net plan assets/(pension obligations) in the balance sheet	**87**	**29**	**(34)**	**22**	**68**

RECONCILIATION OF THE PENSION PLANS WITH THE GROUP ACCOUNTS PER 31 DECEMBER

	NOTE	2009	2008	2007
Pension assets in the balance sheet	19	117	140	91
Pension liabilities in the balance sheet		(665)	(644)	(519)
Net pension obligations		**(548)**	**(504)**	**(428)**
Net unfunded pension plans		(635)	(532)	(395)
Net partly or fully funded pension plans		87	29	(34)

CHANGES IN PENSION LIABILITY FOR FULLY OR PARTLY FUNDED SCHEMES DURING THE YEAR

	2009	2008	2007
Balance 1 January	2 319	2 186	2 006
Changes owing to entities acquired/sold	(271)	(149)	0
Current year's service cost	109	102	108
Current year's interest cost	109	142	137
Pensions paid	(53)	(53)	(12)
Actuarial gains and losses	(181)	1	(23)
Other changes	39	12	(12)
Currency translation effects	(150)	78	(18)
Balance 31 December	**1 921**	**2 319**	**2 186**

A return on plan assets of NOK 101 million is estimated for 2009. The actual return on the plan assets for 2008 was NOK 69 million, compared with an estimated return of NOK 138 million. The difference between the booked return and the estimated return is treated as an estimate difference.

CHANGES IN THE PLAN ASSETS FOR FULLY OR PARTLY FUNDED SCHEMES DURING THE YEAR

	2009	2008	2007
Balance 1 January	2 122	2 347	2 080
Changes owing to entities acquired/sold	(207)	(106)	0
Return on plan assets	101	138	114
Actuarial gains and losses [1)]	(210)	(339)	12
Contributions to the plan assets	15	16	12
Other changes [1)]	(13)	(44)	152
Currency translation effects	(116)	110	(23)
Balance 31 December	**1 692**	**2 122**	**2 347**

[1)] Actuarial gains and losses and other changes are adjusted in previous years.

CHANGES IN THE OBLIGATIONS FOR UNFUNDED PENSION PLANS DURING THE YEAR

	2009	2008	2007
Balance 1 January	(452)	(370)	(455)
Changes owing to entities acquired/sold	0	0	0
Actuarial gains and losses	(305)	(2)	(23)
Contributions to the plan assets	62	37	36
Other changes	(20)	(48)	45
Currency translation effects	80	(69)	27
Balance 31 December	**(635)**	**(452)**	**(370)**

6. OTHER OPERATING EXPENSES

	2009	2008	2007
Maintenance materials, servicing and spare parts	838	1 018	1 113
Marketing expenses	27	36	44
Administration, insurance, travel expenses etc.	456	577	666
Losses on accounts receivable	29	12	23
Operating leases	104	107	101
Research and development	17	17	18
Miscellaneous expenses	279	311	256
Total	**1 751**	**2 077**	**2 221**
SPECIFICATION OF LOSSES ON ACCOUNTS RECEIVABLE			
Receivables written off during the period	9	9	5
Payments received on items previously written off	0	(2)	0
Change in provision for bad debt	21	5	18
Total	**29**	**12**	**23**

7. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

OTHER INTANGIBLE ASSETS

	GOODWILL	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2007	5 444	102	490	6 036
Additions	0	11	0	11
Disposals	0	0	(216)	(216)
Reclassified from plant under construction	0	0	0	0
Currency translation differences	238	5	(34)	209
Acquisition cost 31 December 2007	**5 682**	**118**	**240**	**6 040**
Accumulated impairments 31 January 2007	2 774	75	235	3 084
Depreciation	0	9	26	35
Impairments	2 716	0	94	2 810
Disposals	0	0	(150)	(150)
Currency translation differences	134	1	(6)	129
Accumulated depreciation and impairments 31 December 2007	**5 624**	**85**	**199**	**5 908**
Carrying value 31 December 2007	**58**	**33**	**41**	**132**
Acquisition cost 1 January 2008	5 682	118	240	6 040
Additions	0	0	182	182
Disposals	(171)	(8)	(108)	(287)
Reclassified from plant under construction	0	0	0	0
Currency translation differences	166	19	47	232
Acquisition cost 31 December 2008	**5 677**	**129**	**361**	**6 167**
Accumulated impairments 31 January 2008	5 624	85	199	5 908
Depreciation	0	8	15	23
Impairments	0	0	8	8
Disposals	(171)	(4)	(73)	(248)
Currency translation differences	166	15	8	189
Accumulated depreciation and impairments 31 December 2008	**5 619**	**104**	**157**	**5 880**
Carrying value 31 December 2008	**58**	**25**	**204**	**287**
Acquisition cost 1 January 2009	5 677	129	361	6 167
Additions	0	0	72	72
Disposals	0	(8)	(193)	(201)
Reclassified from plant under construction	0	2	50	52
Currency translation differences	7	(11)	(39)	(43)
Acquisition cost 31 December 2009	**5 684**	**112**	**251**	**6 047**
Accumulated impairments 31 January 2009	5 619	104	157	5 880
Depreciation	0	6	19	25
Impairments	0	0	0	0
Disposals	0	(8)	(48)	(56)
Currency translation differences	7	(12)	(5)	(10)
Accumulated depreciation and impairments 31 December 2009	**5 626**	**90**	**123**	**5 839**
Carrying value 31 December 2009	**58**	**22**	**128**	**208**

Goodwill is not depreciated. Licenses, patents and other intangible assets are depreciated over a period from five to 20 years.

GOODWILL SPECIFICATION PER ACQUISITION

	ACQUISITION YEAR	31.12.2009	31.12.2008	31.12.2007
Norske Skog Golbey	1995	58	58	58

PROPERTY, PLANT AND EQUIPMENT

	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CON-STRUCTION	TOTAL
Acquisition cost 1 January 2007	369	54 438	8 566	876	900	65 149
Additions	24	1 070	100	18	523	1 735
Disposals	(49)	(1 324)	(7)	(14)	(17)	(1 411)
Reclassified from plant under construction	0	270	145	32	(288)	159
Reclassification	0	(3 341)	3 040	207	94	0
Currency translation differences	(21)	(4 473)	(599)	(39)	(47)	(5 179)
Acquisition cost 31 December 2007	**323**	**46 640**	**11 245**	**1 080**	**1 165**	**60 453**
Accumulated depreciation and impairments 1 January 2007	139	27 366	3 510	587	0	31 602
Depreciation	0	2 339	416	88	0	2 843
Impairments	0	2 030	0	0	0	2 030
Reversal of impairment	0	0	0	0	0	0
Value changes	(27)	0	0	0	0	(27)
Disposals	(35)	(1 300)	(5)	(11)	0	(1 351)
Reclassification	0	(1 033)	766	173	0	(94)
Currency translation differences	(10)	(2 780)	(136)	(25)	0	(2 951)
Accumulated depreciation and impairments 31 December 2007	**67**	**26 622**	**4 551**	**812**	**0**	**32 052**
Carrying value 31 December 2007	**256**	**20 018**	**6 694**	**268**	**1 165**	**28 401**
Acquisition cost 1 January 2008	323	46 640	11 245	1 080	1 165	60 453
Additions	24	65	14	10	1 069	1 182
Disposals	0	(3 866)	(1 627)	(71)	(527)	(6 091)
Dismantling provision	0	341	120	0	0	461
Reclassified from plant under construction	0	597	200	27	(824)	0
Currency translation differences	32	5 343	1 306	163	160	7 004
Acquisition cost 31 December 2008	**379**	**49 120**	**11 258**	**1 209**	**1 043**	**63 009**
Accumulated depreciation and impairments 1 January 2008	67	26 622	4 551	812	0	32 052
Depreciation	3	1 890	621	86	0	2 600
Impairments	0	1 430	1	0	346	1 777
Reversal of impairment	0	(1 000)	0	0	0	(1 000)
Value changes	51	0	0	0	0	51
Disposals	0	(1 302)	(385)	(63)	0	(1 750)
Currency translation differences	(14)	3 424	609	121	0	4 140
Accumulated depreciation and impairments 31 December 2008	**107**	**31 064**	**5 397**	**956**	**346**	**37 870**
Carrying value 31 December 2008	**272**	**18 056**	**5 861**	**253**	**697**	**25 139**
Acquisition cost 1 January 2009	379	49 120	11 258	1 209	1 043	63 009
Additions	23	204	35	3	418	683
Disposals	(5)	(3 557)	(576)	(56)	(42)	(4 236)
Dismantling provision	0	(1 141)	(137)	0	0	(1 278)
Reclassified from plant under construction	0	591	83	10	(736)	(52)
Currency translation differences	(7)	(3 821)	(1 093)	(127)	(41)	(5 089)
Acquisition cost 31 December 2009	**390**	**41 396**	**9 570**	**1 039**	**642**	**53 037**
Accumulated depreciation and impairments 1 January 2009	107	31 064	5 397	956	346	37 870
Depreciation	1	1 916	460	63	0	2 440
Impairments	0	1 961	240	12	42	2 255
Reversal of impairment	0	(372)	0	0	0	(372)
Value changes	(54)	0	0	0	0	(54)
Disposals	0	(3 433)	(110)	(55)	(42)	(3 640)
Currency translation differences	10	(2 425)	(511)	(97)	0	(3 023)
Accumulated depreciation and impairments 31 December 2009	**64**	**28 711**	**5 476**	**879**	**346**	**35 476**
Carrying value 31 December 2009	**326**	**12 685**	**4 094**	**160**	**296**	**17 561**

Norske Skog owns forests in Australia and Brazil. These assets are valued at fair value less estimated point-of-sale costs. Changes in value are reported under other gains and losses. Machinery and equipment are depreciated over a period from three to 25 years. Land is not depreciated. Buildings and other property are depreciated over a period from three to 33 years. Fixtures and fittings are depreciated over a period from three to five years. Plant under construction is not depreciated.

Assumptions applied when estimating recoverable amount
Operational non-current assets and intangible assets are written down to the recoverable amount when this is lower than the carrying value of the asset. The recoverable amount of an asset or a cash-generating unit is defined as the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The estimated nominal future cash flow is estimated in the currency in which they are expected to be generated. The net present value is calculated through discounting the expected cash flows using a weighted average cost of capital appropriate for that currency and the cash-generating unit, or individual asset. The cost of capital is assessed on the interest rate of ten-year government bonds in the currency the cash flow is estimated. This is adjusted for a specific operational risk relevant to Norske Skog and, in certain instances, with a country-specific risk premium relevant to the cash-generating unit or the individual asset. The cost of the liability part of the weighted average cost of capital is based on average market interest rates on Norske Skog's debt liabilities. When calculating value in use at the end of 2009, the discount rate after tax was in the interval from 8.5% to 11.7%. The calculations are based on cash flow and weighted average cost of capital after tax. The present value is adjusted by the effects of deferred tax in a possible impairment loss situation.

When calculating the value in use, the group is divided into the following cash generating units: Europe newsprint, Europe light weight coated (LWC), Australasia, South America, Saugbrugs, Follum magazine paper and Singburi. Europe newsprint, Australasia, South America and Singburi are included in the operating segment newsprint, while Europe (LWC), Follum magazine paper and Saugbrugs are included in the operating segment magazine paper. There are cases where a cash-generating unit consists of more than one mill. This reflects the allocation of production capacity based on what is most profitable for the group in total.

Cash flow is calculated individually for up to ten years for each cash generating unit based on estimated economic life. Sales prices and prices for input factors are based on management-approved forecasts in the first two years and on long-term price prognoses thereafter. The management-approved short-term forecasts are based on budgets from the mills updated with the latest estimates for sales prices and prices for input factors. The estimated value of operations beyond ten years is assessed as a terminal value based on the average for industry for enterprise value/EBITDA, but adjusted for the assets' technical state and the cash flow horizon. The rate of growth in the terminal value is zero.

The term "forecasts for long-term prices" refers to the equilibrium price level which the least cost-efficient mills in the industry need in order to survive an economic cycle. Only the capacity needed to cover market demand is included in the analysis. As for most industrial products, real paper prices are declining by approximately 1-2% per year. This means that the cash flow decreases gradually in the years where long-term prices are used.

Sensitivities in the estimation of recoverable amount
The estimation of recoverable amount is based on assumptions regarding the future development of several factors. These include price development for finished goods, sales volume, input prices (wood, recovered paper, energy, development in wages etc.), capital expenditure on operational fixed assets, currency rates and interest rates. This means that there will be uncertainties when it comes to the outcome of the calculations. Norske Skog has performed sensitivity analyses using the variables mentioned above to predict how fluctuations will impact recoverable amount. In relation to the assumptions made in the calculation of the present value of future cash flows, recoverable amount is most sensitive to changes in prices of finished goods, sales volume and exchange rate movements. A reduction in sales price and sales volume in the cash flow period of 5% will cause a reduction in recoverable amount in the order of NOK 7 500 million and NOK 2 400 million respectively. Correspondingly, a weakening of USD of 5% will cause a NOK 1 000 million reduction in the recoverable amount. A price increase of 5% on the input prices for wood, recovered paper, energy and wages will reduce recoverable amount by approximately NOK 800 million, NOK 600 million, NOK 1 500 million and NOK 1 000 million, respectively.

Impairment charges in 2009
Norske Skog has estimated recoverable amount at each quarter-end during 2009. The result of these tests was recognition of impairment losses on tangible fixed assets at Norske Skog Walsum (Europe LWC) in Germany of NOK 422 million and NOK 148 million at Norske Skog Singburi in Thailand. The impairment losses are caused by lower expected future earnings (reduction in sales prices) and changes in the currency assumptions. At the same time, a previously recognised net impairment loss of NOK 372 million at Norske Skog Saugbrugs in Norway was reversed. The reversal relates to an impairment loss recognised in 2007. The reversal of prior year's recognised impairment losses at Norske Skog Saugbrugs is caused by changes in the currency assumptions and a fall in energy prices.

In connection with the indefinite idling of PM2 at Norske Skog Parenco in the Netherlands, a total impairment loss of NOK 511 million has been recognised. In addition, impairment losses amounting in total to NOK 1 174 million have been made in relation to the two sold mills in China (Norske Skog Hebei and Shanghai Norske Skog Potential Paper).

Expected useful life
Norske Skog has performed sensitivity analyses with respect to changes in the expected useful life of the paper machines in the group. If the expected useful life of the group's paper machines is reduced by one year, the annual depreciation charge will increase by approximately NOK 200 million.

8. LEASES

Operating leases
The group expensed NOK 104 million related to operating leases in 2009. The corresponding figures for 2008 and 2007 were NOK 107 million and NOK 101 million, respectively.

Contractual obligations relating to operating leases amount to NOK 139 million in total, of which NOK 44 million is due within one year, NOK 90 million is due in between one and five years and NOK 5 million is due in more than five years.

Finance leases
Leases of operating non-current assets where control and substantially all the risks have been transferred to the group are classified as finance leases. Finance leases are capitalised at the inception of the lease, at the lower of fair value of the asset and net present value of the minimum lease payments. The capitalised value is depreciated on a linear basis over the estimated economic life.

The net present value of the minimum lease payments amounts to NOK 123 million at the end of 2009 and the capitalised value of the operating non-current assets is NOK 118 million. The corresponding figures for 2008 were NOK 19 million and NOK 7 million 2007, and for 2007 NOK 17 million and NOK 4 million.

9. RESTRUCTURING EXPENSES

	2009	2008	2007
Redundancy payment	186	30	0
Capacity curtailments and closures	210	191	0
Total	**396**	**221**	**0**

Norske Skog decided in 2009 to indefinitely idle one paper machine at Norske Skog Parenco. Expenses related to the idling, including severance payments, amount to NOK 210 million. The redundancy payment in 2009 of NOK 186 million is mainly related to Norske Skog Follum and the group's activities in Australasia, where the number of employees has been reduced by 49 and 55 respectively during 2009.

The redundancy payment of NOK 30 million in 2008 was mainly related to the reductions in the workforce at the group's head office. The capacity curtailments and closure expenses of NOK 191 million are related to closures and capacity reductions at the group's mills in the Czech Republic, Norway and South Korea in addition to the termination of the construction of one paper machine in Brazil.

10. OTHER GAINS AND LOSSES

	2009	2008	2007
Gains and losses from divestment of business activities, property, plant and equipment	17	(433)	36
Changes in value - energy contracts [1]	926	(589)	4 729
Changes in value - derivatives	37	525	(370)
Changes in value - biological assets	54	(51)	0
Other realised gains and losses	199	46	68
Total	**1 233**	**(502)**	**4 463**

[1] Long term energy contracts that no longer meet the requirement in IAS 39.5 related to own use are measured at fair value.

Divestment of business activities, property, plant and equipment
Norske Skog sold its two mills in China in 2009. In addition, the sales agreement related to Norske Skog Steti, which was signed in July 2008, was finalised in January 2009. The combined annual production capacity of the three mills was slightly above 600 000 tonnes. All of these transactions were settled in cash. When consolidation entities with a functional currency different from the group's presentational currency, the accompanying currency translation difference is charged directly to equity during the ownership period, in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The accumulated currency translation difference is charged to the income statement at the time of disposal, and amounted to NOK 138 million for the three divested entities. This translation difference is reported on the line gains and losses from divestment of business activities, property, plant and equipment in the table above. Total current and non-current assets in the divested entities amounted to NOK 1 998 million at the time of the transactions, out of which cash and cash equivalents constituted NOK 386 million.

The group's main divestments in 2008 were the sale of its two mills in South Korea, the sale of its head office in Norway and divestment of various non-production related properties. Net profit from the sale of the head office was NOK 218 million, while the divestment of the two mills in South Korea generated a loss of NOK 606 million, out of which accumulated currency translation differences constituted a loss of NOK 783 million. Total current and non-current assets in the divested entities amounted to NOK 1 020 million and NOK 3 800 respectively, out of which cash constituted NOK 3 million. Total liabilities in the same entities were NOK 1 857 million.

11. INVESTMENT IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2009	CARRYING VALUE 31.12.2009	SHARE OF PROFIT 2009	DIVIDEND AND TRANSLATION DIFFERENCES	CARRYING VALUE 31.12.2008	CARRYING VALUE 31.12.2007
Malaysian Newsprint Industries Sdn. Bhd.	33.7%	190	19	(89)	260	204
Other associated companies		38	6	(3)	35	30
Total		**228**	**25**	**(92)**	**295**	**234**

Shares in associated companies are consolidated in the group accounts in accordance with the equity method. Share of profit presented in the table above is the group's percentage share of profit after tax adjusted for amortisation of surplus values at group level allocated to the investment at the time of the acquisition.

Malaysian Newsprint Industries Sdn. Bhd.
Malaysian Newsprint Industries Sdn. Bhd. incorporated in Kuala Lumpur, Malaysia and is a producer of newsprint. Based on the statutory company accounts, operating revenue in 2009 amounted to MYR 496 million (MYR 614 million in 2008 and MYR 569 million in 2007) and profit after tax was MYR 17 million (MYR 35 million in 2008 and MYR 17 million in 2007). Total assets at the end of 2009 were MYR 1 313 million (MYR 1 411 million per 31 December 2008 and MYR 1 493 per 31 December 2007) and total debt was MYR 731 million (MYR 845 million per 31 December 2008 og MYR 959 million per 31 December 2007).

12. FINANCIAL ITEMS

FINANCIAL INCOME	2009	2008	2007
Dividends received	1	1	3
Interest income	91	135	71
Realised/unrealised gain on foreign currency	2 078	686	826
Other financial income	267	322	10
Total	**2 437**	**1 144**	**910**

FINANCIAL EXPENSES	2009	2008	2007
Interest cost	1 005	1 420	1 097
Realised/unrealised loss on foreign currency	980	944	158
Other financial expenses	171	182	133
Total	**2 157**	**2 546**	**1 388**
Net financial items	**280**	**(1 402)**	**(479)**

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

CURRENT INVESTMENTS	NOTE	31.12.2009	31.12.2008	31.12.2007
Certificates		0	159	91
Quoted investment shares		0	0	3
Total	20, 21	**0**	**159**	**94**

Commercial papers are held for trading and classified at fair value through profit or loss as financial items. The group had no current investments at 31 December 2009.

14. INCOME TAXES

TAX EXPENSE	2009	2008	2007
Current tax expense	108	363	423
Change in deferred tax	272	(376)	495
Total	**380**	**(13)**	**918**

INCOME TAX RECONCILIATION	2009	2008	2007
Profit/loss before income taxes	(1 019)	(2 779)	235
Computed tax at nominal tax rate of 28%	(285)	(778)	66
Differences due to different tax rates	110	(23)	(19)
Result from affiliated companies	(6)	(9)	(4)
Exempted income/non-deductible expenses	3	123	777
Change in tax legislation	0	0	63
Divestment of operations [1]	329	400	0
Adjustment previous years	(61)	(9)	(80)
Tax losses not recognised	326	357	131
Other items	(36)	(75)	(15)
Total tax expense	**380**	**(13)**	**918**

[1] In 2009 tax assets are not recognised on losses after the divestments of Norske Skog Steti, SNP Shanghai and Norske Skog Hebei. In 2008 the amount of NOK 400 million relates to divestment of two mills in South Korea, of which NOK 216 million was paid in withholding taxes, and tax assets not recognised on the divestment amounts to NOK 184 million.

CURRENT TAX LIABILITY	2009	2008	2007
Norway	0	23	13
Rest of Europe	19	5	30
Australasia	0	0	0
Asia	16	41	19
North America	0	9	11
South America	0	11	0
Total current tax liability 31 December	**35**	**89**	**73**

DEFERRED TAX	2009	2008	2007
Net deferred tax liability 1 January	1 515	2 022	1 588
Deferred tax charged in income statement	272	(376)	495
Sale of subsidiaries	(80)	(103)	0
Tax expense on other comprehensive income	135	(121)	4
Reclassification of group tax allocations	0	9	24
Currency translation differences	(134)	85	(88)
Net deferred tax liability 31 December	**1 708**	**1 515**	**2 022**

DEFERRED TAX 2009	1.1.2009	CHARGED TO BALANCE SHEET [1]	CHARGED TO INCOME STATEMENT	CURRENCY TRANSLATION DIFFERENCES	31.12.2009
Fixed assets, excess values and depreciation	2 184	0	(715)	(208)	1 261
Pensions	(55)	0	(23)	5	(73)
Contingent provisions and other liabilities	(82)	0	202	2	123
Currency translation differences and financial instruments	1 552	0	40	(7)	1 585
Deferred tax current items	(96)	0	4	9	(83)
Tax losses and tax credit to carry forward	(1 988)	135	684	65	(1 104)
Net deferred tax liability	**1 515**	**135**	**192**	**(134)**	**1 708**

DEFERRED TAX 2008	1.1.2008	CHARGED TO BALANCE SHEET [1]	CHARGED TO INCOME STATEMENT	CURRENCY TRANSLATION DIFFERENCES	31.12.2008
Fixed assets, excess values and depreciation	2 337	82	(230)	(5)	2 184
Pensions	(36)	0	(17)	(3)	(55)
Contingent provisions and other liabilities	(43)	7	(28)	(18)	(82)
Currency translation differences and financial instruments	1 430	0	100	22	1 552
Deferred tax current items	(104)	(31)	20	18	(96)
Tax losses and tax credit to carry forward	(1 563)	(274)	(222)	71	(1 988)
Net deferred tax liability	**2 022**	**(215)**	**(376)**	**85**	**1 515**

DEFERRED TAX 2007	1.1.2007	CHARGED TO BALANCE SHEET [1]	CHARGED TO INCOME STATEMENT	CURRENCY TRANSLATION DIFFERENCES	31.12.2007
Fixed assets, excess values and depreciation	3 075	0	(546)	(191)	2 337
Pensions	(80)	0	2	42	(36)
Contingent provisions and other liabilities	210	0	(258)	5	(43)
Currency translation differences and financial instruments	226	4	1 211	(11)	1 430
Deferred tax current items	(35)	0	(65)	(4)	(104)
Tax losses and tax credit to carry forward	(1 808)	24	151	70	(1 563)
Net deferred tax liability	**1 588**	**28**	**495**	**(88)**	**2 022**

[1] Includes items charged to other comprehensive income.

TAX LOSSES TO CARRY FORWARD	31.12.2009	31.12.2008	31.12.2007
Europe	5 406	7 396	4 811
Australasia	985	1 223	1 110
Asia	4	610	626
South America	39	1	0
Total	**6 434**	**9 230**	**6 547**
Tax losses with indefinite carry forward period	6 434	8 620	5 921
Tax losses which expire in 2011, 2012 and 2013	0	610	626
Deferred tax assets on tax losses to carry forward	1 895	2 680	1 928
Deferred tax assets not recognised	(848)	(748)	(416)
Tax credits	57	56	51
Recognised deferred tax assets and tax credits	**1 104**	**1 988**	**1 563**

The group has significant tax losses in several jurisdictions. These losses are included as a deferred tax asset to the extent it is expected that sufficient earnings will be earned within the time limitations applicable in the various jurisdictions. The table above summarizes from what geographical areas the losses arose as well as the portion of the losses that are not recognised as a deferred tax asset.

Deferred tax is not recognised on unrealised gains and losses on debt in foreign currency which is included in the group net investment. Total unrealised tax liability is NOK 203 million at the end of 2009. The corresponding amount at the end of 2008 was an unrealised tax asset of NOK 396 million and at the end of 2007 an unrealised tax liability of NOK 668 million.

15. MINORITY INTERESTS

	2009	2008	2007
Minority at 1 January	269	365	450
Net profit/(loss) for the year attributable to minority interests [1]	(194)	(50)	(65)
Changes in minority interests [1]	0	(105)	0
Dividend paid to minority interests	0	(2)	(4)
Currency translation differences	(46)	61	(16)
Minority at 31 December	**28**	**269**	**365**

[1] In 2009 the minority interests are reduced after divestment of Shanghai Norske Skog Pan Asia Potential Paper Co. Ltd (NOK (149) million). The amount is included in total minority share of net profit/(loss) for the year in the income statement (NOK (194) million). The amount in 2008 (NOK (105) million) relates to the redemption of minority interests in Norske Skog (Hebei) Paper Co. Ltd, China (NOK (113) million) and minority interests upon incorporation of Xynergo AS in Norway (NOK 8 million).

16. EARNINGS PER SHARE

	2009	2008	2007
Net profit/(loss) for the year attributable to equity holders of the company in NOK million	(1 205)	(2 715)	(618)
Weighted average number of shares in 1 000	189 663	189 501	189 411
Basic and diluted earnings/(loss) per share in NOK [1]	**(6.36)**	**(14.33)**	**(3.26)**

[1] There were no dilution effects in 2009, 2008 or 2007.

17. DIVIDEND PER SHARE

No dividends were paid for 2008 or 2007. The board of directors recommends that no dividend should be disbursed for the accounting year 2009. The dividend decision will be made by the annual general meeting on 22 April 2010.

18. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS SHARES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Markproject Ltd., London, United Kingdom	GBP	300	100	3 105
Other shares, booked value below NOK 1 million	NOK			3 916
Total				**7 021**
SHARES OWNED BY OTHER GROUP COMPANIES				
BSW Timber Plc., Earlston, United Kingdom	GBP	4 739	5.89	2 713
Other shares, booked value below NOK 1 million	NOK			646
Total				**3 359**

SHARES IN SUBSIDIARIES SHARES IN NORWEGIAN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Follum Industripark AS, Hønefoss	NOK	100	100	2 020
Lysaker Invest AS, Lysaker	NOK	1 054 371	100	2 004 371
Nornews AS, Lysaker	NOK	100	100	100
Norsk Industrikraft AS, Lysaker	NOK	100	100	0
Norske Skog Eiendom AS, Lysaker	NOK	1 500	100	190 681
Norske Skog Holding AS, Lysaker	NOK	5 000	100	8 554
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100	13 164 196
NSI Focus AS, Lysaker	NOK	100	100	100
Reparco Global Holding AS, Lysaker	NOK	100	100	120
Wood and Logistics AS, Lysaker	NOK	3 000	72	2 175
Xynergo AS, Hønefoss	NOK	1 000	71	21 314
Total				**15 393 631**

SHARES IN FOREIGN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Norske Skog Golbey SA, Golbey, France	EUR	253 164	100	2 063 850
Norske Skog France sarl., Paris, France	EUR	235	100	7 939
Norske Skog Belgium N.V., Antwerp, Belgium	EUR	480	100	3 235
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	99.9	493
Norske Skog Logistics N.V., Antwerp, Belgium	EUR	62	100	540
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	99.9	165 918
Norske Skog Österreich GmbH, Graz, Austria	EUR	150	100	1 292
Norske Skog Deutschland GmbH, Wiesbaden, Germany	EUR	520	100	10 063
Norske Skog Walsum GmbH, Duisberg, Germany	EUR	150 025	100	1 611 997
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	45	100	0
Norske Skog Holdings B.V., Amsterdam, The Netherlands	EUR	170 100	100	323
Markproject Ltd., London, United Kingdom	GBP	300	100	0
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100	2
Norske Skog (Ireland) Ltd., Clonmel, Ireland	EUR	3	100	22
Norske Skog Jämtland AB, Trångsviken, Sweden	SEK	200	100	780
Norske Skog Danmark ApS, Værløse, Denmark	DKK	200	100	0
NSI Insurance A/S, Hvidovre, Denmark	DKK	54 000	100	58 531
Norske Skog Italia SrL, Milan, Italy	EUR	10	95	84
Norske Skog Czech & Slovak Republic spol. s.r.o., Steti, Czech Republic	CZK	400	100	112
Nornews Portugal Lda., Lisbon, Portugal	EUR	400	75	0
Norske Skog Espana S.A., Madrid, Spain	EUR	90	100	3 607
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	50	100	193
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	USD	1	95	0
Norske Skog Polska Sp. z.o.o., Warsaw, Poland	PLN	50	100	110
Norske Skog Hungary Kft., Budapest, Hungary	HUF	3 000	100	0
Norske Skog Adria d.o.o., Ljubljana, Slovenia	EUR	21	100	164
THP Paper Company, Seattle, USA	USD	0	100	0
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	USD	87 910	99.9	1 137 613
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	0.1	614
Norske Skog Pan Asia Co. Pte. Ltd., Singapore	USD	723 322	100	0
Norske Skog Papers (Malaysia) Sdn. Bhd, Kuala Lumpur, Malaysia	MYR	5 009	100	3 657 989
Norske Skog Japan Co. Ltd., Tokyo, Japan	JPY	3 000	100	118 154
Total				**8 843 625**
Total shares in subsidiaries owned by the parent company				**24 237 256**

SHARES IN OTHER COMPANIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Norske Skog Forest Holdings AG, Zürich, Switzerland	CHF	63 173	100
Norske Skog Holdings (Schweiz) AG, Zug, Switzerland	CHF	100 100	100
Norske Skog Overseas Holdings AG, Zürich, Switzerland	CHF	35 000	100
Norske Skog Parenco B.V., Renkum, The Netherlands	EUR	75 456	100
Parenco Finance B.V., Renkum, The Netherlands	EUR	18	100
Reparco Nederland B.V., Nijmegen, The Netherlands	EUR	227	100
Reparco Nijmegen B.V., Nijmegen, The Netherlands	EUR	18	100
Reparco Randstad B.V., Gravenhage, The Netherlands	EUR	14	100
Reparco Renkum B.V., Renkum, The Netherlands	EUR	18	100
Reparco Trading B.V., Nijmegen, The Netherlands	EUR	46	100
Reparco Rohstoffverwertung GmbH, Essen, Germany	EUR	130	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	0.1
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	0.1
Nornews Portugal Lda., Lisbon, Portugal	EUR	400	25
Norske Skog Italia SrL, Milan, Italy	EUR	10	5
Reparco UK Ltd., United Kingdom	GBP	40	100
Norske Skog Industries (UK) Ltd., London, United Kingdom	GBP	0	100
Eidsverket AS, Lysaker, Norway	NOK	620	100
Klosterøya AS, Lysaker, Norway	NOK	10 100	100
Oxenøen Eiendom AS, Lysaker, Norway	NOK	1 120	100
Ranheim Eiendomsutvikling AS, Norway	NOK	120	100
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	USD	1	5
Fletcher Paper Sales North America, Inc., Delaware, USA	USD	10	100
Forest Terminals Corporation, California, USA	USD	5	100
Norske Skog (USA) Inc. Southport, USA	USD	2 200	100
Norske Skog US Recovered Paper Inc., Pasadena, USA	USD	250	100
33027 YUKON Inc., British Columbia, Canada	CAD	19 245	100
33038 YUKON Inc., British Columbia, Canada	CAD	27 382	100
4159641 Canada Inc.	CAD	1	100
4246799 Canada Inc.	CAD	1 208 695	100
Crown Forest Holdings (1995) Inc., Whitehorse, Canada	CAD	154 360	100
Crown Forest Industries Ltd., Whitehorse, Canada	CAD	1 691 813	100
NS Industries Canada Ltd., British Columbia, Canada	CAD	567 380	100
Tasman Equipment Ltd., Vancouver, Canada	CAD	1	100
Norske Skog CI Ltd., Georgtetown, Caymen Islands	CHF	13	100
Norske Skog (Australasia) Pty Ltd., Sydney, Australia	AUD	21 000	100
Norske Skog (Australia) No. 1 Pty Ltd., Sydney, Australia	AUD	10	100
Norske Skog (Australia) No. 2 Pty Ltd., Sydney, Australia	AUD	0	100
Norske Skog Capital (Australia) Pty Ltd., Sydney, Australia	AUD	223 000	100
Norske Skog Industries Australia Ltd., Sydney, Australia	AUD	0	100
Norske Skog Paper Mills (Australia) Ltd., Tasmania, Australia	AUD	7 539	100
Norske Skog Holdings (No.1) Ltd., Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (No.2) Ltd., Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (No.3) Ltd., Auckland, New Zealand	NZD	1	100
Norske Skog Capital (New Zealand) Ltd., Auckland, New Zealand	NZD	1	100
Norske Skog Tasman Ltd., Auckland, New Zealand	NZD	600 000	100
Enerpar-Energias do Parana Ltda., Curitiba, Brazil	USD	9 795	99.9
Norske Skog Florestal Ltda., Jaguariaíva, Brazil	USD	37 804	99.9
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	99.9
Norske Skog Sales (Hong Kong) Ltd., Hong Kong, China	HKD	0	100
Norske Skog (Thailand) Company Ltd., Bangkok, Thailand	THB	1 083 750	94
Norske Skog PanAsia (Shanghai) Commercial Consulting Co. Ltd., Shanghai, China	CNY	1 126	67
Reparco Trading (Tianjin) Co., Ltd., Tianjin, China	CNY	2 051	100

19. RECEIVABLES AND OTHER NON-CURRENT ASSETS

RECEIVABLES	NOTE	31.12.2009	31.12.2008	31.12.2007
Accounts receivable		2 304	3 681	3 558
Provision for bad debt		(96)	(160)	(179)
Other receivables		273	348	379
Prepaid VAT		30	16	53
Total		**2 511**	**3 885**	**3 811**
OTHER NON-CURRENT ASSETS				
Loans to employees		25	25	31
Long-term shareholdings	18	10	14	25
Miscellaneous non-current receivables		71	91	242
Derivatives	22	205	916	140
Commodity contracts	22	4 992	0	0
Pension plan assets	5	117	140	91
Total		**5 420**	**1 186**	**529**

The group's credit policy for sales is centralised, while the authority to grant credit to customers is decentralised to the business units. The credit risk on trade and other receivables is continuously monitored, independent of due date. The group's sales are mainly to large customers with a low degree of default. Collateral as security is not normally requested.

AGEING OF RECEIVABLES	31.12.2009	31.12.2008	31.12.2007
Not due	1 792	3 390	2 863
0 to 3 months	618	459	618
3 to 6 months	74	52	353
Over 6 months	123	144	156
Total [1]	**2 607**	**4 045**	**3 990**

[1] Does not include provision for bad debt.

The maximum credit risk exposure at the reporting date is the fair value of each class of receivable mentioned above.

20. SPECIFICATION OF BALANCE SHEET ITEMS

	NOTE	31.12.2009	31.12.2008	31.12.2007
INVENTORIES				
Raw materials and other production input		1 018	1 415	1 230
Semi-manufactured materials		11	19	57
Finished goods		974	1 269	1 444
Total		**2 003**	**2 703**	**2 731**
OTHER CURRENT ASSETS				
Prepaid expenses		142	167	108
Derivatives	22	275	413	349
Commodity contracts	22	436	4 849	5 068
Current investments	13, 21	0	159	94
Total		**853**	**5 587**	**5 619**
OTHER CURRENT LIABILITIES				
Commodity contracts	22	42	538	685
Accruals emission rights		35	83	14
Other non interest-bearing debt		160	233	155
Total		**237**	**855**	**854**
OTHER NON-CURRENT LIABILITIES				
Dismantling provision	26	250	1 651	997
Environmental provision	26	286	317	280
Restructuring provision		0	31	48
Deferred recognition of government grants		119	168	159
Other non interest-bearing debt		267	59	203
Total		**922**	**2 226**	**1 687**

21. CASH AND CASH EQUIVALENTS

	NOTE	31.12.2009	31.12.2008	31.12.2007
Cash and cash equivalents		4 241	6 036	1 792
Current investments	13,20	0	159	94
Total		**4 241**	**6 195**	**1 886**

22. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2009	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale	Hedging instruments	Non-financial assets	Total
Other non-current assets	19	5 197	96	10	0	117	5 420
Receivables	19	0	2 481	0	0	30	2 511
Cash and cash equivalents	21	0	4 241	0	0	0	4 241
Other current assets	20	711	0	0	0	142	853
Total		**5 908**	**6 818**	**10**	**0**		

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest-bearing non-current liabilities	25	0	13 892	0	13 892
Interest-bearing current liabilities	27	0	355	0	355
Other non-current liabilities	20	172	0	750	922
Trade and other payables		71	3 125	0	3 196
Other current liabilities	20	42	0	195	237
Total		**285**	**17 372**		

31 December 2008	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale	Hedging instruments	Non-financial assets	Total
Other non-current assets	19	0	25	14	916	231	1 186
Receivables	19	0	3 869	0	0	16	3 885
Cash and cash equivalents	21	0	6 036	0	0	0	6 036
Other current assets	20	5 421	0	0	0	166	5 587
Total		**5 421**	**9 930**	**14**	**916**		

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest-bearing non-current liabilities	25	0	18 820	0	18 820
Interest-bearing current liabilities	27	0	2 339	0	2 339
Trade and other payables		710	4 289	0	4 999
Other current liabilities	20	538	0	316	855
Total		**1 248**	**25 448**		

31 December 2007	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale	Hedging instruments	Non-financial assets	Total
Other non-current assets	19	0	31	25	140	333	529
Receivables	19	0	3 758	0	0	53	3 811
Cash and cash equivalents	21	0	1 792	0	0	0	1 792
Other current assets	20	5 511	0	0	0	108	5 619
Total		**5 511**	**5 581**	**25**	**140**		

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest-bearing non-current liabilities	25	0	17 294	0	17 294
Interest-bearing current liabilities	27	0	1 141	0	1 141
Trade and other payables		120	3 582	0	3 702
Other current liabilities	20	565	0	289	854
Total		**685**	**22 017**		

FINANCIAL ASSETS AND LIABILITIES

	31.12.2009		31.12.2008		31.12.2007	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Derivatives	205	205	916	916	140	140
Commodity contracts	4 992	4 992	0	0	0	0
Miscellaneous other non-current assets	223	223	270	270	389	389
Other non-current assets	**5 420**	**5 420**	**1 186**	**1 186**	**529**	**529**
Accounts receivable	2 208	2 206	3 521	3 519	3 379	3 376
Other receivables	273	273	348	348	379	379
Prepaid VAT	30	30	16	16	53	53
Receivables	**2 511**	**2 509**	**3 885**	**3 883**	**3 811**	**3 808**
Cash and cash equivalents	4 241	4 241	6 036	6 036	1 792	1 792
Derivatives	275	275	413	413	349	349
Commodity contracts	436	436	4 849	4 849	5 068	5 068
Current investments	0	0	159	159	94	94
Non-financial current assets	142	142	166	166	108	108
Other current assets	**853**	**853**	**5 587**	**5 587**	**5 619**	**5 619**
Interest-bearing non-current liabilities [1]	13 892	11 008	18 820	12 492	17 293	14 635
Interest-bearing current liabilities [2]	355	355	2 339	2 320	1 141	1 141
Total interest-bearing liabilities	**14 248**	**11 363**	**21 159**	**14 812**	**18 434**	**15 776**
Derivatives	75	75	0	0	0	0
Commodity contracts	97	97	0	0	0	0
Non-financial non-current liabilities	750	750	2 226	2 226	1 687	1 687
Other non-current liabilities	**922**	**922**	**2 226**	**2 226**	**1 687**	**1 687**
Derivatives	71	71	189	189	565	565
Account payables	1 137	1 137	2 085	2 085	1 833	1 833
Other account payables	1 988	1 988	2 725	2 725	1 304	1 304
Trade and other payables	**3 196**	**3 196**	**4 999**	**4 999**	**3 702**	**3 702**
Commodity contracts	42	42	538	538	565	565
Non-financial current liabilities	195	195	317	317	290	290
Other current liabilities	**237**	**237**	**855**	**855**	**855**	**855**

[1] The fair value of non-current bank loan debt is based on cash flows discounted using swap rate, plus the credit default swap (CDS). The fair value of foreign bonds is calculated using price indications from banks. The fair value of Norwegian bonds is based on published assessment values at 1 January 2010.

[2] The fair value of current borrowings equals their carrying amount, as the impact of discounting is not regarded to be significant.

There is uncertainty as to the calculated fair value of interest-bearing liabilities. The fair value calculation is based on acknowledged valuation principles according to IFRS, but is not necessarily an estimate of the amount the group would have to cover if it were to repay all its debt to all lenders.

Financial instruments (hereunder energy contracts and derivatives) were classified as current assets in 2008 and 2007, both in the group accounts and the parent company accounts. This was based on the assessment that financial instruments were held for trading according to IAS 39 *Financial instruments - recognition and measurement* and should therefore be classified as current assets in the balance sheet. During 2009, the interpretation of IAS 39 has changed so that the general guidelines for classification according to IAS 1 *Presentation of financial statements* will also apply for financial instruments. As a basis for assessing whether financial instruments are current or non-current assets, the reality of whether they are held for sale or not and whether they are current or not should prevail. Following this change, the main portion of the group's financial instruments (energy contracts and derivatives) was reclassified from current to non-current assets during 2009. For energy contracts, only the volume for the first year is classified as current assets.

23. FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

Norske Skog is exposed to various financial risk factors through its operating activities, including market risk (interest rate risk, currency risk and commodity price risk), liquidity risk and credit risk. Norske Skog seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog monitors and manages financial risk based on internal policies and standards set forth by Corporate Management and approved by the Board of Directors. These written policies provide principles for the overall risk management as well as standards for managing exchange rate risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored. There has been no breach of these policies during 2009, 2008 or 2007.

Market risk

a) Interest rate risk

The goal of the interest rate risk management is to secure the lowest possible interest rate payments over time within acceptable risk limits. In the current challenging market situation in the publication paper market, Norske Skog has secured most of the interest rate payments by primarily paying fixed interest rates on its loan obligations.

	31.12.2009			31.12.2008			31.12.2007		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	4 834	9 063	13 897	9 029	11 268	20 297	8 051	10 140	18 191
Interest-bearing assets	(4 241)	0	(4 241)	(6 195)	0	(6 195)	(1 886)	0	(1 886)
Net exposure before hedging	**593**	**9 063**	**9 656**	**2 834**	**11 268**	**14 102**	**6 165**	**10 140**	**16 305**
Fair value hedge	195	(195)	0	7 229	(7 229)	0	6 323	(6 323)	0
Cash flow hedge	0	0	0	(3 009)	3 009	0	(2 430)	2 430	0
Net exposure after hedging	**788**	**8 868**	**9 656**	**7 054**	**7 048**	**14 102**	**10 058**	**6 247**	**16 305**

All amounts presented in the table are notional amounts. Total interest-bearing liabilities will therefore differ from booked total amounts due to bond discount/premiums, hedge reserve, and unrealised effects from fair value hedging (see Note 25). Floating rate exposure is calculated without accounting for potential future refinancing.

Interest rate risk - fair value hedge

In order to mitigate the risk of changes in fair value of the fixed income bonds denominated in NOK, EUR and USD caused by movements in corresponding market interest rates, Norske Skog entered into interest rate swap contracts whereby the group paid floating rate and received fixed interest rate. The main purpose of the fair value hedge was to synthetically convert fixed rate debt into floating rate debt and thereby offset movements in fair value of the fixed rate bonds with opposite movements in fair value of the interest rate swaps. Reference rate for NOK is Nibor. All USD and EUR interest rate swaps were terminated in 2009. Changes in credit spreads are not hedged.

Changes in the fair value of derivatives which are designated and qualify as fair value hedges in accordance with IAS 39 *Financial instruments - recognition and measurement* are recorded in the income statement together with any changes in the fair value of the hedged asset or liability which are attributable to the hedged risk. The market value of hedging instruments terminated before maturity will remain in interest-bearing debt as adjustments of amortised cost until the underlying hedged object is realised.

CHANGE IN FAIR VALUE OF INTEREST RATE DERIVATIVES AND CORRESPONDING HEDGED ITEMS

	2009	2008	2007
Changes in fair value of interest rate swaps	(2)	768	165
Changes in fair value of underlying debt (hedged item)	2	(759)	(164)
Ineffectiveness recognised in the income statement [1]	0	(9)	1

The majority of the hedging instruments were terminated in 2009.

[1] Ineffectiveness included in financial items in the income statement.

Interest rate sensitivity analysis
In accordance with IFRS 7 *Financial instruments - disclosures*, an interest rate sensitivity analysis is presented showing the effects of changes in market interest rates on interest payments, interest income and cost, as well as equity where applicable. The analysis is based on the following assumptions:

Floating rate debt is exposed to changes in market interest rates, i.e. the interest cost or interest income associated with such instruments will fluctuate based on changes in market rates. These changes are accounted for in the sensitivity analysis. The result is based on the assumption that all other factors are kept constant.

Changes in market rates on fixed rate debt will only affect the income statement if they are measured at their fair value. Thus, fixed rate instruments carried at amortised cost will not represent an interest rate risk as defined by IFRS 7. Such instruments will therefore not have any influence on the sensitivity analysis.

Change in fair value of interest rate swaps that are designated as fair value hedge on the group's fixed rate bonds will not influence the sensitivity calculation of either the income statement or equity. As a result of fair value hedge accounting, the changes in fair value of interest rate swaps recognised in the income statement are, to a large extent, offset by opposite changes in fair value of the underlying hedged item. Potential ineffectiveness stemming from retrospective effectiveness testing of the hedging relationship is regarded insignificant to this analysis.

Changes in fair value of interest rate derivatives that are not designated as a fair value hedge of the group's liabilities and which are subsequently measured at fair value through profit or loss are taken into consideration in the sensitivity analysis. Currency derivatives will only affect the sensitivity analysis to a very limited extent upon changes in the discount rate. Results are presented net of tax, using the Norwegian statutory rate of 28%.

The interest rate sensitivity analysis is based on a 50 basis points parallel shift in the yield curve for each relevant currency. Following a 50 basis points downward/upward parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK -0.2 million (NOK 4 million at 31 December 2008 and NOK 21 million at 31 December 2007) higher/lower. Change in net interest payments accounts for NOK 3 million, and the total change in market values of derivatives carried at fair value through profit and loss accounts for NOK (3) million. The sensitivity on net earnings is lower as at 31 December 2009 compared to 31 December 2008 and 31 December 2007 because of reduced net interest-bearing debt at 31 December 2009 and a floating debt level which is more in line with interest income bearing assets.

Due to the termination of the interest rate cash flow hedge programme, there is no interest rate sensitivity on equity in 2009. Equity would have been NOK 22 million at 31 December 2008 and NOK 15 million at 31 December 2007 lower/higher following a 50 basis points downward/upward parallel shift as a result of change in market values of interest rate swaps designated as cash flow hedge of floating rate debt.

b) Exchange rate risk
Translation risk - net investment hedge
The group accounts are presented in NOK. Translation risk arises when the accounts of subsidiaries, presented in local currencies, are translated into NOK. Allocation of assets and liabilities in the same currency is the group's primary objective. This means that debt is drawn in the same currencies in which the group has net investments in order to reduce translation risk. However, the net investment hedging is also organised in such a way as to distribute debt to currencies in which the group has net positive cash flows.

In addition to traditional debt instruments, all combined currency and interest rate swaps (cross-currency swaps) and forward exchange contracts are also used for hedging net investments in foreign subsidiaries.

Norske Skog's net investment hedging is carried out in accordance with IAS 39 *Financial instruments - recognition and measurement*. Hedges of net investment in foreign subsidiaries are accounted for similarly to a cash flow hedge, which means that any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the income statement. The gain from net investment hedging in 2009 was NOK 2 776 million, of which NOK 1 770 million was booked against equity (loss of NOK 3 216 million of which (2 405) million NOK was booked against equity in 2008 and gain of NOK 1 047 million of which NOK 793 was booked against equity in 2007). The ineffectiveness is higher in 2009 than in 2008 because an increasingly larger part of the liability portfolio has not qualified for hedge accounting. The foreign exchange gains and losses from such liabilities are recognised in the income statement under financial items. During 2008, a realised gain of NOK 61 million was reversed from equity to the income statement due to the sale of the mills in South Korea. In 2009, a realised gain of NOK 20 million was reversed due to sale of the mills in China.

CHANGE IN FAIR VALUE OF DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS DESIGNATED AS NET INVESTMENT HEDGE

	2009	2008	2007
Changes in spot value of financial instruments [1]	2 776	(3 216)	1 047
The effective portion recognised in equity	1 770	(2 405)	793
Ineffectiveness recognised in the income statement [2]	1 006	(811)	254

[1] Includes the change in the value of FX forward contracts, cross-currency swap contracts and bonds.
[2] Includes indirect economic hedge of MYR and CNY in 2007 for which there is no hedge accounting.

Transaction risk - cash flow hedge
The group has revenues and costs in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk is the difference in the future value of outgoing or incoming funds in the various currencies used by the group. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. Between 0% to 100% of the company's 12-month cash flow exposure is hedged at any time using forward contracts and currency options. The result of the hedging is included under financial items in the consolidated income statement. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a gain of NOK 490 million in 2009 (loss of NOK 316 million in 2008 and gain of NOK 446 million in 2007). Over time, currency loss or earnings are expected to offset increased or reduced future gross operating earnings.

Foreign exchange sensitivity analysis on financial instruments
The following foreign exchange sensitivity analysis calculates the sensitivity of derivative and non-derivative financial instruments on net profit and equity, based on a defined appreciation/depreciation of the NOK against relevant currencies, keeping all other variables constant. The analysis is based on several assumptions, including:

Norske Skog as a group comprises entities with different functional currencies. Derivative and non-derivative financial instruments of a monetary nature denominated in currencies different from the functional currency of the entity, create foreign exchange rate exposure on the group's consolidated income statement. Moreover, foreign currency risk will also affect equity. Financial instruments denominated in the functional currency of the entity have no currency risk and will therefore not be applicable to this analysis. In addition to this, the foreign currency exposure of translating financial accounts of subsidiaries into the group's presentational currency is not part of this analysis. Sensitivity on commodity contracts and embedded derivatives is presented separately under "Commodity risk".

Currency derivatives and foreign currency debt that are designated as net investment hedges and qualify for hedge accounting according to IAS 39 will only affect equity. Other currency derivatives that are measured at fair value through profit and loss will affect the income statement. These effects stem mainly from currency derivatives designated as hedging of the group's 12-month rolling cash flow exposure, and financial liabilities managed as economic net investment hedges which do not qualify for hedge accounting according to IAS 39.

Other non-derivative financial instruments accounted for in the analysis comprise cash, accounts payable, accounts receivable and borrowings denominated in currencies different from the functional currency of the entity.

Correlation effects between currencies are not taken into account. Figures are presented net of tax.

At 31 December 2009, if the NOK had appreciated 10% against all currencies to which the group has significant exposure, post-tax profit from financial instruments would have been NOK 300 million higher (NOK 190 million higher at 31 December 2008 and NOK 244 higher at 31 December 2007). If the NOK had depreciated 10% against all currencies to which the group has significant exposure, post-tax profit from financial instruments would have been NOK 324 million lower (NOK 177 million lower at 31 December 2008 and NOK 241 million lower at 31 December 2007). The non-linearity on post-tax profit from financial instruments is due to changes in fair value of options. The sensitivity on the income statement is mainly caused by changes in fair value of derivatives designated as cash flow hedge, and foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting. Due to a relatively larger share of debt for which there is no hedge accounting, the effect on the income statement is larger in 2009 compared to 2008 and 2007.

Given a 10% appreciation/depreciation of the NOK, equity would have been NOK 606 million higher/lower (NOK 1 048 million higher/lower at 31 December 2008 and NOK 969 higher/lower at 31 December 2007) as a result of foreign exchange gains/losses on financial instruments designated as net investment hedges. The sensitivity on equity excludes the effects from the above-calculated sensitivity on the income statement.

c) Commodity risk

A major part of Norske Skog's global commodity demand is secured through long-term contracts. Norske Skog also uses financial instruments to a lesser degree in its hedging. The hedging ratio represents a trade-off between risk exposure and the opportunity to take advantage of short-term price drops in the spot market. Hedging levels are regulated through mandates approved by the Board of Directors.

Some of Norske Skog's purchase and sales contracts are derivatives, or contain embedded derivatives, which fall into the scope of IAS 39. These derivatives are measured in the balance sheet at fair value with value changes recognised through profit or loss. Commodity contracts are either financial contracts for the purpose of trading or hedging, or physical commodity contracts that are not for the purpose of own use. The embedded derivatives are common in physical commodity contracts and comprise a wide variety of derivative characteristics.

Changes in fair value of commodity contracts are unrealised gains or losses represented by future gains or losses, where the price is fixed before delivery. Some commodity contracts are bilateral contracts or embedded derivatives in bilateral contracts for which there exist no active market. Hence, valuation techniques, with the use of available market information, are used as much as possible. Techniques that reflect how the market could be expected to price instruments are used in non-observable markets.

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

Sensitivity analysis for commodity contracts

Trading and hedging mandates have been established for energy activity. Most financial trading and hedging activities are carried out on NordPool, while some financial hedging is carried out bilaterally with banks and trading companies. Currency effects arise when contract values nominated in foreign currencies are translated into the reporting currency.

COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39

		FAIR VALUE 31.12.2009	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25%	5 310	(3 444)	3 439
Currency [1)]	change 10%	5 310	(689)	689
		FAIR VALUE 31.12.2008	**RESULT NET OF TAX CHANGE DOWN**	**RESULT NET OF TAX CHANGE UP**
Energy price	change 25%	4 360	(3 170)	3 177
Currency [1)]	change 10%	4 360	173	(161)
		FAIR VALUE 31.12.2007	**RESULT NET OF TAX CHANGE DOWN**	**RESULT NET OF TAX CHANGE UP**
Energy price	change 25%	4 993	(2 408)	2 408
Currency	change 10%	4 993	1 667	(1 667)

[1)] Includes changes in currency options in 2009 and 2008. For 2007 this effect is shown among the embedded derivatives.

Sensitivity analysis for embedded derivatives

Embedded derivatives are common features in physical commodity contracts. The most common embedded derivatives are price indices, hereunder national consumer price and producer price indices. The analysis below combines these two indices into one price index. Currency effects will arise when contract values nominated in foreign currencies are translated to NOK.

EMBEDDED DERIVATIVES

		FAIR VALUE 31.12.2009	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10%	(20)	(1)	1
USD/BRL	change 10%	0	0	0
Price index	change 2.5%	(20)	6	(6)

		FAIR VALUE 31.12.2008	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10%	(50)	(4)	4
USD/BRL	change 10%	0	0	0
Price index	change 2.5%	(50)	6	(6)

		FAIR VALUE 31.12.2007	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10%	(489)	(35)	35
USD/BRL	change 10%	(489)	(1 061)	(65)
Price index	change 2.5%	(489)	5	(5)

Liquidity risk

Norske Skog is exposed to liquidity risk when payments of financial liabilities do not correspond to the group's cash flow from net profit. In order to effectively mitigate liquidity risk, Norske Skog's liquidity risk management strategy focuses on maintaining sufficient cash and marketable securities, securing available financing through an adequate amount of committed credit facilities, as well as being able to close out market positions when needed. Moreover, the liquidity risk management strategy focuses on maximising the return on surplus cash as well as minimising the cost of short term borrowing and other transaction costs. Managing liquidity risk is centralised on a group level except for countries that have imposed restrictions on cross-border capital flow. In such countries, liquidity risk is managed locally.

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long term cash flows. Cash flow forecasts include cash flows stemming from operations, investments, financing activities and financial instruments. The group had current investments, cash and cash equivalents of NOK 4 241 million at 31 December 2009 (NOK 6 195 million at 31 December 2008 and NOK 1 886 million at 31 December 2007) and fully drawn credit facilities (unused credit facilities of NOK 3 946 million at 31 December 2008 and NOK 5 890 million at 31 December 2007). See Note 25 interest-bearing non-current liabilities for maturity of facilities.

The following table shows the contractual maturities of non-derivative financial liabilities and other derivative financial instruments. All amounts disclosed in the table are undiscounted cash flows. Furthermore, amounts denominated in foreign currency are translated to NOK using closing forward mid-rates at 31 December. These amounts consist of trade payables, interest payments and principal payments on derivative and non-derivative financial instruments. Variable rate interest cash flows are projected using the forward yield curve. Projected interest payments are based on the maturity schedule at 31 December without accounting for forecasted refinancing and/or other changes in the liability portfolio. All other cash flows are based on the group's positions held at 31 December.

Norske Skog is exposed to liquidity risk related to maturity of financial liabilities. In order to maintain or adjust the capital structure so that financial commitments can be met at all times, the group may issue new shares, sell assets to reduce debt or refinance loans that are nearing maturity.

MATURITY OF FINANCIAL LIABILITIES AND FINANCIAL INSTRUMENTS

31 DECEMBER 2009	0-6 MONTHS	6-12 MONTHS	2011-2012	2013-2014	> 2014
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest-bearing debt	(88)	(288)	(5 947)	(999)	(6 575)
Projected interest payment on interest-bearing debt	(597)	(252)	(1 516)	(1 111)	(2 510)
Trade payables	(3 196)	0	0	0	0
Total	**(3 881)**	**(541)**	**(7 463)**	**(2 110)**	**(9 085)**
NET SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Interest rate swaps - net cash flows	(2)	27	50	(4)	(1)
Forward rate agreements	0	1	1	0	0
Commodity contracts	6	(4)	(3)	0	0
GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Foreign exchange contracts - outflows	(2 968)	(1 088)	(598)	0	0
Foreign exchange contracts - inflows	3 136	1 132	650	0	0
Cross-currency swaps - outflows	(241)	(248)	(1 552)	(242)	0
Cross-currency swaps - inflows	257	261	1 551	222	0
Total	**188**	**81**	**99**	**(24)**	**(1)**
Total 2009	**(3 693)**	**(459)**	**(7 364)**	**(2 134)**	**(9 085)**

31 DECEMBER 2008	0-6 MONTHS	6-12 MONTHS	2010-2011	2012-2013	> 2013
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest-bearing debt	(750)	(1 589)	(8 888)	(1 102)	(7 967)
Projected interest payment on interest-bearing debt	(739)	(374)	(1 738)	(1 099)	(3 553)
Trade payables	(4 273)	(6)	(10)	0	0
Total	**(5 762)**	**(1 969)**	**(10 636)**	**(2 201)**	**(11 520)**
NET SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Interest rate swaps - net cash flows	71	(11)	304	117	521
Forward rate agreements	(7)	0	0	0	0
Commodity contracts	6	(4)	(3)	0	0
GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Foreign exchange contracts - outflows	(4 413)	(544)	(247)	0	0
Foreign exchange contracts - inflows	4 242	529	246	0	0
Cross-currency swaps - outflows	(119)	(288)	(1 563)	(715)	(3 535)
Cross-currency swaps - inflows	107	276	1 436	682	3 483
Total	**(113)**	**(41)**	**172**	**84**	**470**
Total 2008	**(5 875)**	**(2 010)**	**(10 464)**	**(2 117)**	**(11 050)**

31 DECEMBER 2007	0-6 MONTHS	6-12 MONTHS	2009-2010	2011-2012	> 2012
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest-bearing debt	(706)	(435)	(6 017)	(4 580)	(6 453)
Projected interest payment on interest-bearing debt	(660)	(386)	(1 842)	(1 208)	(3 236)
Trade payables	(2 647)	(935)	0	0	0
Total	**(4 013)**	**(1 756)**	**(7 859)**	**(5 788)**	**(9 689)**
NET SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Interest rate swaps - net cash flows	45	3	171	47	(28)
Forward rate agreements	0	0	(1)	0	0
Commodity contracts	(4)	(5)	9	0	0
GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Foreign exchange contracts - outflows	(3 569)	(2 348)	0	0	0
Foreign exchange contracts - inflows	3 708	2 408	0	0	0
Cross-currency swaps - outflows	(164)	(170)	(1 161)	(1 675)	(4 999)
Cross-currency swaps - inflows	141	128	981	1 599	4 379
Total	**157**	**16**	**(1)**	**(29)**	**(648)**
Total 2007	**(3 856)**	**(1 740)**	**(7 860)**	**(5 817)**	**(10 337)**

Credit risk
Norske Skog makes a credit evaluation of all financial trading counterparties, i.e. banks used for cash placement and as contracting parties to financial hedges. The counterparty must be at least an A- rated company. Based on the rating and other calculations, a limit on credit exposure is established for all counterparties. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. At 31 December 2009, all counterparties were rated single A or above (unchanged from 2008 and 2007). The maximum credit risk arising from financial instruments is represented by the carrying amount of financial assets on the balance sheet. This includes derivatives with positive market value except embedded derivatives. Embedded derivatives are not subjected to credit risk as there are no future cash flows associated with such derivatives.

Credit policy for sales and the authority to grant credit to customers is decentralised to the business units. Receivables are monitored closely through a comprehensive rating programme, and overdue amounts are followed closely.

24. DERIVATIVES

Fair value of derivatives
Effective 1 January 2009, the group adopted the amendment to IFRS 7 *Financial instruments - disclosures* for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group´s assets and liabilities at fair value at 31 December 2009.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	0	4	0	4
Derivatives used for hedging	0	429	0	429
Commodity contracts	0	150	5 278	5 428
Other financial assets	0	47	0	47
Total	**0**	**630**	**5 278**	**5 908**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	(36)	(8)	0	(44)
Derivatives used for hedging	0	(137)	0	(137)
Commodity contracts	0	(2)	(102)	(104)
Total	**(36)**	**(147)**	**(102)**	**(285)**

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	OPENING BALANCE	TRANSFERS INTO LEVEL 3	GAINS AND LOSSES RECOGNISED IN PROFIT OR LOSS	CLOSING BALANCE
ASSETS				
Commodity contracts	4 316	0	962	5 278
LIABILITIES				
Commodity contracts	(479)	0	377	(102)

Gains and losses related to the realised volume from contracts in level 3 in 2009 are recognised in the income statement within other gains and losses.

The fair value of derivatives that are not traded in an active market (over-the-counter derivatives) is determined using various valuation techniques. Interest rate swaps, cross-currency swaps, forward rate agreements and foreign currency forward contracts are all valued by estimating the present value of future cash flows. Currency options are valued using recognised option pricing models. Quoted cash and swap rates are used as input for calculating zero coupon curves used for discounting. Exchange rates are represented by quoted mid-rates at December 31.

The fair value of commodity contracts recognised in the balance sheet is calculated using quotes from active traded markets when available. Otherwise, price forecasts from acknowledged external sources are used. Commodity contracts that fail to meet the own-use exemption criteria in IAS 39 *Financial instruments – recognition and measurement* are recognised in the balance sheet and valued on the same principle as financial contracts. Some of these are long term energy contracts. In calculating the fair value of embedded derivatives, valuation techniques are used in the absence of observable market inputs. Embedded currency options are calculated using a Black 76 valuation model, where some input assumptions have been made in absence of an active long-term option market.

The electricity price for long-term electricity contracts in Norway, Brazil and New Zealand is not directly observable in the market for the whole contract length. In 2008, the board of Norske Skog resolved to terminate the construction of paper machine number two at Norske Skog Pisa in Brazil. Consequently, it was necessary to measure the long-term electricity contract at fair value. Up until that point only the embedded derivatives had been measured at fair value. In 2007 there was a similar handling of long-term electricity contracts in Norway. This kind of treatment of the energy contracts is caused by extraordinary conditions and is not considered standard practice.

When measuring these contracts at full fair value, there were no values from initial recognition that needed to be accounted for. Changes in fair value are only due to changes in factors that market participants would consider when setting a price.

DERIVATIVES	31.12.2009		31.12.2008		31.12.2007	
NET INVESTMENT HEDGING	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Forward contracts	91	(15)	39	(2)	81	(1)
Cross-currency contracts	0	(6)	139	(22)	31	(74)
Total	**91**	**(21)**	**178**	**(24)**	**112**	**(75)**
FAIR VALUE HEDGING [1]						
Interest-rate swaps	1	0	916	(33)	140	(25)
Total	**1**	**0**	**916**	**(33)**	**140**	**(25)**
CASH FLOW HEDGE [2]						
Interest-rate swaps	0	0	0	(44)	34	0
Total	**0**	**0**	**0**	**(44)**	**34**	**0**
HELD FOR TRADING [3]						
Interest-rate swaps	154	(91)	0	(76)	38	(1)
Forward rate contracts	1	(3)	9	(15)	2	(2)
Currency options	12	(19)	127	(230)	97	(4)
Forward contracts	175	(11)	56	(288)	138	(14)
Financial commodity contracts	5 414	(103)	4 844	(484)	5 062	(70)
Embedded derivatives	14	(35)	5	(55)	6	(495)
Total	**5 770**	**(262)**	**5 041**	**(1 148)**	**5 343**	**(585)**
TOTAL VALUE						
Interest-rate swaps	155	(91)	916	(153)	211	(26)
Forward rate contracts	1	(3)	9	(15)	2	(2)
Currency options	12	(19)	127	(230)	97	(4)
Forward contracts	266	(26)	95	(290)	220	(15)
Cross-currency contracts	0	(6)	139	(22)	31	(74)
Financial commodity contracts	5 414	(103)	4 844	(484)	5 062	(70)
Embedded derivatives	14	(35)	5	(55)	6	(495)
Total	**5 861**	**(283)**	**6 135**	**(1 249)**	**5 628**	**(685)**

The above table includes only derivatives, and the total amount may differ compared to other tables showing financial assets and liabilities.

[1] The notional principal amount of the underlying debt in the fair value hedge was NOK 200 million (NOK 7 549 million at 31 December 2008 and NOK 6 323 million at 31 December 2007).

[2] The cash flow hedge programme was terminated in March 2009 due to the repayment of the underlying loan.

[3] Includes: active management portfolio, embedded derivatives in physical contracts, commodity hedging contracts and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through the income statement.

25. INTEREST-BEARING NON-CURRENT LIABILITIES

	31.12.2009	31.12.2008	31.12.2007
Bonds	10 027	13 618	11 651
Debt to financial institutions	3 865	5 200	5 643
Total	**13 892**	**18 820**	**17 294**
Interest-bearing debt in NOK	1 823	1 050	2 096
Interest-bearing debt in foreign currencies	12 069	17 769	15 198
Total	**13 892**	**18 820**	**17 294**

INTEREST-BEARING NON-CURRENT DEBT BY CURRENCY, CURRENT PORTION INCLUDED	CURRENCY AMOUNT 31.12.2009	EXCHANGE RATE 31.12.2009	NOK 31.12.2009
USD	744	5.78	4 300
EUR	902	8.32	7 498
NZD	26	4.20	110
AUD	31	5.19	162
Total interest-bearing debt in foreign currencies			**12 069**
Interest-bearing debt in NOK			1 823
Total non-current interest-bearing debt			**13 892**

The average interest rate at 31 December 2009 was 5.9% (7.6% at 31 December 2008 and 6.0% at 31 December 2007).

INTEREST-BEARING NON-CURRENT DEBT BY CURRENCY, CURRENT PORTION INCLUDED	CURRENCY AMOUNT 31.12.2008	EXCHANGE RATE 31.12.2008	NOK 31.12.2008
USD	1 065	7.00	7 453
EUR	1 016	9.87	10 025
NZD	26	4.06	107
AUD	9	4.85	41
CNY	140	1.03	144
Total interest-bearing debt in foreign currencies			**17 770**
Interest-bearing debt in NOK			1 050
Total non-current interest-bearing debt			**18 820**

INTEREST-BEARING NON-CURRENT DEBT BY CURRENCY, CURRENT PORTION INCLUDED	CURRENCY AMOUNT 31.12.2007	EXCHANGE RATE 31.12.2007	NOK 31.12.2007
USD	1 171	5.41	6 336
EUR	1 051	7.96	8 370
NZD	26	4.20	110
KRW	40 000	0.01	231
AUD	2	4.76	9
CNY	191	0.74	142
Total interest-bearing debt in foreign currencies			**15 198**
Interest-bearing debt in NOK			2 096
Total non-current interest-bearing debt			**17 294**

DEBT REPAYMENT

Maturity of the group`s total debt at 31 December 2009

	DEBT BANKS	BONDS	TOTAL
2010	377	0	377
2011	57	1 853	1 910
2012	3 382	655	4 037
2013	38	0	38
2014	37	924	961
2015	34	990	1 024
2016	34	0	34
2017	35	4 101	4 135
2018	35	0	35
2019	146	0	146
2020	36	0	36
2021	9	0	9
2033	0	1 155	1 155
Total	**4 220**	**9 677**	**13 897**

Maturity of the group´s total debt at 31 December 2008

	DEBT BANKS	BONDS	TOTAL
2009	1 617	722	2 339
2010	5 331	0	5 331
2011	345	3 212	3 557
2012	200	902	1 102
2014	0	195	195
2015	0	1 330	1 330
2017	3	4 933	4 936
2019	107	0	107
2033	0	1 400	1 400
Total	**7 602**	**12 694**	**20 296**

Maturity of the group´s total debt at 31 December 2007

	DEBT BANKS	BONDS	TOTAL
2008	1 054	87	1 141
2009	657	840	1 497
2010	4 288	231	4 519
2011	280	3 247	3 527
2012	152	902	1 054
2014	0	195	195
2015	0	1 082	1 082
2017	3	3 981	3 984
2019	110	0	110
2033	0	1 082	1 082
Total	**6 544**	**11 647**	**18 191**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, hedge reserve and fair value hedging. At 31 December 2009, the accounts included a discount of NOK 60 million (premium of NOK 9 million at 31 December 2008 and a discount of NOK 49 million at 31 December 2007). Premiums or discounts on issued bonds will be amortised in the income statement over the lifetime of the issued bonds. See note 29 for loans secured by mortgage.

The repayment schedule no longer includes unrealised currency effects on forward contracts and on cross-currency swap contracts. At 31 December 2008 this effect reduced debt by NOK 63 million and at 31 December 2007 this effect increased debt by NOK 153 million. In addition, the fair value hedging effect increased long-term interest-bearing debt by NOK 411 million (NOK 916 million at 31 December 2008 and NOK 140 million at 31 December 2007).

Norske Skog has a credit facility of EUR 400 million (equivalent to NOK 3 326 million) which matures in 2012. At 31 December 2009 this facility was fully drawn (undrawn facility at 31 December 2008 of NOK 3 946 million and at 31 December 2007 of NOK 5 890 million).

At 31 December 2009, the group's holding of its own bonds amounted to NOK 334 million of Norwegian bonds (NOK 531 million at 31 December 2008 and NOK 413 million at December 2007). The group`s holding of own bonds in foreign currency amounted to USD 308 million and EUR 7 million, respectively (USD 151 million and EUR 0 million at 31 December 2008 and USD 0 million and EUR 0 million at 31 December 2007). This is deducted from interest-bearing debt in NOK.

Norske Skog has made declarations of negative pledge when raising long-term loans. Tha bank loans also contain requirements relating to financial key ratios. These are:

- net equity capital (equity capital minus intangible fixed assets) must be a minimum of NOK 9 000 million
- the ratio of net interest-bearing debt divided by equity must be a maximum of 1.4.

Norske Skog complies with the above requirements. The current outstanding bond issues do not include financial covenants.

26. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2009	148	1 651	341
Changes and new provisions	396	(1 278)	(17)
Utilised during year	(185)	0	(31)
Periodic unwinding of discount	0	69	16
Divestment of subsidiaries	0	(89)	0
Currency translation differences	(20)	(103)	(23)
Balance 31 December 2009	**339**	**250**	**286**

Restructuring provision
Several cost cutting measures were decided on in 2009, of which staff reductions are estimated to be approximately 600 employees. Restructuring provisions recognised in 2009 consist primarily of severance payments in connection with the closure of paper machines and other workforce reductions in the group. Restructuring costs which have been provided for are expected to be paid during 2010, and have been classified as current non interest-bearing liabilities in the balance sheet.

For further information see Note 9 restructuring expenses

Clean-up and dismantling provision
Provisions related to future clean-up costs arising from a future closure of production facilities amount to NOK 250 million as at 31 December 2009. The total amount is non-current and will only be realised at the time of a future closure of any of the Norske Skog production units. The provision is the net present value of the future estimated costs, calculated using a long-term risk-free interest rate. The periodic unwinding of the discount is recognised in the income statement as a financial item. The opposite entry for dismantling provision and change in provision estimates is property, plant and equipment.

During 2009, Norske Skog has moved to a net presentation method of residual values and liabilities associated with the dismantling of fixed assets. The residual value of an asset is defined as the realisable value after deduction of estimated cost of dismantling and removal of the asset. If the estimated cost exceeds the estimated value, the net liability is added to the cost of the related asset, and a provision is recognised as a liability. The change in 2009 has resulted in a reduction of the carrying value of fixed assets and liabilities. In previous years, residual values and the related liabilities were treated as separate items in the balance sheet.

Discount rates and assumptions included as part of the best estimate will impact the future carrying value of the dismantling provision. To illustrate the sensitivity, a reduction in the future discount rate of one per cent point would increase the provision by approximately NOK 20 million (8%), with a corresponding increase of future depreciations on property, plant and equipment.

Environmental provision
The provision for environmental obligations is estimated to NOK 286 million and is presented as a non-current liability in the balance sheet. The provision is related to estimated future costs for cleaning up any environmental pollution caused by Norske Skog production units. The provision will mainly be realised in a future period at a potential shut down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local government may also lead to realisation of this provision at an earlier point in time.

The carrying value of the provision is the best estimate made by measuring the expected value on the specific obligations, discounted to present value by using a long-term risk-free interest rate when the time value of money is material. Changes in factors included in the expected value will impact the carrying value of the obligation. To illustrate the sensitivity, a reduction in the future discount rate by one per cent point would increase the provision by approximately NOK 20 million (7%). Changes in accounting estimates not related to assets are classified as an operating item in the income statement, and the periodic unwinding of the discount is recognised as a financial item.

27. INTEREST-BEARING CURRENT LIABILITIES

	31.12.2009	31.12.2008	31.12.2007
Current bank debt	355	1 617	1 054
Other interest-bearing liabilities	0	722	87
Total	**355**	**2 339**	**1 141**

The group has unused bank overdrafts of NOK 150 million at 31 December 2009 (NOK 150 million at 31 December 2008 and 2007). No restrictions are placed on the use of the facility.

28. CAPITAL RISK MANAGEMENT

Norske Skog's objective when managing capital is to safeguard the ability to continue as a going concern by maximising return on capital employed and use capital effectively.

Investments that significantly increase production capacity are subject to approval by the group's investment board, which prioritizes investment opportunities based on the projects estimated return on invested capital and ability to ensure stable operations, compliance with safety standards and environmental regulations.

The group monitors its capital structure on the basis of its gearing, which is calculated as net interest-bearing debt divided by equity. Net interest-bearing debt is calculated as total interest-bearing debt less cash and cash equivalents, gain fair value hedge and hedge reserve from fair value hedge.

The gearing at 31 December 2009, 2008 and 2007 was as follows:

	NOTE	31.12.2009	31.12.2008	31.12.2007
Interest-bearing debt	25, 27	14 248	21 159	18 435
Cash and cash equivalents	13, 21	4 241	6 195	1 886
Fair value hedge	25	0	916	140
Hedge reserve	25	411	0	0
Net interest-bearing debt		**9 595**	**14 047**	**16 409**
Equity less minority interest		11 987	13 362	15 592
Gearing		0.80	1.05	1.05

29. MORTGAGES

THE FOLLOWING LOANS WERE SECURED BY MORTGAGES ON REAL PROPERTY

	31.12.2009	31.12.2008	31.12.2007
Other mortgage debt	143	936	1 088

BOOK VALUE OF ASSETS SECURING THIS DEBT

	31.12.2009	31.12.2008	31.12.2007
Property, plant and equipment	191	2 304	2 559

As a general principle, Norske Skogindustrier ASA and its subsidiaries do not pledge assets above a predefined threshold in their bank loan agreements. Mortgage loans per 31 December 2009 relate to land and forest areas at Norske Skog Boyer, Australia.

Mortgage loans in previous years related to Norske Skog's mills in China which were sold during 2009.

30. CONTINGENT LIABILITIES

In 1998, Norske Skogindustrier ASA finalised a lease-and-buyback arrangement with three American investors for PM5 and PM6 at Norske Skog Saugbrugs. The present value of the cost of the leaseback was approximately NOK 4 000 million, which is irrevocably deposited in favour of the investors. The arrangements with two of the investors were terminated in December 2008 and January 2009, without incurring any additional costs for the company. The terminated arrangements represented approximately 60% of the total transaction amount. Although a deposit has been made for the lease payments, Norske Skog is not exonerated from liability for payment. However, the credit risk is low because the funds shall, at all times be deposited with a bank with minimum "A minus" rating. Deposited rental costs and prepaid rental earnings are recognised net in the balance sheet. Should Norske Skog be unable to meet the requirements of the leasing agreement, it is obliged to compensate the investors for any loss. The investors' loss will vary over the term of the lease, but is regulated by contract and will at most amount to USD 20.8 million at the end of 2009. This amount will be reduced to zero by June 2014. The possibility of Norske Skog being unable to meet the requirements of the contract is limited to extraordinary circumstances in the nature of force majeure.

31. RELATED PARTIES

All transactions with related parties are conducted in accordance with the arm's length principle.

Some of the company's shareholders are forest owners delivering forestry products to the company's production units in Norway. A director, Halvor Bjørken, is a forest owner who supplies wood to the company on normal standardised terms. All contracts for supply of wood are entered into through forest owner associations or companies.

In 2009, Norske Skogindustrier ASA entered into an agreement for consultancy services with Global Network Systems AS, a company which is 100% owned by Ove Gusevik. Gusevik was a shareholder-elected representative in the corporate assembly of Norske Skogindustrier ASA at the time the agreement was entered into. Consultancy fees invoiced by Global Network Systems AS to Norske Skogindustrier ASA during 2009 amounted to NOK 1.8 million.

The associated company Malaysian Newsprint Industries Sdn. Bhd. purchases recovered paper from Reparco companies in the Norske Skog group. The value of total purchases made during 2009 amounted to NOK 15 million (NOK 21 million in 2008 and NOK 18 million in 2007), and total amounts payable to the Norske Skog group amounted to NOK 4 million as at 31 December 2009 (NOK 4 million as at 31 December 2008 and NOK 3 million as at 31 December 2007).

None of the directors receive remuneration for their work for the company from any source other than the company itself.

32. EVENTS AFTER THE BALANCE SHEET DATE

Corporate management changes

In order to strengthen the improvement initiatives in the European region, the responsibility for operations in Europe has been divided between senior vice presidents Terry Hamilton and Jan-Hinrich Clasen. Terry Hamilton is now responsible for mill operations, while Jan-Hinrich Clasen is responsible for sales and marketing as well as pan-European activities within logistics and procurement. Senior vice president Rune Gjessing, who has been in charge of corporate strategy, is now responsible for the operations in Australasia, Asia and South America.

Gaute Andreassen has been appointed senior vice president strategy. Andreassen comes from the position of strategy director of Yara International ASA and will begin his new position during March 2010. As a result of organisational changes, the responsibility for processes within HR and organisation has been transferred to the respective line managers. Former senior vice president HR and organisation, Kristin Slyngstad Klitzing, has therefore left the corporate management team.

The new corporate management consists of Sven Ombudsvedt (CEO), Audun Røneid (chief financial officer), Jan-Hinrich Clasen (senior vice president commercial activities), Terry Hamilton (senior vice president Europe), Rune Gjessing (senior vice president Australasia, Asia and South America) and Gaute Andreassen (senior vice president strategy). Gjessing will continue to lead the strategy department until Andreassen joins Norske Skog in March. The other changes took effect from 4 February 2010.

Earthquake in Chile

The Norske Skog Bio Bio mill in Chile is located in Concepción which was hit by the earthquake on 27 February 2010. Norske Skog Bio Bio has an annual production capacity of 125 000 tonnes of newsprint, and employs 240 people. There are no reported injuries amongst employees at the mill as a result of the earthquake. Production at the mill has been halted and, based on initial reports on damage to material and equipment, it is expected that it will be some time until production can re-commence. Property damage and business interruption are covered by insurance.

ACCOUNTS NORSKE SKOGINDUSTRIER ASA

INCOME STATEMENT

NOK MILLION	NOTE	2009	2008	2007
Operating revenue	2	**5 586**	**7 028**	**6 625**
Distribution costs		(562)	(709)	(707)
Cost of materials		(2 960)	(3 642)	(3 448)
Change in inventories		94	(88	25
Employee benefit expenses	3, 4	(1 052)	(1 199)	(1 201)
Other operating expenses	5	(776)	(903)	(723)
Gross operating earnings		**332**	**486**	**571**
Depreciation	6	(431)	(221)	(270)
Gross operating earnings after depreciation		**(99)**	**266**	**301**
Restructuring expenses		(38)	(37)	0
Other gains and losses	7	(826)	(76)	4 839
Impairments	6	372	861	(3 944)
Operating earnings		**(592)**	**1 013**	**1 196**
Financial items	8, 9	(1 620)	(3 870)	451
Profit/loss before income taxes		**(2 212)**	**(2 857)**	**1 647**
Income taxes	10	(468)	1 024	(438)
Net profit/loss for the year		**(2 681)**	**(1 834)**	**1 209**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	NOTE	2009	2008	2007
Net profit/loss for the year		**(2 681)**	**(1 834)**	**1 209**
Other comprehensive income				
Cash flow hedge		44	(78)	34
Other items		1	3	(3)
Other comprehensive income		**45**	**(75)**	**31**
Comprehensive income		**(2 636)**	**(1 909)**	**1 240**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2009	31.12.2008	31.12.2007
Assets				
Deferred tax asset	10	45	124	145
Other intangible assets	6	68	8	21
Property, plant and equipment	6	2 483	2 834	1 608
Investments in subsidiaries	8, 11	24 237	30 460	33 745
Other non-current assets	13, 15	6 067	3 966	2 469
Total non-current assets		**32 900**	**37 392**	**37 988**
Inventories	12	760	673	710
Receivables	13	1 144	1 746	1 717
Cash and cash equivalents	18	3 690	5 252	1 347
Other current assets	14, 15	720	5 237	5 315
Total current assets		**6 314**	**12 908**	**9 089**
Total assets		**39 214**	**50 300**	**47 077**
Shareholders' equity and liabilities				
Paid-in equity		10 616	12 310	12 310
Retained earnings		0	941	2 851
Total equity	16	**10 616**	**13 251**	**15 161**
Pension obligations	3	272	211	166
Deferred tax liability	10	546	53	907
Interest-bearing non-current liabilities	13, 17	22 816	31 396	27 875
Other non-current liabilities		173	530	329
Total non-current liabilities		**23 807**	**32 191**	**29 277**
Interest-bearing current liabilities	13	1 456	1 144	168
Trade and other payables	13	3 275	3 673	2 415
Tax payable	10	0	0	0
Other current liabilities		60	42	56
Total current liabilities		**4 791**	**4 859**	**2 639**
Total liabilities		**28 599**	**37 049**	**31 916**
Total equity and liabilities		**39 214**	**50 300**	**47 077**

Lysaker, 3 March 2010
The board of directors of Norske Skogindustrier ASA

Eivind Reiten
Chair

Svein Rennemo
Deputy chair

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Paul Kristiansen
Board member

Gisèle Marchand
Board member

Inge Myrlund
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2009	2008	2007
Cash flow from operating activities				
Cash generated from operations		5 948	6 856	6 546
Cash used in operations		(5 570)	(6 396)	(6 027)
Cash from net financial items [1]		(517)	(542)	(615)
Taxes paid		0	1	(4)
Net cash flow from operating activities		**(139)**	**(81)**	**(100)**
Cash flow from investing activities				
Purchase of fixed assets	6	(212)	(460)	(672)
Sales of fixed assets		13	53	7
Change in intercompany balance with subsidiaries		1 179	4 779	216
Net financial investments		0	0	(91)
Acquisition of shares in companies [2]		(2)	(21)	0
Sales of shares in companies [3]		76	0	87
Net cash flow from investing activities		**1 054**	**4 351**	**(453)**
Cash flow from financing activities				
New loans raised		(4 669)	0	8 179
Repayments of loans		6 414	(1 211)	(5 299)
Dividend paid		0	0	(1 045)
Purchase/sale of treasury shares		(1)	(3)	5
Net Cash flow from financing activities		**(1 744)**	**(1 214)**	**1 840**
Foreign currency effects on cash and cash equivalents		(745)	860	0
Total change in cash and cash equivalents		**(1 574)**	**3 916**	**1 287**
Cash and cash equivalents 1 January	18	5 264	1 348	61
Cash and cash equivalents 31 December	18	3 690	5 264	1 348
Reconciliation of net cash flow from operating activities				
Profit/loss before income taxes		(2 212)	(2 857)	1 647
Depreciation/impairments		59	(640)	4 214
Gain/loss on sale of fixed assets		9	(40)	(4)
Taxes paid		0	1	(4)
Group contribution received		0	0	(236)
Change in receivables		361	(172)	(79)
Change in inventories		(86)	36	(55)
Change in current liabilities		(209)	74	(121)
Non-cash financial items		1 103	3 328	(1 066)
Adjustments for non-cash working capital items, currency translation differences and other items [4]		836	189	(4 396)
Net cash flow from operating activities		**(139)**	**(81)**	**(100)**

[1] Cash paid from financial items is NOK 984 million in 2009, and cash received is NOK 467 million. In 2008 and 2007, cash paid from financial items was NOK 1 061 million and NOK 867 million respectively, and cash received was NOK 519 million and NOK 252 million respectively.

[2] The amount in 2009 relates to the acquisition of Follum Industripark AS. The amount in 2008 relates to paid in equity in Xynergo AS.

[3] The amount in 2009 relates to the sale of Norske Skog Steti a.s.

[4] Unrealised (gain)/losses on energy contracts for 2009, 2008 and 2007 amount to NOK 863 million, NOK 139 million and NOK (4 360) million respectively.

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	Share capital	Treasury shares	Share premium reserve	Other paid-In equity	Total paid-In equity	Retained earnings	Total equity
Equity 1 January 2007	**1 899**	**(6)**	**10 355**	**61**	**12 309**	**2 642**	**14 951**
Transfer from share premium reserve to other paid-in equity	0	0	(7 000)	7 000	0	0	0
Comprehensive income	0	0	0	0	0	1 240	1 240
Dividend	0	0	0	0	0	(1 045)	(1 045)
Change in holding of treasury shares	0	0	0	1	1	14	15
Equity 31 December 2007	**1 899**	**(6)**	**3 355**	**7 062**	**12 310**	**2 851**	**15 161**
Comprehensive income	0	0	0	0	0	(1 909)	(1 909)
Dividend	0	0	0	0	0	0	0
Change in holding of treasury shares	0	3	0	(3)	0	(1)	(1)
Equity 31 December 2008	**1 899**	**(3)**	**3 355**	**7 059**	**12 310**	**941**	**13 251**
Comprehensive income	0	0	0	0	0	(2 636)	(2 636)
Dividend	0	0	0	0	0	0	0
Change in holding of treasury shares	0	1	0	(9)	(8)	9	1
Uncovered loss allocated other paid-in-equity	0	0	0	(1 686)	(1 686)	1 686	0
Equity 31 December 2009	**1 899**	**(2)**	**3 355**	**5 364**	**10 616**	**0**	**10 616**

1. ACCOUNTING PRINCIPLES

The company accounts of Norske Skogindustrier ASA are prepared in accordance with the Norwegian Accounting Act § 3-9 and International Financial Reporting Standards (IFRS) with respect to recognition and measurement. Disclosures to the accounts are prepared in accordance with Norwegian Generally Accepted Accounting Principles (N GAAP) and the Norwegian Accounting Act.

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

The accounts were authorised for issue by the board of directors on 3 March 2010.

All amounts are presented in NOK million unless otherwise stated. There may be some small differences in the summation of columns due to rounding.

2. OPERATING REVENUE BY GEOGRAPHICAL MARKET

Norske Skogindustrier ASA's activities encompass sales to the following geographical regions: Europe, North America, South America, Australasia and Asia. Australasia includes Australia and New Zealand.

	2009	2008	2007
Norway	930	790	1 298
North America and Europe excluding Norway	4 491	5 695	4 990
South America	50	209	85
Australasia	0	23	5
Asia	57	263	195
Africa	59	47	52
Total	**5 586**	**7 028**	**6 625**

Operating revenue from the sale of goods and services to other entities in the group amounts to NOK 336 million in 2009. The corresponding figure for 2008 was NOK 1 082 million and NOK 886 million for 2007.

3. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2009	2008	2007
Salaries including holiday pay	673	801	772
Social security contributions	236	235	234
Pension costs	76	58	78
Other employee benefit expenses	67	105	117
Total	**1 052**	**1 199**	**1 201**

The company is required by law to have a pension scheme for all employees. The company's pension schemes are compliant with the requirements in Norwegian Act relating to pension schemes.

Note 4 to the group accounts provides supplementary information regarding pay and other remuneration for senior employees as well as information regarding audit fee.

MAN-LABOUR YEARS	2009	2008	2007
Norske Skogindustrier ASA	1 679	1 813	1 965

NET PERIODIC PENSION COST	2009	2008	2007
Current service cost	64	60	78
Interest cost	60	68	64
Expected return on plan assets	(66)	(78)	(71)
Periodic national insurance contributions	9	11	5
Expensed portion of changes in early retirement plan	(2)	(2)	(2)
Actuarial gains and losses	11	(1)	4
Net periodic pension cost	**76**	**58**	**78**

RECONCILIATION OF THE PENSION PLANS' FINANCIAL STATUS WITH THE BALANCE SHEET PER 31. DECEMBER	2009	2008	2007
Projected benefit obligations	(1 614)	(1 691)	(1 486)
Plan assets at fair value	1 124	1 164	1 395
Estimated net pension obligations	**(490)**	**(527)**	**(91)**
Differences in estimates not taken to income statement	271	360	(42)
Net pension obligations	**(219)**	**(167)**	**(133)**
Accrual national insurance contributions	(53)	(44)	(33)
Pension obligations in the balance sheet	**(272)**	**(211)**	**(166)**
Pension assets	**0**	**0**	**0**

See Note 5 to the group accounts for assumptions and further information.

4. PAY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

Pursuant to the provision in section 6-16a of the Norwegian Act on Public Limited Companies, (ref. section 5-6, paragraph 3), the annual general meeting (AGM) must consider the board's declaration regarding the determination of pay and other remuneration for senior executives in the coming financial year. The board will propose the declaration at the AGM for consideration and a vote.

The board of Norske Skog has had a special compensation committee since 2000, which considers issues relating to the compensation of the chief executive officer (CEO) and other members of the corporate management team. When the methods for assessing pay and possible bonuses, options and other incentive schemes are to be determined, the committee will ensure that the size and scope of compensation and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to long-term value creation for all the shareholders.

FIXED SALARY

The board has not established any upper and/or lower limits to the amounts which can be paid to senior executives in the company as fixed salary in the coming fiscal year. See also Note 4 in the group accounts.

VARIABLE ELEMENTS

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

Annual bonus agreements

The company has operated bonus schemes for executives and employees for a number of years, to ensure that important commercial goals receive adequate priority. These annual bonus agreements for corporate management provide a maximum payout corresponding to six months' pay. The performance figures are financial, operational and individual.

Long-term incentive programme

The purpose of this programme is to secure a continued strong focus on the development of shareholder value. The board adopted new principles for the long-term incentive programme in 2007, where the criteria for awarding synthetic shares to the corporate management team is tied to total shareholder return (TSR – development of the share price including dividend payments), such that this must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 30% payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the CEO and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50% of the allocation (after tax) must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. There is no dilution effect as a result of the scheme.

The programme was continued for 2008 and 2009 and it is proposed that it will also continue for 2010 with some changes. The maximum annual bonus from the program will be set to NOK 4 million for CEO and NOK 2 million for other members of corporate management (instead of a fixed number of shares), the bonus after tax must be used to buy shares until the total shareholding in the company corresponds a certain number of shares (200 000 for the CEO and 100 000 for other members of corporate management), and the number of companies in the defined reference group is reduced to 12, including Norske Skog. The changes have been suggested due to the fact that the value of shares is considerably lower today than it was when the programme was introduced, that Abitibi/Bowater is not currently listed and the Chinese and the two Japanese companies are not comparable with the rest of the group.

Further variable elements

Further variable elements include a fixed mileage allowance, newspapers, mobile phone and coverage of the costs of broadband communication in accordance with established standards.

PENSION PLANS

In addition to general pension schemes in Norway, payable from the age of 67 and providing a pension of approximately 65% of ordinary salary at retirement and 60% from the age of 77, including social security pension, the company has a supplementary scheme for the part of salary which exceeds 12 times the Norwegian national insurance base amount (G). For corporate management there is a separate pension (early retirement) scheme from the age of 64 which provides a similar pension until the age of 67. It was decided to terminate these insured supplementary plans with effect from 1 January 2007 and they were replaced by a book reserve arrangement for the pension part and group life and disability insurance for the risk parts. The corporate management team is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80G.

TERMINATION PAYMENT AGREEMENTS

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

5. LOSSES ON ACCOUNTS RECEIVABLE

	2009	2008	2007
Receivables written off during the period	0	0	(4)
Payments received on items previously written off	0	1	0
Change in provision for bad debt	(2)	0	1
Total	**(2)**	**1**	**(3)**

6. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTANGIBLE NON-CURRENT ASSETS

	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2007	30	135	165
Additions	0	8	8
Disposals	0	(1)	(1)
Acquisition cost 31 December 2007	**30**	**142**	**172**
Accumulated depreciation and impairments 1 January 2007	21	117	138
Depreciation	2	11	13
Impairments	0	0	0
Disposals	0	0	0
Accumulated depreciation and impairments 31 December 2007	**23**	**128**	**151**
Carrying value 31 December 2007	**7**	**14**	**21**
Acquisition cost 1 January 2008	30	142	172
Additions	0	0	0
Disposals	(4)	(69)	(73)
Acquisition cost 31 December 2008	**26**	**73**	**99**
Accumulated depreciation and impairments 1 January 2008	23	128	151
Depreciation	2	4	6
Impairments	0	0	0
Disposals	0	(66)	(66)
Accumulated depreciation and impairments 31 December 2008	**25**	**66**	**91**
Carrying value 31 December 2008	**1**	**7**	**8**
Acquisition cost 1 January 2008	26	73	99
Additions	0	19	19
Disposals	0	(37)	(37)
Reclassified from plant under construction	2	50	52
Acquisition cost 31 December 2009	**28**	**105**	**133**
Accumulated depreciation and impairments 1 January 2009	25	66	91
Depreciation	1	10	11
Impairments	0	0	0
Disposals	0	(37)	(37)
Accumulated depreciation and impairments 31 December 2009	**26**	**39**	**65**
Carrying value 31 December 2009	**2**	**66**	**68**

Licenses, patents and the intagible assets are depreciated as a straight-line basis over a period from five to 20 years.

PROPERTY, PLANT AND EQUIPMENT

	MACHINERY AND EQUIPMENT	PLANTS AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CON-STRUCTION	TOTAL
Acquisition cost 1 January 2007	11 586	3 239	343	333	15 501
Additions	578	79	7	154	818
Disposals	(1 315)	(19)	(2)	0	(1 336)
Reclassified from plant under construction	185	0	0	(185)	0
Acquisition cost 31 December 2007	**11 034**	**3 299**	**348**	**302**	**14 983**
Accumulated depreciation and impairments 1 January 2007	8 504	1 638	250	0	10 392
Depreciation	124	92	41	0	257
Impairments	3 531	413	0	0	3 944
Reversal of impairments	0	0	0	0	0
Disposals	(1 217)	0	(1)	0	(1 218)
Accumulated depreciation and impairments 31 December 2007	**10 942**	**2 143**	**290**	**0**	**13 375**
Carrying value 31 December 2007	**92**	**1 156**	**58**	**302**	**1 608**
Acquisition cost 1 January 2008	11 034	3 299	348	302	14 983
Additions	194	9	0	190	393
Disposals	(36)	(228)	(43)	0	(307)
Dismantling provision	153	40	0	0	193
Reclassified from plant under construction	102	155	9	(266)	0
Acquisition cost 31 December 2008	**11 447**	**3 275**	**314**	**226**	**15 262**
Accumulated depreciation and impairments 1 January 2008	10 942	2 143	290	0	14 983
Depreciation	81	101	33	0	215
Impairments	45	94	0	0	139
Reversal of impairments	(1 000)	0	0	0	(1 000)
Disposals	(31)	(228)	(42)	0	(301)
Accumulated depreciation and impairments 31 December 2008	**10 037**	**2 110**	**281**	**0**	**12 428**
Carrying value 31 December 2008	**1 410**	**1 165**	**33**	**226**	**2 834**
Acquisition cost 1 January 2009	11 447	3 275	314	226	15 262
Additions	101	19	0	89	209
Disposals	(20)	(4)	(43)	0	(67)
Dismantling provision	(302)	(154)	0	0	(456)
Reclassified from plant under construction	152	82	2	(288)	(52)
Acquisition cost 31 December 2009	**11 378**	**3 218**	**273**	**27**	**14 896**
Accumulated depreciation and impairments 1 January 2009	10 037	2 110	281	0	12 428
Depreciation	286	111	23	0	420
Impairments	0	0	0	0	0
Reversal of impairments	(372)	0	0	0	(372)
Disposals	(20)	0	(43)	0	(63)
Accumulated depreciation and impairments 31 December 2009	**9 931**	**2 221**	**261**	**0**	**12 413**
Carrying value 31 December 2009	**1 447**	**997**	**12**	**27**	**2 483**

Machinery and equipment are depreciated on a linear basis over a period from three to 25 years. Land is not depreciated. Buildings and other property are depreciated on a linear basis over a period from three to 33 years. Fixtures and fittings are depreciated on a linear basis over a period from three to five years. Plant under construction is not depreciated.

Assumptions applied when estimating recoverable amount

Operational non-current assets and intangible assets are written down to the recoverable amount when this is lower than the carrying value of the asset. The recoverable amount of an asset or a cash-generating unit is defined as the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The estimated nominal future cash flow is estimated in the currency in which they are expected to be generated. The net present value is calculated through discounting the expected cash flows using a weighted average cost of capital appropriate for that currency and the cash-generating unit, or individual asset. The cost of capital is assessed on the interest rate of ten-year government bonds in the currency the cash flow is estimated. This is adjusted for a specific operational risk relevant to Norske Skog and, in certain instances, with a country-specific risk premium relevant to the cash-generating unit or the individual asset. The cost of the liability part of the weighted average cost of capital is based on average market interest rates on Norske Skog's debt liabilities.

More information related to the assumptions applied when calculating recoverable amount is given in Note 7 to the consolidated accounts.

7. OTHER GAINS AND LOSSES

	2009	2008	2007
Gains and losses on disposal of non-current tangible assets	9	40	24
Gains/losses/changes in value on commodity contracts [1]	(835)	(116)	4 815
Total	**(826)**	**(76)**	**4 839**

[1] Long-term energy contracts that no longer meet the requirement in IAS 39.5 related to own use are measured at fair value.

8. IMPAIRMENT OF SHARES IN SUBSIDIARIES

	2009	2008	2007
Norske Treindustrier AS	(2 100)	996	(230)
Norske Skog Steti a.s.	0	(43)	0
Norske Skog Holdings B.V.	(1 545)	0	(535)
Norske Skog Pisa Ltda.	0	100	(41)
Norske Skog Walsum GmbH	(511)	0	226
Norske Skog Paper Malaysia Sdn. Bhd.	0	0	(11)
Norske Skog Pan Asia Ltd.	(2 582)	(1 653)	0
Total	**(6 738)**	**(600)**	**(591)**

Impairment or reversals of previous impairments of shares in subsidiaries are based on an assessment of the carrying amount and underlying values on assets and debt. The impairments and reversals are included in financial items in the income statement.

9. FINANCIAL ITEMS

	NOTE	2009	2008	2007
Dividends received		3 285	1 561	782
Interest revenue		233	296	244
Interest expense		(1 394)	(1 939)	(1 563)
Exchange rate gains and losses		2 987	(3 436)	1 643
Write-down of shares in subsidiaries		(6 738)	(600)	(591)
Other financial items	8	7	248	(64)
Total		**(1 620)**	**(3 870)**	**451**

10. TAX

TAX EXPENSE	2009	2008	2007
Current tax expense	0	0	3
Change in deferred tax	468	(1 024)	435
Total	**468**	**(1 024)**	**438**

INCOME TAX RECONCILIATION	2009	2008	2007
Profit/(loss) before income taxes	(2 212)	(2 857)	1 647
Computed tax at nominal tax rate of 28%	(619)	(800)	461
Exempted income/non-deductible expenses	(811)	(352)	(135)
Impairment of shares in subsidiaries	1 944	171	165
Adjustment previous years	(19)	1	(5)
Other items	(26)	(43)	(48)
Total tax expense	**468**	**(1 024)**	**438**

DEFERRED TAX	2009	2008	2007
Net deferred tax liability 1 January	(71)	762	195
Deferred tax charged in the income statement	468	(1 024)	435
Reclassification of group tax allocations	103	191	132
Net deferred tax liability/(asset) 31 December	**501**	**(71)**	**762**

DEFERRED TAX 2009	1.1.2009	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2009
Fixed assets, excess values and depreciation	(96)	0	(30)	(126)
Pensions	(59)	0	(17)	(76)
Provisions and other liabilities	(198)	0	121	(77)
Currency translation differences and financial instruments	1 271	0	241	1 512
Deferred tax current items	8	0	14	22
Tax losses and tax credit to carry forward	(998)	103	140	(754)
Net deferred tax liability/(liability)	**(71)**	**103**	**468**	**501**

DEFERRED TAX 2008	1.1.2008	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2008
Fixed assets, excess values and depreciation	(428)	0	333	(96)
Pensions	(47)	0	(13)	(59)
Provisions and other liabilities	(234)	0	36	(198)
Currency translation differences and financial instruments	2 241	0	(970)	1 271
Deferred tax current items	16	0	(8)	8
Tax losses and tax credit to carry forward	(786)	191	(403)	(998)
Net deferred tax liability/(asset)	**762**	**191**	**(1 024)**	**(71)**

DEFERRED TAX 2007	1.1.2007	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2007
Fixed assets, excess values and depreciation	448	68	(944)	(428)
Pensions	(33)	0	(13)	(47)
Provisions and other liabilities	(25)	(88)	(121)	(234)
Currency translation differences and financial instruments	575	0	1 666	2 241
Deferred tax current items	16	0	0	16
Tax losses and tax credit to carry forward	(785)	152	(153)	(786)
Net deferred tax liability/(asset)	**195**	**132**	**435**	**762**

[1] In 2007 Norske Skogindustrier ASA carried out a demerger of non-production related properties. The demerger was executed with taxable continuity.

11. SHARES IN SUBSIDIARIES

See Note 18 in the group accounts for specification of shares in subsidiaries and other shares.

12. INVENTORIES

	31.12.2009	31.12.2008	31.12.2007
Raw materials and other production input	338	345	294
Finished goods	422	328	416
Total	**760**	**673**	**710**

13. INTERCOMPANY RECEIVABLES/LIABILITIES

INTERCOMPANY RECEIVABLES	31.12.2009	31.12.2008	31.12.2007
Crown Forest Industries Ltd.	235	247	0
Norske Skog Holdings B.V.	1 000	1 429	1 226
Norske Skog Walsum GmbH	1 017	1 284	1 003
Other intercompany receivables	34	42	34
Total	**2 286**	**3 002**	**2 263**

CURRENT INTERCOMPANY RECEIVABLES	31.12.2009	31.12.2008	31.12.2007
4246799 Canada Inc.	0	0	171
Crown Forest Industries Ltd.	0	0	235
Klosterøya AS	90	41	14
Lysaker Invest AS	0	158	0
Nornews AS	11	9	7
Norske Skog France sarl.	0	0	19
Norske Skog Golbey SA	103	136	27
Norske Skog Holdings B.V.	225	185	122
Norske Skog US Recovered Paper Inc.	19	28	1
Norske Skog USA Inc.	0	133	50
Norske Skog Walsum GmbH	0	0	102
Oxenøen Eiendom AS	0	3	121
Pisa Papel de imprensa SA	69	72	45
Reparco Netherland B.V.	10	21	16
Wood and Logistics AS	15	4	0
Other current intercompany receivables	32	55	75
Total	**576**	**845**	**1 005**

NON-CURRENT INTERCOMPANY LIABILITIES	31.12.2009	31.12.2008	31.12.2007
4246799 Canada Inc.	0	838	960
Lysaker Invest AS	57	55	52
Nornews AS	54	52	49
Norske Skog Bruck GmbH	0	564	612
Norske Skog Golbey SA	1 397	2 129	1 207
Norske Skog Holding AS	40	39	37
Norske Skog Holland B.V.	0	0	14
Norske Skog Industries (UK) Ltd.	128	3 091	2 857
Norske Skog Pan Asia Co. Pte. Ltd.	107	544	0
Norske Skog Steti a.s.	0	0	61
Norske Treindustrier AS	7 303	6 067	6 092
Other non-current intercompany liabilities	0	0	4
Total	**9 086**	**13 379**	**11 946**

All long-term intercompany debt falls due for repayment at least 12 months after the balance sheet date. The majority of this debt has a considerably longer term to maturity.

CURRENT INTERCOMPANY LIABILITIES	31.12.2009	31.12.2008	31.12.2007
Klosterøya AS	1	0	27
Lysaker Invest AS	4	0	25
Norske Skog Asia Pacific Pte. Ltd.	0	22	23
Norske Skog Bruck GmbH	105	136	59
Norske Skog Deutschland GmbH	27	50	31
Norske Skog Eiendom AS	67	5	1
Norske Skog Golbey SA	280	169	72
Norske Skog Holding AS	11	14	17
Norske Skog Holland B.V.	11	18	17
Norske Skog Industries Australia Ltd.	536	410	129
Norske Skog Pan Asia Co. Pte. Ltd.	22	0	0
Norske Skog Parenco B.V.	0	0	26
Norske Skog Tasman Ltd.	125	87	53
Norske Skog UK Ltd.	23	40	25
Norske Skog Walsum GmbH	585	3	0
Norske Treindustrier AS	1 393	347	274
NSI Insurance A/S	33	0	0
Oxenøen Eiendom AS	213	245	4
Oxenøen Utvikling AS	0	67	54
Wood and Logistics AS	70	54	82
Other current intercompany liabilities	110	128	65
Total	**3 616**	**1 796**	**982**

14. OTHER CURRENT ASSETS

	NOTE	31.12.2009	31.12.2008	31.12.2007
Total prepaid expenses		85	115	67
Derivatives		635	5 110	5 247
Short-term investments	18	0	12	1
Total		**720**	**5 237**	**5 315**

The main portion of the group's financial instruments (energy contracts and derivatives) was reclassified from current to non-current assets during 2009 (see Note 22 in the consolidated group accounts).

15. DERIVATIVES

	31.12.2009		31.12.2008		31.12.2007	
NET INVESTMENT HEDGING	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Forward contracts	91	(15)	39	(2)	81	(1)
Cross-currency contracts	0	(6)	139	(22)	31	(74)
Total	**91**	**(21)**	**178**	**(24)**	**112**	**(75)**
FAIR VALUE HEDGING [1]						
Interest-rate swaps	1	0	916	(33)	140	(25)
Total	**1**	**0**	**916**	**(33)**	**140**	**(25)**
CASH FLOW HEDGE [2]						
Interest-rate swaps	0	0	0	(44)	34	0
Total	**0**	**0**	**0**	**(44)**	**34**	**0**
HELD FOR TRADING [3]						
Interest-rate swaps	154	(91)	0	(76)	38	(1)
Forward rate agreements	1	(3)	9	(15)	2	(2)
Currency options	12	(19)	127	(230)	97	(4)
Forward contracts	175	(11)	56	(288)	138	(14)
Commodity contracts	3 895	(36)	4 740	(17)	4 899	(38)
Embedded derivatives	0	0	0	0	0	0
Total	**4 237**	**(160)**	**4 932**	**(626)**	**5 173**	**(58)**
TOTAL VALUE						
Interest-rate swaps	155	(91)	916	(153)	174	(25)
Forward rate agreements	1	(3)	9	(15)	2	(2)
Currency options	12	(19)	127	(230)	97	(4)
Forward contracts	266	(26)	95	(290)	219	(15)
Cross-currency contracts	0	(6)	139	(22)	31	(74)
Commodity contracts	3 895	(36)	4 740	(17)	4 899	(38)
Embedded derivatives	0	0	0	0	0	0
Total	**4 328**	**(181)**	**6 026**	**(727)**	**5 421**	**(157)**

[1] Included in balance sheet line other non-current assets. The notional principal amount of the underlying debt in the fair value hedge was NOK 200 million (NOK 7 549 million in 2008 and NOK 6 323 million in 2007).

[2] The cash flow hedge programme has been terminated in March due to the repayment of the EUR 500 million bank facility.

[3] Includes: active management portfolio, interest rate swaps not subject to hedge accounting, embedded derivatives in physical contracts, financial commodity hedging contracts, physical commodity contracts within the scope of IAS 39 and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through the income statement.

See Note 2 accounting principles and Note 24 derivatives in the group accounts for fair valuation of derivatives.

16. EQUITY

The share capital of the company as at 31 December 2009 was NOK 1 899 456 260 and consisted of 189 945 626 shares, each with a face value of NOK 10. The number of own shares was 231 493. The company purchased 1 150 000 shares during 2009. The number of shares sold during the year was 955 910 in relation to the share savings program for employees. The shares were sold at NOK 13.

The general assembly resolved on 12 April 2007 to transfer NOK 7 000 million from share premium reserve to paid-in other equity. The variances between retained earnings and distributable equity are specified below:

SPECIFICATION OF DISTRIBUTABLE EQUITY	31.12.2009
Paid-in other equity	7 000
Retained earnings	(1 686)
Other equity	**5 314**
Revaluation reserve	(2 856)
Deferred tax asset	(45)
Research and development	(68)
Distributable equity	**2 345**

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
Viken Skog BA, Hønefoss	5.74
Folketrygdfondet, Oslo	4.87
AT Skog BA, Skien	3.51
Skagen Vekst, Stavanger	2.96
State of New Jersey Pension Fund, c/o Bank of New York, USA	2.63
Allskog BA, Trondheim	1.82
Mjøsen Skog BA, Lillehammer	1.79
Glommen Skog BA, Elverum	1.76
Uthalden AS, Oslo	1.36
AS Havlide, Skien	1.20
Clearstream Banking SA, Luxembourg (NOM)	1.11
AS Herdebred, Skien	1.07
JPMorgan Chase Bank, United Kingdom (NOM)	1.02
Bank of New York Mellon, USA (NOM)	1.00
Astrup Fearnley AS, Oslo	0.98
Allskog Holding AS, Trondheim	0.95
Sydbank, Denmark (NOM)	0.92

(NOM=Nominee accounts)

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the shareholders	
Tom Ruud, Oslo (chair)	410
Helge Evju, Skollenborg	195
Emil Aubert, Porsgrunn	754 421
Even Mengshoel, Lillehammer	860
Christian Ramberg, Bø in Telemark	71
Tom Rathke, Bergen	4 038
Elected by the employees	
Harald Bjerge, Norske Skog Saugbrugs	21 306
Trond Bjørken, Norske Skog Skogn	1 154
Stig A. Stene, Norske Skog Skogn	648
Observers from the employees	
Kjetil Bakkan, Norske Skog Skogn	585
Jan Magnar Hansen, Norske Skog Saugbrugs	130

SHAREHOLDERS ON THE BOARD OF DIRECTORS	
Elected by the shareholders	
Halvor Bjørken, Verdal	6 885
Gisèle Marchand, Oslo	838
Ingrid Wiik, Lysaker	6 198
Elected by the employees	
Paul Kristiansen, Norske Skog Saugbrugs	4 395
Inge Myrlund, Norske Skog Follum	1 730

SHAREHOLDERS AMONG SENIOR EXECUTIVES

Christian Rynning-Tønnesen [1]	72 158
Jan-Hinrich Clasen	7 167
Rune Gjessing	9 057
Terry Hamilton	3 294
Kristin Slyngstad Klitzing [2]	30 305
Audun Røneid	5 109

[1] Resigned 1 January 2010

[2] Left corporate management 4 February 2010

17. INTEREST-BEARING NON-CURRENT LIABILITIES

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2009

	DEBT BANKS	BONDS	TOTAL
2010	58	0	58
2011	25	1 853	1 878
2012	3 351	655	4 006
2013	25	0	25
2014	25	924	949
2015	25	990	1 015
2016	25	0	25
2017	25	4 101	4 126
2018	25	0	25
2019	25	0	25
2020	25	0	25
2033	0	1 155	1 155
Total	**3 634**	**9 677**	**13 311**

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2008

	DEBT BANKS	BONDS	TOTAL
2009	329	722	1 051
2010	5 002	0	5 002
2011	0	3 212	3 212
2012	0	902	902
2014	0	195	195
2015	0	1 330	1 330
2017	0	4 933	4 933
2033	0	1 400	1 400
Total	**5 331**	**12 694**	**18 024**

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2007

	DEBT BANKS	BONDS	TOTAL
2008	146	0	146
2009	317	840	1 157
2010	4 046	0	4 046
2011	31	3 247	3 278
2012	0	902	902
2014	0	195	195
2015	0	1 082	1 082
2017	0	3 981	3 981
2033	0	1 082	1 082
Total	**4 539**	**11 329**	**15 868**

Foreign currency debt is presented at the current rate in the instalment profile. Debt used as instrument for hedging net investments in foreign currencies is presented at historical cost in the balance sheet.

For more information see Note 25 interest-bearing non-current liabilities in the consolidated group accounts.

18. CASH AND CASH EQUIVALENTS

	NOTE	31.12.2009	31.12.2008	31.12.2007
Cash and cash equivalents		3 690	5 252	1 347
Short-term investments	14	0	12	1
Total		**3 690**	**5 264**	**1 348**

19. GUARANTEES

The company has guaranteed debts totalling NOK 9 million on behalf of its subsidiaries (NOK 1 256 million at 31 December 2008 and NOK 378 million at 31 December 2007). Other guarantees amount to NOK 337 million (NOK 409 million at 31 December 2008 and NOK 298 million at 31 December 2007).

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AS
Postboks 748 Sentrum
NO-0106 Oslo
Telefon 02316
Telefaks 23 16 10 00

To the Annual Shareholders' Meeting of Norske Skogindustrier ASA

Auditor's report for 2009

We have audited the annual financial statements of Norske Skogindustrier ASA as of December 31, 2009, showing a loss of NOK 2 681 millions for the parent company and a loss of NOK 1 400 millions for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the statement of income, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the accompanying notes. The financial statements of the group comprise the statement of income, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the accompanying notes. Simplified IFRS according to the Norwegian accounting act § 3-9 have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in accordance with simplified IFRS according to the Norwegian accounting act § 3-9
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of December 31, 2009,and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Oslo, March 3, 2010
PricewaterhouseCoopers AS

Erling Elsrud
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the accounts for the period 1 January to 31 December 2009 have been prepared in accordance with prevailing accounting practices, and that the information in the accounts provides a correct impression of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the annual report provides a correct overview of the development, result and position of the company and the group, along with a description of the key risk and uncertainty factors which the company and the group faces.

Lysaker, 3 March 2010
The board of directors of Norske Skogindustrier ASA

Eivind Reiten
Chair

Svein Rennemo
Deputy chair

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Paul Kristiansen
Board member

Gisèle Marchand
Board member

Inge Myrlund
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

STATEMENT FROM THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

The corporate assembly recommends that the general meeting approves the board’s proposal for income statement and balance sheet for 2009 for Norske Skogindustrier ASA and the group, and endorses the board’s proposal for coverage of the deficit.

The corporate assembly took the board’s statement concerning salary and renumeration for senior executives under advisement.

Lysaker, 10 March 2010

Tom Ruud
Chair

WHAT DOES NORSKE SKOG DO WITH ITS ENVIRONMENTAL CHALLENGES?

We believe that it is important to understand and continuously improve the environmental performance in all areas along our value chain and to report openly on the results.

In the pulp and paper industry environmental topics that we focus on are fibre supply, energy source and use, greenhouse gas emissions, the efficiency of mill production processes and emissions, and the fate of our products at the end of its life. The importance and the emphasis placed on these topics may however vary at local, regional and national levels.

Norske Skog only sources wood from sustainably managed forests. We have systems in place to make sure that we do not source raw materials from controversial areas. In Europe the forest areas are increasing in every country where we source wood. In South America and Australasia (from 2010) only plantation forests are used to supply fresh fibre. In Asia only recovered paper is used as raw material.

All our mills have Chain of Custody certification for their wood supply and the areas where the wood is sourced are identified. All our suppliers comply with local rules and regulations and where possible we source wood locally to minimise transport emissions. We also give preference to certified suppliers and our goal is to have a 100 per cent certified wood supply. Norske Skog uses a combination of fresh fibre and recovered paper as a source of raw material depending on local conditions. Both sources are needed to make sustainable use of the global fibre resource.

In a world where increasing demands are being placed upon finite natural resources and the ecosystems which supply them, it is important that our production processes are efficient and continuously improving. In addition to certified environmental management systems, Norske Skog has developed an internal environmental index to set targets and review our work to improve our resource use efficiency and to reduce our emissions on a continuous basis. Our long term goal is for all our mills to operate at standards comparable to the standards defined in EU Best Available Technology documents. We have also implemented a water production profile tool to help benchmark, optimise and reduce our water consumption.

Climate change is the environmental issue receiving the greatest attention today. In 2007 Norske Skog established a greenhouse gas reduction target of 25 per cent in total emissions by 2020 in order to provide added focus on this issue. We have also developed a carbon footprint tool to allow us to estimate the greenhouse gas emission levels associated with our total value chain. Greenhouse gas emission rates differ considerably between our mills. The main reason for this lies in the different energy sources used both for externally purchased energy and for energy produced on-site. Purchased energy is mainly electrical energy used for fibre processing and to operate machinery. On-site produced energy is mainly used to dry paper on the production line. In many cases we use energy several times through heat recovery systems. The main strategies available to reduce greenhouse gas emissions involve reducing the consumption of energy and/or changing the source of the energy we use.

In 2009 Norske Skog divested its ownership in our Chinese mills and closed paper machines in the Norske Skog Parenco and Follum mills. These decisions have influenced the results reported in this years sustainability report. The Chinese mills utilised large amounts of recovered paper. As a consequence the per cent recovered paper of our total raw material source reduced from 39 per cent in 2008 to 34 per cent in 2009 and the total energy used per tonne of paper increased as a consequence.

Market based downtime associated with difficult economic conditions experienced in 2009 has also impacted negatively on the results presented. Many of our mills experienced suboptimal production conditions which affected the efficiency of effluent treatment processes and the use of energy and water.

The forest-based industry has a unique position when it comes to the environment. The raw material is renewable, the products are highly recyclable and both raw materials and products store carbon. Sustainably managed forests will absorb the carbon dioxide from the combustion of forest-based material. At the end of their life cycle the products can be used to produce bio-energy, which is neutral with regard to climate change.

NORSKE SKOG'S ENVIRONMENTAL POLICY

Norske Skog's environmental policy is an integral part of the strategy to achieve the overall corporate goal. It shall support sustainable development of environment and natural resources. The environmental commitments shall be viewed in context of the company's commitments to health, safety and corporate social responsibility. Norske Skog's environmental strategy and policy applies to all its business units. Norske Skog will work for similar environmental values in partially owned companies.

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

ORGANISATION OF ENVIRONMENTAL WORK IN NORSKE SKOG

CENTRALLY:

Norske Skog's chief executive officer has overall responsibility for the company's results, including its environmental performance. A separate corporate environment (CE) department is responsible for developing and maintaining the global environmental policy, and for specifying and following up strategic environmental targets on behalf of the chief executive officer. The CE department works to ensure that the mills (business units) and other functional units set their own environmental targets and perform in accordance with these. It receives monthly mill reports, which are collated and reported to the corporate management and quarterly to the board of directors. The department cooperates closely with other Norske Skog functions. It may also provide support or assistance to business units on specific issues.

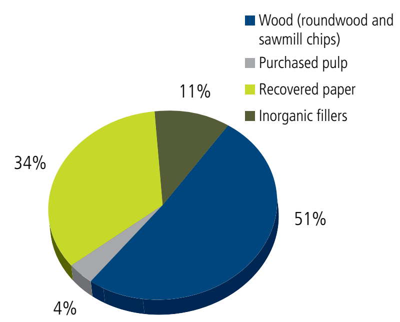
LOCAL:

Most of Norske Skog's environment-related work takes place in the mills. Each business unit manager has operational responsibility for meeting environmental targets at the facility. This responsibility is passed down to departmental managers and to each employee. All the mills have a dedicated manager, responsible for environmental matters, who reports directly to the mill manager. All mills cooperate closely with the CE department. A meeting is held once a quarter between the CE department and all the mills, primarily as a teleconference, in connection with the quarterly reporting.

SUSTAINABLE RAW MATERIALS

Norske Skog has a number of systems and processes in place to make sure that all wood used in our products comes from sustainably managed forests. All Norske Skog mills utilising fresh fibre have third party verified chain of custody certification systems in place. In 2009 the certified share of fresh fibre increased by 7.5 per cent globally.

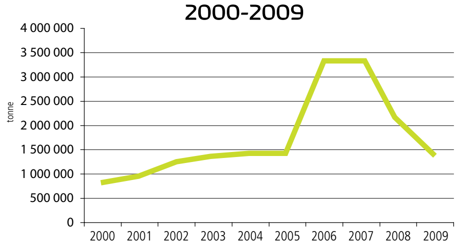
Consumption of raw materials, 2009



Recovered paper in Newsprint production, 2009

Norske Skog Albury, Australia	33%
Norske Skog Boyer, Australia	9%
Norske Skog Bruck, Austria	100%
Norske Skog Golbey, France	67%
Norske Skog Parenco, The Netherlands	81%
Norske Skog Skogn, Norway	35%
Norske Skog Singburi, Thailand	100%

Use of recovered paper, Norske Skog 2000-2009



FRESH FIBRE

In 2009 Norske Skog consumed 2 million tonnes of fresh fibre. The roundwood component of this fresh fibre came from both managed forests (53 per cent) and plantations (47 per cent). Sawmill chips, a by-product from the sawmill industry made up 31 per cent of Norske Skog's fresh fibre consumption in 2009.

Norske Skog is not a significant forest owner. Less than 4 per cent of the wood we consume originates from our own forests in Australia. In Brazil, we are developing plantations to supply Norske Skog Pisa, and these are due to supply wood from 2010. In all countries where Norske Skog sources wood, with the exception of Brazil, the area of land under forest is increasing. Norske Skog's wood supply in Brazil comes only from plantations.

Norske Skog promotes forest certification and chain of custody systems which allow the origin of wood to be traced. We recognise our responsibility as a wood purchaser through our global wood purchasing policy, which states that all wood used in our paper originates from sustainably managed forests. Such forests are defined as:

- Certified forests – we recognise the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) systems
- Forests covered by a written declaration that they are managed according to national laws and regulations

While forest managers have systems for sustainable forest management (SFM), forest product traders rely on chain of custody (CoC) systems. These traceability systems play an important role in responsible purchasing and in the global efforts to halt illegal logging. CoC is a tool which makes it possible to control and report the share of certified raw materials through the value chain from forest to finished product. CoC systems also require responsible purchasing of non-certified wood. All Norske Skog mills which utilise fresh fibre have third party verified chain of custody certification systems in place. The choice of certification system (FSC, PEFC or both) is a local decision. The certification system used for the forests or plantations from which it purchases wood is of importance.

Norske Skog encourages both SFM and CoC certification of our suppliers. These certificates are the most credible guarantees available to us to demonstrate our responsible purchase of wood fibre. Other important tools include environmental management systems such as ISO 14001, environmental clauses in purchase contracts, supplier self-declarations, and control systems for uncertified suppliers.

The main global challenges related to the management of forests are deforestation in developing countries (which is presently responsible for 20 per cent of the world's greenhouse gas emissions) and forest biodiversity degradation through the logging of high conservation areas. In order to meet these challenges, we have to ensure that more of the world's forest areas are managed on a sustainable basis. Forest certification is an important tool in this context.

Today only a small portion of the global forest area is certified. The two main global certification systems are FSC and PEFC. Today PEFC is the dominant global certification umbrella, with a certified forest area twice as large as the FSC umbrella. Norske Skog regards the two systems as equally valuable tools to demonstrate responsible stewardship of the forest resources that our company and customers rely upon. Both systems are based on inspections and auditing by third parties.

Our goal is to have 100 per cent certified fibre in our products. Presently 71 per cent

// Wood from sustainably managed forests at Norske Skog Follum

of Norske Skog's fresh fibre material comes from certified forests. This is an increase from 64 per cent in 2008. The certified wood fibre content last year increased in all regions where Norske Skog source wood. The largest increases were in Norway and continental Europe. The ability to achieve increased certified wood percentages on an ongoing basis depends to a large degree upon the decisions that forest owners make. The most environmentally friendly wood sourcing is to be supplied by locally certified wood sources. In the European countries where we are operating production units, the certified amount of the forest areas are 64 per cent, PEFC 62 per cent and FSC 1.7 per cent. Many customers want paper based only on FSC certified wood. From a sustainability point of view it is the total amount of certified wood that is important.

RECYCLED FIBRE

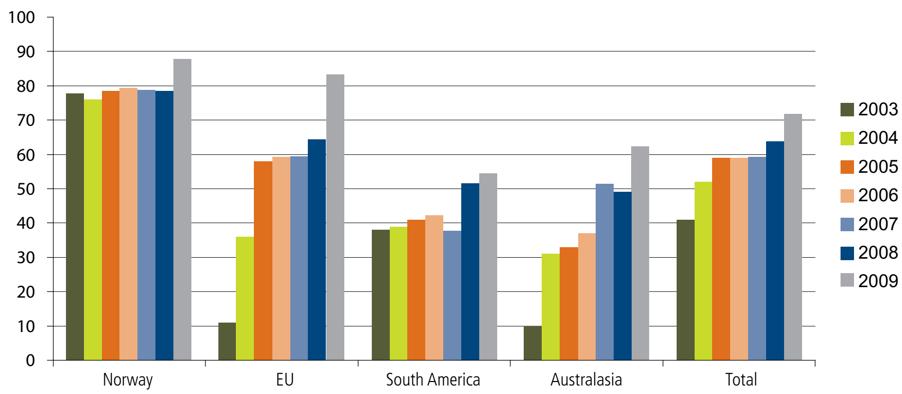
Recovered paper is an important fibre source for Norske Skog. In 2009 recycled fibre made up 34 per cent of the raw materials in our products. The mills utilising recovered paper consumed 1.4 million tonnes in 2009. This is a reduction of 33 per cent compared to 2008. The reduction in consumption of recovered paper is mainly due to the sale of Norske Skog's mills in China, which only used recovered paper as fibre resource. Despite this reduction Norske Skog is still a large global user of recovered paper for the production of publication grade paper.

On a tonnage basis, the largest consumption of recovered paper occurs in continental Europe and Asia. Our mill in Thailand uses recovered paper as its sole raw material. The type of fibre source used at the different Norske Skog mills depends upon the availability of raw materials as well as economic considerations. The minimisation of transport distances and costs is an increasingly important economic and environmental consideration.

The use of recovered paper is an important part of Norske Skog's energy and climate change strategies. Paper production based on recovered paper requires less energy than paper production based on fresh fibre. This is because the processing of fresh fibre requires more energy than the separation and processing of the fibres from recovered paper.

Some paper purchasers want paper based entirely on recovered paper. However, a value chain based only on recovered paper is not sustainable. Up to one third may be lost in the recovered paper 'loop'. Factors such as consumer awareness, waste disposal and collection systems and alternative uses for used paper influence its collection rate. The structure and strength of the cellulose fibres of paper degrade with successive use. Recovered paper fibres that are no longer suitable for papermaking are rejected in our mill pulping processes and are generally used as a source of renewable energy. In Europe the target for paper collection of 66 per cent by 2010 is already achieved. To make the recovered paper value chain sustainable, fresh fibre from forests, plantations or sawmill residues must be added.

Certified percentage wood fibre 2003-2009



ENERGY CONSUMPTION

Norske Skog is a leading producer of bioenergy. We continuously seek to reduce our energy use and to make it more environmentally friendly.

The production of paper is an energy intense process. Energy is consumed for two main purposes:

- to drive production equipment and electrical devices which separate, process and transport fibres and water (electrical energy); and
- to provide process heat and to dry paper (thermal energy).

The major use of electrical energy in mills which process fresh fibre is the thermo-mechanical pulping process (TMP) (which converts woodchips into fibre via mechanical means). The majority of electricity used in our mills (92 per cent in 2009) is purchased from the grid. Some mills have the capacity to generate a proportion of their own electricity requirements from biofuel, hydroelectric, natural gas or oil sources.

Thermal energy is used for heating and drying. In contrast with electrical energy, in most cases this thermal energy is generated within the mill. The sources of this energy include recovered heat from the thermo-mechanical pulping or effluent treatment processes, combustion of mill residues, biofuel, oil, gas or coal. In some cases the thermal energy may be supplied by third parties located externally to the mill or in the form of geothermal energy.

Paper production based on recovered paper consumes less energy when compared with production from fresh fibre because the fibres from recycled paper are more easily separated than those within wood. The sale of the Chinese mills (based entirely on recycled fibre) and the suboptimal production conditions associated with market based 'down time' resulted in a three and a half per cent increase in the company's average energy use per tonne of paper in 2009.

In terms of the total consumption of energy by the company, approximately half is purchased as electricity from the grid. The remaining energy sources in 2009 were fossil fuel 15 per cent, biofuel 15 per cent, heat recovery from TMP 10 per cent and other sources, geothermal energy and purchased heat, seven per cent.

The fossil fuel share of the total energy was reduced from 17 per cent in 2008 to 15 per cent in 2009 mainly due to sale of the Chinese mills. Natural gas is the most commonly used fossil fuel, and its share of total fossil fuel consumption increased from 67 per cent in 2008 to 75 per cent in 2009.

There is significant variation in the thermal energy sources used between different geographic regions. South American mills use bioenergy and very little fossil fuel. The Asian mill uses only fossil fuel. Australasian mills mainly use fossil and geothermal energy. In Europe the mills use similar amounts of biofuel, fossil fuel and heat recovered from the production of thermo-mechanical pulp from fresh fibre.

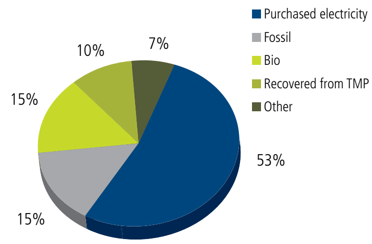
Organic waste from the production processes is used as biofuel where possible. A number of mills also purchase biofuel from external suppliers. Norske Skog is a leading producer of bioenergy.

ENERGY MANAGEMENT

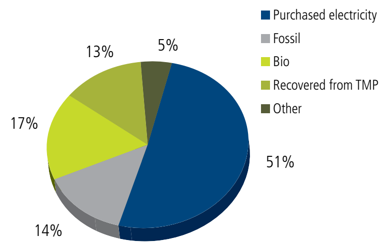
Energy management is included in the company global optimisation program Norske Skog Production System. There is ongoing technical development work to achieve reductions in energy consumption in the TMP process and many of our investment projects are energy related.

Norske Skog energy consumption, by source

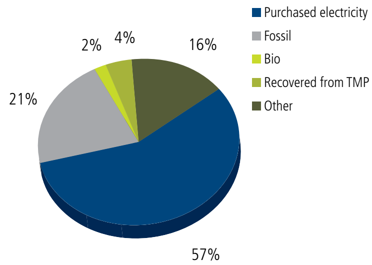
Total 14 580 GWh; 3.95 MWh/tonn



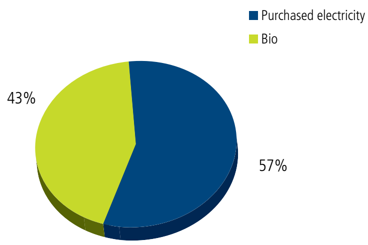
Europe



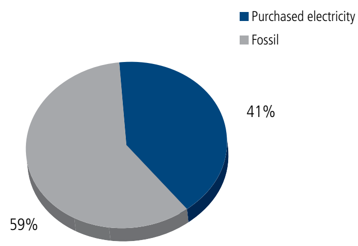
Australasia



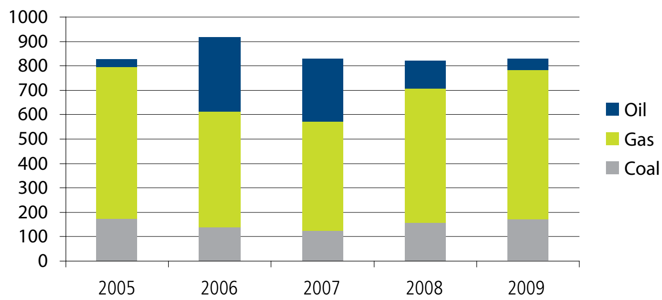
South America



Asia



Use of fossil fuels (kWh per tonne of paper)



NORSKE SKOG GREENHOUSE GAS EMISSIONS

OUR CARBON FOOTPRINT

Presently there is no internationally approved or recognised method for calculating the carbon footprint of paper products. Norske Skog has implemented a carbon footprint calculator based on the Framework for the Development of Carbon Footprints for Paper and Board Products published by the Confederation of the European Paper Industries (CEPI) in 2007.

The emission sources covered by the carbon footprint calculator include:

- GHG emissions from combustion of fossil fuels at our mills including emissions related to purchased pulp,
- GHG emissions associated with purchased electricity and steam,
- GHG emissions associated with producing the supply of wood and recovered fibre,
- GHG emissions associated with producing other raw materials and fuels,
- Transport related GHG emissions from in- and outbound transport excluding transport to final customer which is calculated on a case by case basis,
- Biogenic carbon stored in the product.

The Norske Skog carbon footprint is based on greenhouse gas emission data from our thirteen wholly owned mills. The average global carbon footprint for paper produced by the Norske Skog mills is 820 kg/t fossil CO_2 equiv emissions (all greenhouse gases are converted to CO_2 equivalents), while 1360 kg/t biogenic CO_2 is contained in the product.

The footprint varies considerably between the mills and regions depending on the source of electricity and the type of fuel used to produce process heat. The emissions per tonne of paper production ranged between 570 kg CO_2-e/tonne of paper in Europe to 1600 kg CO_2-e/tonne in Australasia.

The main strategies to reduce our greenhouse gas emissions are to reduce the consumption of energy, change the source of energy and to optimise the use of process chemicals and transport.

OUR GREENHOUSE GAS REDUCTION TARGET

The Norske Skog greenhouse gas emission reduction target was established in 2007 and covers:

- Direct (referred to as 'Scope 1' in the Greenhouse Gas Protocol) emissions from the combustion of fossil fuels in boilers, combined heat and power plants, infrared drying equipment, mobile machinery and other mill site based equipment, and
- Indirect ('Scope 2') emissions from the purchase of electricity or heat from external sources.

The Norske Skog greenhouse gas emissions reduction target is based on the two first bullet points in our carbon footprint.

The emissions inventory covers all thirteen wholly owned Norske Skog mills for the 2009 calendar year. Emissions estimation was undertaken with the aid of the WRI/WBCSD Greenhouse Gas Protocol Pulp and Paper Workbook.

Based upon the above scope and emission estimation processes, Norske Skog operations emitted 2.38 million tonnes of fossil fuel derived CO_2-e in 2009. The greenhouse gas emissions for our present mills reduced by 14 per cent in 2009 compared to emissions in 2008. It should however be noted that this reduction is due to reduced paper production in 2009 compared to 2008. More than 70 per cent of our greenhouse gas emissions came from externally purchased energy.

The main part of company greenhouse gas emissions are generated from the European and Australasian operations, 42 and 50 per cent respectively.

The greenhouse gas emissions arising from the combustion of biofuels/organic residues are deemed to be 'carbon neutral'. Direct emissions of biologically sequestered CO_2 from the combustion of organic residues such as wood and bark are estimated to be 563 000 tonnes.

Base year adjustments of our emissions inventory have been necessary due to the divestment of Korean and Chinese mills that has occurred since the target was set. These adjustments have been done in accordance with the methodologies described in the WBCSD/WRI Greenhouse Gas Protocol. The post adjustment 2006 base year emission is 2.91 million tonnes CO_2 equivalents. The total emission reduction achieved to date compared to our revised 2006 base year emission is 18 per cent. The target is 25 per cent by 2020.

NORSKE SKOG GREENHOUSE GAS EMISSION INVENTORY 2009

	CO_2 1 000 tonne	CH_4 tonne	N_2O tonne	CO_2-equiv. 1 000 tonne
Direct (Scope 1) Emissions				
Direct emissions from stationary fuel combustion	685	23	3	686
Direct emissions from transportation and mobile sources	12	0	1	12
Total direct emissions	697	23	4	698
Indirect (Scope 2) Emissions				
Indirect emissions from steam and power imports	1672	0	0	1672
Total Fossil Fuel Based Emissions (Direct & Indirect)	**2 369**	**23**	**4**	**2 370**
Combustion-related releases of biomass-derived CO_2 *	563			

* wood and bark residues only

OUR CONTRIBUTION TO COMBATING CLIMATE CHANGE

The capacity to deal effectively with Climate change has been identified as one of the greatest challenges facing nations, governments, business and citizens now and in future decades.

An effective response to climate change will require both adaptation and mitigation measures.

According to the UN Panel on Climate Change there is a need for substantial and effective reductions in greenhouse gas emissions in order to avoid significant detrimental effects to nature and mankind. There is also a pressing need for the implementation of a truly global agreement in order to achieve these reductions. While it is difficult to find a solution to this problem that is acceptable to both the developed and developing countries (as shown at the Copenhagen meeting last year), this should not be a reason for inaction. Industries must be proactive and lead the way without waiting for final political consensus.

Norske Skog has worked for many years to reduce greenhouse gas emissions in our value chain through reducing our energy consumption, changing our sources of energy and optimising our production processes and modes of transport.

Norske Skog has integrated climate change as a key part of our business strategy. In 2007 Norske Skog made a decision to reduce company greenhouse gas emissions by 25 per cent by 2020 when compared with the 2006 base year. In the same year the company decided to build a prototype biodiesel plant.

On the political scene we are actively participating in local and regional industry associations and in 3C, Combat Climate Change, which launched its roadmap in Washington in November 2007.

In 2009 Norske Skog was ranked the best company in the Nordic region for its reporting on greenhouse gas emissions and its openness about the climate change related challenges facing the company.

BEST IN CLASS

Norske Skog was named 'best in class' by the Carbon Disclosure Project's (CDP) 2009 Nordic report which ranked companies based on their climate change strategy and reporting of greenhouse gas emissions. CDP, which has evaluated environmental data from 200 Nordic companies, represents 475 institutional investors and USD 55 trillion of investment funds worldwide.

"Norske Skog's emissions and climate reporting have been compared with 200 leading companies in the Nordic region. The ranking is an important recognition of our efforts to demonstrate openness in terms of emissions as targets for further emission reductions," said Christian Rynning-Tønnesen, at that time President and CEO of Norske Skog. "Good disclosure routines are important to ensure continued focus internally, and help enforce our commitment to further improvements."

2009 was the second year that Norske Skog participated in the Carbon Disclosure Project. Norske Skog was featured in the Carbon Disclosure Leadership Index also in 2008. CPD requires completion of a detailed questionnaire about the companies' greenhouse gas emissions, targets for emission reductions, management processes and strategies, together with provision of information about business challenges and opportunities related to climate change.

CONTINUOUSLY IMPROVING OUR PRODUCTION PROCESSES

Norske Skog's environmental policy commits us to achieve continuous improvement in the environmental performance of our mills.

The desire to measure this continuous improvement in our mills and as a company over both the short and long term led us to develop an environment index (E-index).

The E-index forms part of the regular reporting by the mills to corporate management and the board. In addition to being a performance reporting tool it allows us to:

- establish and review mill specific targets
- identify and target areas for additional investment
- demonstrate the environmental improvements derived from process changes or investments.

Mill performance is measured in the index against a standard which should be attainable with the use of best available technique (BAT) or best practice (as described in the European Union IPPC reference document). An index value of 1.0 or less than 1.0 indicates that the mill in question has an environmental standard which satisfies the ambitious levels which can be attained with BAT or best practice. The attainment of BAT levels of performance is mill specific and is a function of age, technology, investment history and operational performance.

The environmental index for the whole company is calculated as an average of each mill's index score weighted by production volumes.

Due to the economic conditions which existed in 2009 most mills took market-based down time of paper machines, leading to suboptimal production conditions. The suboptimal production conditions lead to the use of more energy and water per tonne of product than originally planned. This is the main reason why the company target for 2009 was not reached. The sale of our Chinese mills also influenced the E-index result negatively. Six mills achieved their own mill based E-index targets and seven mills achieved a score of 1.0 or less.

The table below shows the targets set in 2009 and 2010 for the various parameters included in the E-index, as well as the results achieved in 2007 and 2008. These figures represent a production weighted average for all mills. The target figure presented for 2010 attempts to take account of expected market conditions and production levels. These are likely to remain below 2007 and 2008 levels. Despite uncertain market conditions, it is still considered possible to improve on a number of parameters.

Main figures for wholly-owned mills in 2009

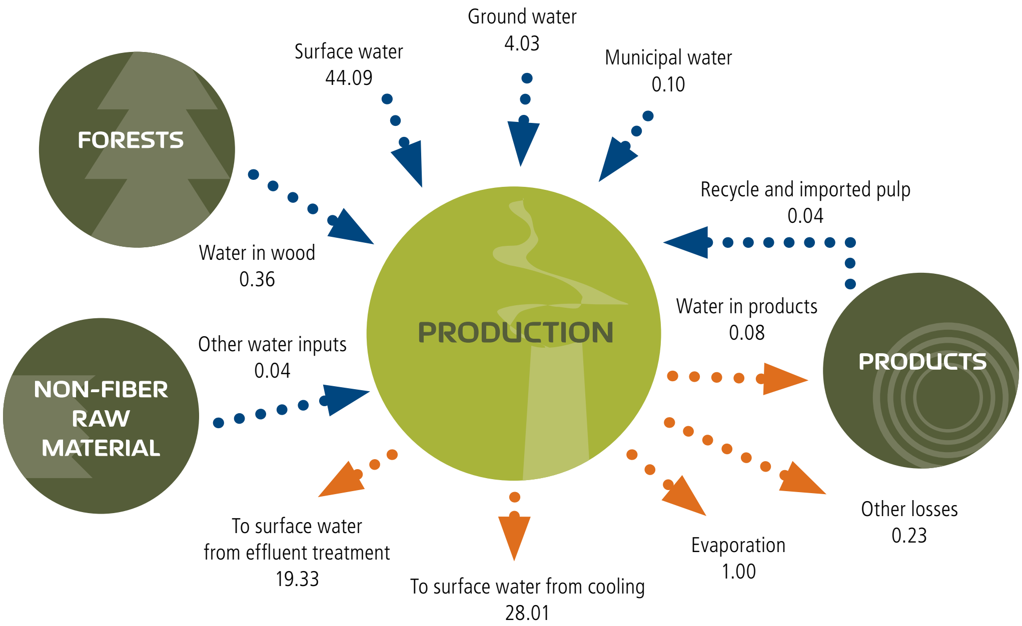
Consumption of raw materials	
Roundwood	3 568 000 m^3
Sawmill chips	1 588 000 m^3
Recovered paper	1 395 000 tonne
Purchased pulp	177 000 tonne
Inorganic fillers	455 000 tonne
Energy	
Electricity	8 300 GWh
Heat	6 300 GWh
Discharges to water	
Discharged process water	69 mill m^3
Organic material (COD)	20 700 tonne
Suspended solids (TSS)	2 280 tonne
Phosphorus (Tot-P)	45 tonne
Emissions to air	
CO_2 equivalents (direct)	698 000 tonne
SO_2	560 tonne
Production waste	
Sludge (dry)	399 000 tonne
Bark	138 000 tonne
Other	45 000 tonne
Products	
Newsprint grades	2 566 000 tonne
Magazine paper	1 105 000 tonne

Environmental Index		Achieved 2007	Achieved 2008	Achieved 2009*	Target 2009	Target 2010
Discharged process water	(m^3/tonne)	17.0	17.0	19.3	16.8	18.0
COD	(kg/tonne)	6.59	5.56	5.37	4.95	4.56
Suspended solids	(kg/tonne)	0.61	0.65	0.62	0.58	0.52
Nitrogen oxides	(g/GJ)	124	96	93	103	98
Waste to landfill	(kg/tonne)	18.5	21.1	20.4	21.1	19.3
Total energy consumption	(GJ/tonne)	11.3	12.1	12.5	11.9	12.6
Environmental Index		**1.11**	**1.11**	**1.15**	**1.10**	**1.09**

*2009 Results presented exclude the Chinese mills that were divested in 2009.

THE NORSKE SKOG WATER PROFILE

(GLOBAL AVERAGE WATER USE m^3/TONNE OF PAPER)



The figure presents the water use profile of Norske Skog. This profile has been calculated by examining the major inputs and outputs of water in the manufacturing process. The data presented is a combination of all thirteen mills and represents a 'company average'.

WATER SUPPLY

The majority of fresh water which enters Norske Skog mills (90 per cent) originates from surface water sources. A further eight per cent is supplied from ground water supplies and a relatively small amount comes from municipal water supplies.

Water also enters the manufacturing process through the raw materials which are purchased. Fibre based raw materials (wood, woodchips, recycled fibre and purchased pulp) contribute approximately one per cent of water inputs. Non fibre raw materials (such as chemicals and steam) make up the balance.

WATER USE

The majority of water which enters our mills (58 per cent) is "non-contact". It is used to cool the machinery and equipment performing electricity or steam generation and/or pulp and paper manufacturing activities.

Depending upon the mill, non-contact cooling water may be

- reused as 'make up' water to supply process water needs;
- combined with process effluents prior to effluent treatment and discharged with process effluent as a combined outfall;
- combined with process effluent after effluent treatment and discharged as a combined outfall; or
- discharged as a separate non-contact cooling water discharge.

Water which enters the pulp and papermaking processes ("process" water) makes up approximately 42 per cent of the total volume imported into our manufacturing sites.

Most mill effluents are discharged to river and lake systems following treatment to the quality levels required by the local authorities and/or national or regional standards. No effluent is directly injected into groundwater aquifers.

Not all of the process water used in papermaking is returned to rivers and lake systems. Approximately two per cent is returned to the atmosphere as water vapour or is retained in the products we supply to customers.

Some of our mills also extend their involvement in the water cycle by reusing treated effluent for the irrigation of trees and crops.

WATER MANAGEMENT

In many parts of the world, water is a scarce resource. Contrary to climate change which is a global challenge, the management of water is a regional or local issue. The pulp and paper industry uses large amounts of water, but the industry does not consume all this water. It can rather be regarded as a loan of water which is then returned to the water cycle. Usually most of the water taken into the mill is returned to the waterways after treatment to fulfil the local quality requirements for water discharges.

Water is used in many ways within the pulp and papermaking processes including the separation, conveyance and processing of pulp, cooling of equipment, dilution or addition of process chemicals and generation of steam.

Water management has been and continues to be a focus within all Norske Skog mills. As part of continuous improvement processes at the operational level, Norske Skog mills set and are measured against water use targets. The ongoing reduction of water use has been achieved by a continuous focus on water use throughout the mills on daily operations, maintenance practices and water efficient design when installing new equipment.

The water management philosophy is based on:

- The mills using counter current water design and water is recycled many times
- Operational control – targets, measurement & monitoring, review of performance
- Investment strategies
- Maintenance
- Education and training of employees

//From Norske Skog Saugbrugs

TRANSPORT

Our aim is to reduce transport related greenhouse gas emissions through optimisation of logistics and cooperation with our transport suppliers

TRANSPORT OF RAW MATERIALS

A number of different methods are used to deliver raw materials to our production sites, with considerable local variation. At a company level, trucks dominate the delivery method, accounting for more than 83 per cent of inwards transport in 2009 (up six per cent from 2008). Ship and train deliveries accounted for eight per cent and nine per cent respectively. The relative increase in truck transport is due to the sale of our Chinese mills. There was little relative change in transport means in the other regions.

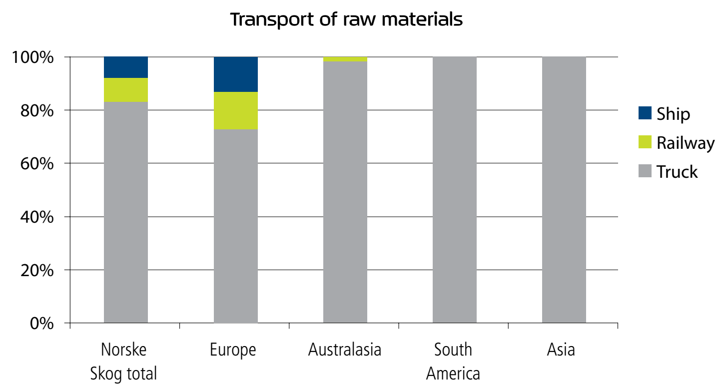
TRANSPORT OF PRODUCTS

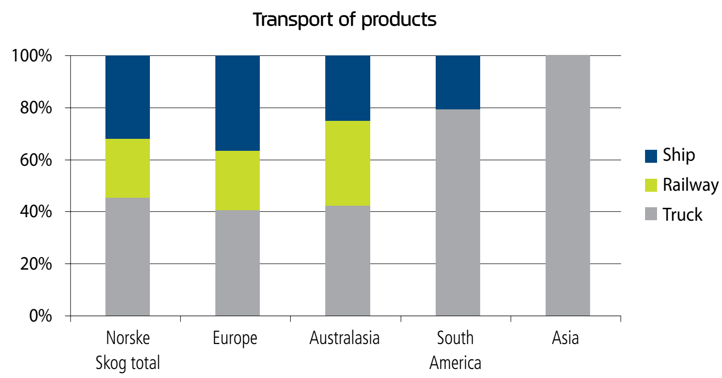
In 2009 we transported 3.7 million tonnes of paper products to our customers. The 'balance' of distribution methods used to transport our finished products differs from the supply of raw materials.

At a company level, there was little relative change in transport means compared to 2008.

Truck transport continues to be the dominant distribution method with 45 per cent of our finished products using this method. Rail and ship transportation, 23 and 32 per cent respectively, are also important methods of moving our products to the customer.

At a regional level, there was an increase in the use of ships and trucks and corresponding reductions in rail transportation in Europe. In South America the use of ship transportation increased with a corresponding reduction in truck transportation. In Australasia an increased volume of products were sent by rail transport with a corresponding reduction in the use of ship transportation when compared to 2008. As a result of the sale of our Chinese mills the transportation of finished products in Asia is now only carried out by truck.

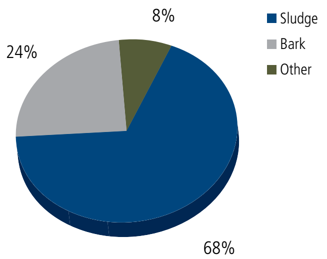




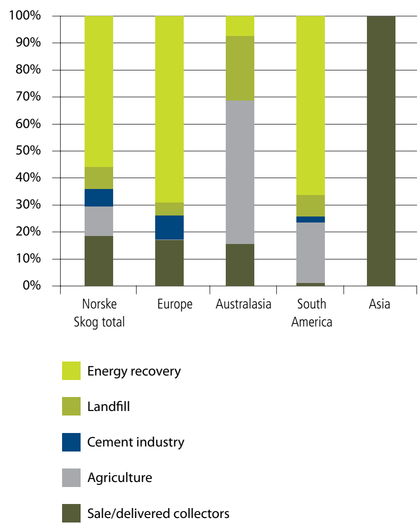
EMISSIONS, DISCHARGES AND WASTE

We reduced our emissions per tonne of paper of organic material and suspendid solids in 2009. The amount of production waste was reduced by 67 000 tonnes.

Total production waste generated by Norske Skog mills 2009



Disposal of mill waste in 2009



The manufacture of pulp and paper requires the input of raw materials and energy. The Norske Skog environmental policy and good business practices demand that we make efficient use of these inputs. However, not everything that is brought into the manufacturing process is converted to pulp or paper – waste and a number of emissions and discharges are generated.

AIR EMISSIONS AND SOLID RESIDUES

Air emissions occur primarily from energy generation processes, and the majority of solid wastes arise from the processing of fibre inputs (wood or recovered paper) and from the treatment of effluent (fibre and biological solids).

Most of our mills have their own boilers or incinerators for producing thermal energy (heat) from these solid residues. Fossil fuels in the form of natural gas, oil and coal may also be used. The main air emission loads associated with these activities include carbon dioxide, particulates, sulphur dioxide and nitrogen oxides. A number of technologies are used to reduce and control these discharges. Ash residues are produced as a result of the combustion processes involving solid fuels.

The total quantity of production waste generated by the company in 2009 was 582 000 dry tonnes. This is a reduction of about 67 000 tonnes for our present mills compared to 2008. In addition 182 000 tonnes of ash from combustion was generated.

The residues from the production processes are used or disposed of in a number of ways. Where possible, process residues are used to generate energy for the pulp and paper manu-

//Norske Skog makes a valuable effort for the local and global enviroment

facturing process. Other residues, for example ash, are recycled in concrete or brick making, or road construction. Agricultural re-use is also an option for some ash and organic materials (11 per cent in 2009). Approximately eight per cent of the production residues were deposited in landfills in 2009 compared with seven per cent in 2008.

Our aim is to continuously reduce the amount of hazardous waste associated with our production processes. Hazardous waste made up 0.1 per cent of the production wastes generated in 2009. This was a reduction of 15 per cent compared to 2008. About 70 per cent of the hazardous waste is waste oil. The hazardous waste is disposed of or recycled in accordance with national regulations, generally via government authorised collection systems.

WATER DISCHARGES

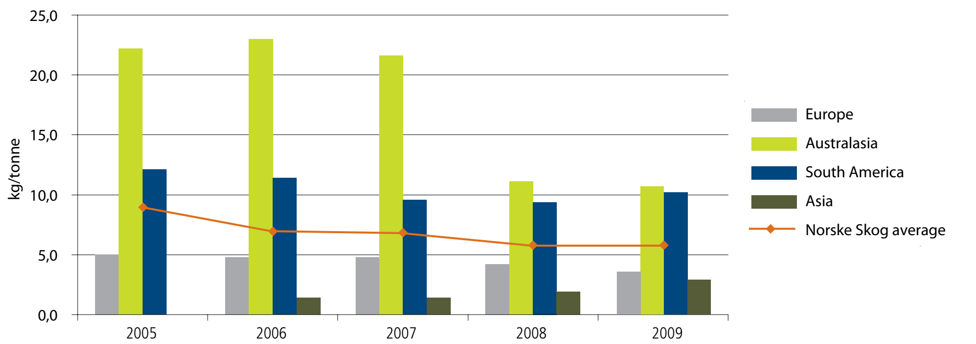
Water is used in a number of applications in the pulp and paper-making processes. It is primarily used to move fibre through the production process, but is also used to cool equipment and to generate steam. It is generally used and recovered multiple times through the pulp and paper-making processes before finally being discharged to a number of treatment stages. These treatment stages remove solid particles as well as dissolved organic material, making the water suitable for return to the natural environment.

In the last five years, we have continually reduced our water use and improved effluent quality. In 2009 the water use per tonne increased compared to 2008. This is mainly due to sub-optimal production conditions of paper machines as a result of market based down time. The sale of our Chinese mills also influenced the result negatively. However both the discharge of dissolved organic material and suspended matter per tonne of paper were reduced by 3.5 and 4.5 per cent respectively.

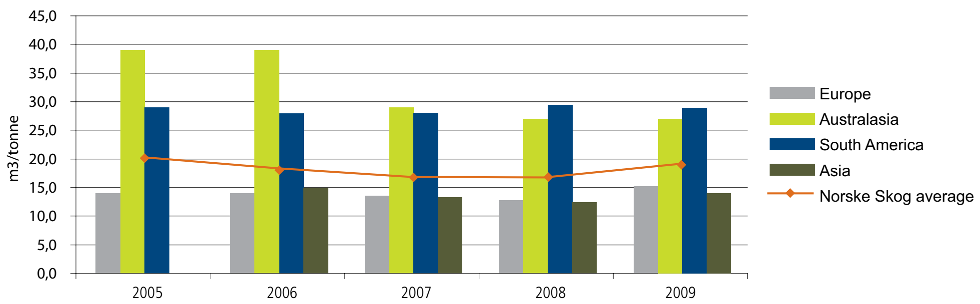
Norske Skog does not use chlorine containing bleaching chemicals in any of our mills. Chlorinated organic compounds are therefore not created and AOX is not included in our emission reporting.

During 2009, a number of minor permit limit exceedences relating to discharged water quality were reported to the authorities by the Pisa, Boyer and Follum mills. The Albury mill had permit limit exceedences related to emissions of particulates from combustion and heavy materials in sludge.

Trends in discharges of organic substances (COD) per tonne for period 2005-2009



Trends in discharges of wastewater per tonne for period 2005-2009



ENVIRONMENT-RELATED INVESTMENTS

Environmental investments totalling NOK 223 million were made at our mills in 2009. This is an increase of 36 per cent compared to investments in 2008.

Most of this spending went towards investments in equipment for increasing the filler content in paper products at Norske Skog Skogn and in the softwood conversion project at the Norske Skog Boyer mill. Measures to save energy and treat waste also received significant funding.

The presentation of environment related investments often only covers the expenditure side of the equation. While some investments are made to meet changes in regulations, a large proportion of investments are also made to provide financial or other business benefits. For example, investments in new equipment or technology which reduce water use will also reduce energy use through reductions in the volumes of water pumped, heated or treated. Investments in solid waste handling systems are often done to improve the suitability of the waste for combustion and heat recovery. Improvements in chemical handling often have an improved health and safety dimension.

The filler project at the Norske Skog Skogn mill is a perfect example of investing for multiple benefits. The project will result in an expansion of the mill's product range, thereby maintaining its financial competitiveness, reducing its energy requirement by about 17 per cent and reducing its greenhouse gas emissions. The project will also increase the use of recovered paper and reduce emissions to the receiving water. The total project investment is NOK 330 million and the investment in 2009 was NOK 89 million.

Norske Skog Saugbrugs and Norske Skog Parenco invested NOK 14 and NOK 11 million in energy saving projects related to steam production. A number of other mills implemented smaller energy saving projects.

Most mills implemented a number of smaller environmental related projects as part of their continuous improvement programs.

ENVIRONMENT-RELATED OPERATING COSTS

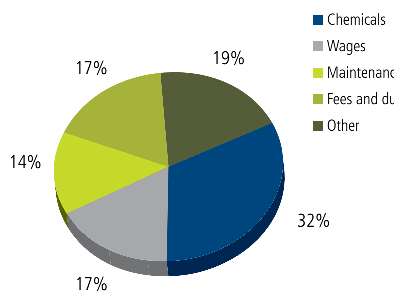
Our environment-related operating costs totalled NOK 293 million in 2009, corresponding to approximately NOK 79 per tonne of product. The cost per tonne of product increased by 20 per cent compared to 2008 costs. The cost of chemicals in treatment plants and sludge dewatering accounted for 32 per cent of this spending, while payroll costs and maintenance were responsible for 17 and 14 percent respectively. Government taxes and various other charges relating to operating and monitoring treatment plants and waste management accounted for the remainder.

Environment-related costs include environmental investments and environment-related operating costs. Costs shown are based on best estimates, and on spending which we believe has primarily been made to achieve environmental improvements.

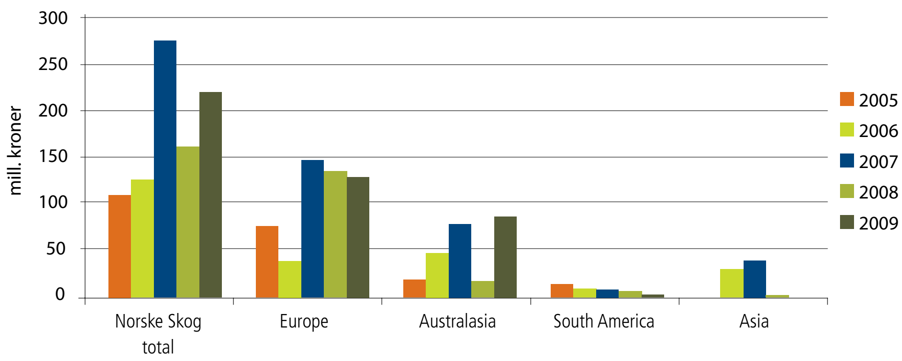
Environmental investments are defined as costs relating to the installation of treatment plants and waste handling equipment, measures to reduce noise, energy saving, environmental monitoring equipment and environment-related rehabilitation.

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

Environment-related operating costs, by type of cost, 2009



Environment-related investments



MANY ENVIRONMENTAL BENEFITS FLOW FROM BOYER CONVERSION PROJECT

The Boyer mill in Tasmania has converted totally to softwood plantation fibre and is no longer using native timber.

After sixty years of using the local eucalypt resource, this change has generated a multitude of benefits and cements Boyer's position as a sustainable supplier of paper grades.

The sustainability benefits include a dramatic change in resource utilisation with the fibre inputs now 100 per cent plantation softwood together with reduced emissions:

- 15 per cent reduction in total CO_2 emissions
- 25 per cent reduction in effluent volume per tonne of paper
- 20 per cent reduction in solid waste to landfill
- 60 per cent reduction in BOD emission loading

The AUD 50 million Softwood Conversion Project involved the conversion of the re-growth eucalypt hardwood cold caustic soda pulping process to a softwood thermo mechanical pulp process.

Innovation was key in ensuring the project achieved it's objectives at minimum capital cost. Existing facilities were reused, the project financing methods were a company first and the entire initiative was characterised by a high level of key stakeholder involvement and support.

Process simplification has been a priority with the number of pulping processes halved. This in turn has helped deliver the step change improvement in environmental capability that assists the achievement of Best Available Technology (BAT) performance levels.

THE INITIATIVE WAS WELCOMED BY ENVIRONMENTAL GROUPS:

Greens MP Tim Morris, said in a press release:.

"The Greens welcome the softwood conversion project at Boyer which improves the mills' competitive position, reduces effluent volume by 25 per cent per tonne of paper, reduces CO_2 emissions and also means that there will no longer be any native forest used in newspaper manufacture in Tasmania," said Mr Morris.

"Just as the Greens encouraged the Boyer mill to end the use of old growth wood over 20 years ago, we have done the same with ending the use of native forest wood since then and are very pleased to see this come to reality today."

Environment Tasmania and the Wilderness Society also congratulated Norske Skog on upgrades to its Boyer pulp mill

"We welcome the fact that Norske Skog will no longer use Tasmania's precious native forests to create pulp," said Phill Pullinger of Environment Tasmania. " Norske Skog's leadership sets the direction for forest policy and management - politicians and other timber businesses in our state should take notice."

"For the last twenty years, owners of the Boyer pulp mill have been consistently improving its operations," said Paul Oosting, pulp mill and corporate campaigner for the Wilderness Society. "This demonstrates that we can have a sustainable industry based on the smart use of existing plantation resources without the need to destroy our ancient native forests," concluded Mr Oosting.

First chips from the new woodmill at Norske Skog Boyer

//AUDITOR'S STATEMENT

TO THE MANAGEMENT OF NORSKE SKOG

We have reviewed the environmental information presented in Norske Skog's 2009 annual report, pages 96 – 113 ("the Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

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

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

CONCLUSIONS

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

- The environmental aspects presented in the Report comprise the most significant ones at corporate level.
- Norske Skog has applied procedures, as summarised on page 110, for the purpose of collecting, compiling and validating environmental data from its reporting units for inclusion in the Report.
- The aggregated information accumulated as a result of the procedures noted above is consistent with the data reported from reporting units and appropriately reflected in the Report.
- The environmental information for 2009 reported from a sample of two reporting units visited (Norske Skog Follum and Norske Skog Parenco) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
- Norske Skog applies a reporting practice for its environmental reporting aligned with the GRI reporting principles. The GRI Index referred to on page 110 in the Report appropriately reflects where relevant information on each of the elements and performance indicators of the GRI Sustainability Reporting Guidelines is to be found within the Norske Skog Annual Report 2009. The UN Global Compact table referred to on page 110, appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2009.

Oslo, 3 March, 2010
Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised Public Accountant
Corporate Responsibility Services

ENVIRONMENT AND CORPORATE RESPONSIBILITY REPORTING

The environment report contains information which Norske Skog believes covers the material environmental aspects of the value chain of the company's activities. Environmental data for 2009 includes wholly owned paper mills which were part of the group as of 31 December 2009. Mills sold in 2009 are not included in the figures for 2009, but they are represented in the historical data unless otherwise stated. Environmental data has been collected from the mills using established reporting routines. These include monthly standardised reporting for the key environmental data as well as a standardised collection of supplementary information on an annual basis. The monthly reporting includes production, consumption of raw materials, energy consumption, emissions and discharges and waste. Data from this reporting is collated by the environment manager on the group level in standardised monthly reports to the corporate management and to the board quarterly. Basis and methodology for the reporting on greenhouse gas emissions and the Environmental Index is described on pages 101 and 103 respectively. The figures in the environmental report are collated and processed with a view towards an as uniform and practical presentation of data as possible. Although great emphasis is being placed on ensuring completeness and correctness, there are uncertainties in relation to some of the figures.

In order to maintain open communication on environmental matters, we want our environmental report to be as correct as possible and hold the highest quality possible. The environmental report has therefore, over a number of years, been audited by the accountancy firm Deloitte. It is our belief that such an audit raises the credibility of the report. In addition, the audit gives us, internally in Norske Skog, greater surety that the data and statements in the environmental report are based on information which has been collected and processed systematically, and that the necessary documentation is available.

Norske Skog also supports the work to develop a global standard for reporting of sustainable development. We therefore use the Global Reporting Initiative's (GRI) guidelines for reporting relating to sustainability as a tool in our work to report environmental and corporate responsibility. Our reporting practice is, in our view, for all practical purposes in line with the GRI reporting routines. On our website, (www.norskeskog.com/gri.aspx), there is a GRI table containing references to where in the annual report relevant information about the various elements and key indicators in GRI can be found. In our opinion, our reporting for 2009 meets with the Level B requirements in accordance with the guidelines.

Norske Skog is committed to contribute to sustainable development. We have signed the UN Global Compact , are members of Global Compact Nordic Network (GCNN), where participants from Denmark, Finland, Norway and Sweden discuss common challenges and the implementation of the ten principles in the UN Global Compact. There is a UN Global Compact table, with reference to where in the annual report relevant information about the ten principles can be found, on our website (www.norskeskog.com/globalcompact.aspx.

MILL FIGURES 2009

		Bruck	Follum	Golbey	Parenco	Saugbrugs	Skogn
Production							
Paper	1 000 tonnes	339 879	205 641	490 437	265 982	438 016	436 512
Consumption							
Roundwood	1 000 m^3	142	368	152	25	569	490
Sawmill chips	1 000 m^3	0	59	260	91	74	126
Recovered paper	1 000 tonnes	226	0	424	282	0	193
Purchased pulp	1 000 tonnes	23	4	0	0	51	4
Pigments and fillers	1 000 tonnes	84	44	10	11	148	16
Electric power	MWh/tonne	1.15	2.97	1.7	1.49	2.85	2.42
Electric power	GWh	392	610	834	395	1250	1056
Thermal energy [1]	GJ/tonne	4.87	6.95	5.41	5.49	5.73	6
Thermal energy [1]	TJ	1 655	1 492	2 653	1 460	2 510	2 619
Discharge to water							
Water consumption	m3/tonne	13.5	18.8	10.6	13.2	19	17.1
Water consumption	1000 m^3	4 600	3 700	5 200	3 500	8 300	7 500
Organic material (COD)	kg/tonne	3.7	6.6	2	3.2	4.5	2.9
Organic material (COD)	tonnes	1 260	1 360	980	850	1 970	1 270
Suspended solids (SS)	kg/tonne	0.3	0.7	0.1	0.1	0.3	0.3
Suspended solids (SS)	1000 tonnes	109	152	54	29	149	148
Phosphorus (tot-P)	g/tonne	3.1	11.4	15.1	14.6	8.4	17.9
Phosphorus (tot-P)	tonnes	1.1	2.3	7.4	3.9	3.7	7.8
Air emissions							
CO_2-e (fossil) (dir)	tonne/tonne	0.59	0.01	0.05	0.55	0.01	0.01
CO_2-e (fossil) (indirect)	tonne/tonne	0.03	0.02	0.13	0.3	0.02	0.02
CO_2-e (fossil) (total)	1000 tonnes	210	6	87	225	15	10
Waste [2]							
Waste to landfill	kg/tonne	0.6	9.6	5.8	0	13.8	33.6
Waste to landfill	tonnes	190	1 980	2 840	0	6 080	14 670
Management systems							
Environmental MS [3]	Certificate	ISO	ISO	ISO	ISO	ISO	ISO
CoC-systems	Certificate	PEFC	PEFC/FSC	PEFC	PEFC	PEFC	PEFC/FSC
Forestry certification [4]							
Certified (PEFC or FSC)	%	92	90	62	52	92	84

[1] Includes heat recovered from the production process.
[2] Production waste (organic and inorganic).
[3] ISO = ISO 14001 EMAS = EU Eco management and audit scheme.
[4] Of the quantity roundwood + sawmill chips + purchased pulp.

Walsum	Albury	Boyer	Tasman	Bio Bio	Pisa	Singburi
332 619	284 928	228 766	295 267	117 653	150 188	102 493
0	434	516	201	289	383	0
365	43	33	479	0	59	0
0	142	0	0	0	0	129
54	0	23	3	9	8	0
129	0	6	8	1	0	0
1.99	2.53	2.6	3.3	2.33	3.06	0.9
661	721	594	974	275	460	92
6.7	6.87	7.95	6.87	4.24	8.02	4.58
2 229	1 957	1 819	2 028	499	1 205	469
15.3	8.5	32.11	49.8	33	25.6	14,3
5 100	2 400	7 300	14 700	3 900	3 900	1 500
4.2	2.3	24.1	8.3	13	7.9	2.9
1 400	660	5 500	2 450	1 530	1 190	300
0.2	0.1	3.4	2	1.3	0.1	0.18
63	29	778	588	153	9	18
6.4	1.8	37.5	n/a	34	17.7	7.2
2.1	0.5	8.6	n/a	4	2.7	0.7
0.06	0.26	0.82	0.02	0.01	0.01	0.33
1.26	2.25	0.31	0.69	0.94	0.05	0.47
437	718	258	207	112	9	82
1.1	8.9	69.1	47.4	28.2	0	0
370	2 450	15 820	14 010	3 330	0	0
ISO/EMAS	ISO	ISO	ISO	ISO	ISO	ISO
PEFC	PEFC	PEFC	FSC	PEFC	FSC	
92	55	62	61	3	89	n/a

//From Norske Skog Follum

NORSKE SKOG'S CORPORATE SOCIAL RESPONSIBILITY

Norske Skog's vision is to become a leading global player in the production of paper. This is an ambitious vision. This is not just about making paper and money, it is about how we do that. This is why we formulate visions and set targets for a number of areas which are affected by Norske Skog's paper production.

We have chosen three core values which are meant to make it easier for us to achieve our vision in the daily work: Openness, honesty and cooperation. This annual reporting is just one of our many approaches to communicating with everyone with a vested interest in Norske Skog.

In order to govern our conduct, we have prepared general guidelines, global policies and ethical guidelines, for everyone who works in Norske Skog. This document does not answer every detail but explains what we believe is right and wrong and where our priorities lie. In addition, we have prepared a set of standards for the entire group which makes a more detailed description of the frameworks for Norske Skog's activities within certain areas such as information handling, how to handle the entertainment of customers and the giving and receiving of gifts. More information is available on our website www.norskeskog.com.

A company which wants to comply with one set of rules while operating in four continents, where different languages and cultures create barriers to cooperation and understanding, faces considerable challenges.

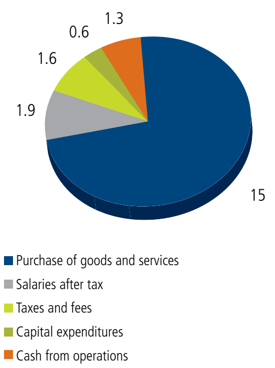
The purpose of general guidelines is to ensure that all employees understand what we expect from their conduct. These are not things one can simply adopt; they must be practiced and corrected, again and again.

CODE OF CONDUCT AND WHISTLEBLOWING CHANNEL

The first rule for all employees in Norske Skog is to abide by all national laws and regulations. Furthermore, all employees must stay within the bounds of Norske Skog's internal regulations, which in many cases are stricter than national rules. Norske Skog's Code of Conduct includes rules for handling sensitive information, both as regards the group's daily activities (price negotiations, etc.) and as regards Norske Skog's shares, which are listed on the Oslo Stock Exchange. Norske Skog's Code of Conduct provides further guidelines for how the group's employees should handle gifts and entertaining, potential conflicts of interests between employees, and sponsorship activities. Furthermore, there is a general ban on all forms of bribes or corruption.

Norske Skog actively follow up to ensure compliance with the framework adopted by the board through the code of conduct. This is primarily ensured through an open corporate culture where issues are discussed before they arise to avoid ending up in problematic situations. In addition, the group has established an international whistleblowing channel which makes it possible to blow the whistle (also anonymously) on potentially unethical conduct among the group's employees or representatives. The whistleblowing channel has been established in line with international standards for such systems, standards which aim to safeguard the interests of the whistleblower properly.

Distribution of sales revenue in Norske Skog, 2009 (NOK billion)



CONTRIBUTIONS AND DISTRIBUTION BETWEEN EMPLOYEES, OWNERS AND COMMUNITIES

Norske Skog has wide-ranging activities, creating income for many different parties. The most common approach is to consider the distribution of wealth between employees and owners, but the activities generate income for the community and other parties which far exceeds what the employees and owners receive.

The illustration shows that out of NOK 20.4 billion in sales revenue, almost NOK 15 billion was spent on various goods and services. In addition, NOK 0.6 billion was invested in production facilities. Taxes and fees from the employees' wages and tax on the company's earnings was NOK 1.6 billion. The employees received NOK 1.9 billion after tax. The operation generated NOK 1.3 billion in cash.

The calculation shows why large industrial companies are often mainstays of the local community. Should Norske Skog disappear from the economy, demand for NOK 15 billion in goods and services would also disappear. This means a lot to suppliers of goods and services such as wood and pulp, transport services, chemicals and energy, as well as contractors.

The impact for the public authorities is both the direct tax income of NOK 1.6 billion from employees and the earnings of Norske Skog, but also the tax income from all activities which Norske Skog's purchases generate.

The overall importance of Norske Skog for society as a whole is therefore huge.

HEALTH AND SAFETY 24/7 – TAKE CARE 24 HOURS

Health and safety is a 24/7 issue in Norske Skog. This mentality has yielded good results in 2009 as in earlier years. Good results which will be further developed into new activities, which will then improve the working environment. Our group programme, called Take Care 24 hours, is continuously being further developed at mill level to ensure adaptation to local requirements and needs.

The Take Care 24 hours programme will of course have to be adapted to different cultures, but shall always meet the requirements of our health and safety standards for global activities, says director of health and safety in Norske Skog, Jens Borge.

It is through the activities in the Take Care 24 hours programme that the company promotes the same attitudes and conduct, both during working hours and free time, for our employees and their families.

Our goal is a safe working environment where health and safety get equal attention in planning and in the daily operations of the company. All employees shall be involved in the improvement of their own, their colleagues', visitors' and sub-contractors' working environment.

The mills' activities and results are continuously monitored to find new adapted preventive measures which reduce risk and improve the working environment.

In 2009, Norske Skog had an absence due to illness rate of 4 per cent. This is a low figure with variations when comparing all the reporting units.

The H1 figure, lost-time injuries, was 1.9 (injury) per million working hours in 2009. The H2 frequency, total number of injuries with and without lost time, was 35 per million working hours in 2009. The risk factor based on analyses of all reported undesirable incidents also shows a clear decline the last years. Six of the mills had no lost-time injuries in 2009.

Several years of work to shift the focus from reactive indicators to pro-active initiatives have yielded good results which all employees have contributed to. We are, however, not satisfied with the results and have planned new activities and initiatives for the coming years.

PEOPLE IN FOCUS

Norske Skog's goal is to develop an organisation with business-oriented, international and highly competent people. We want to give our employees good opportunities for development in an environment that rewards achievements and hard work. Norske Skog emphasises that the best among us shall have the opportunity to develop as employees and individuals regardless of gender or nationality.

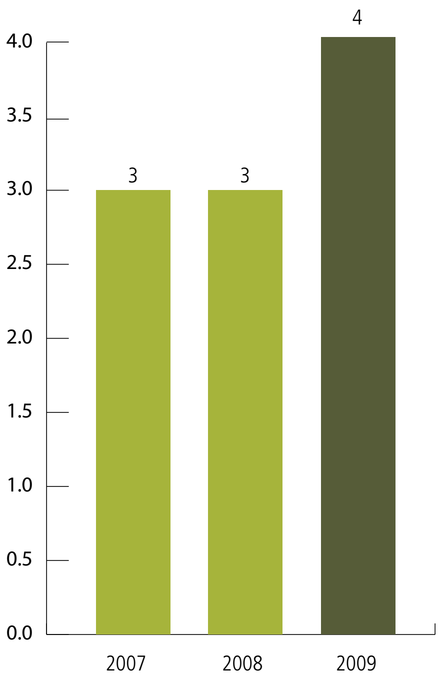
Our leaders have a special responsibility for developing and coaching the talents and, through visible leadership demonstrate what is expected from a leader in Norske Skog. This is encapsulated in Norske Skog's management principles.

OPENNESS, HONESTY AND COOPERATION

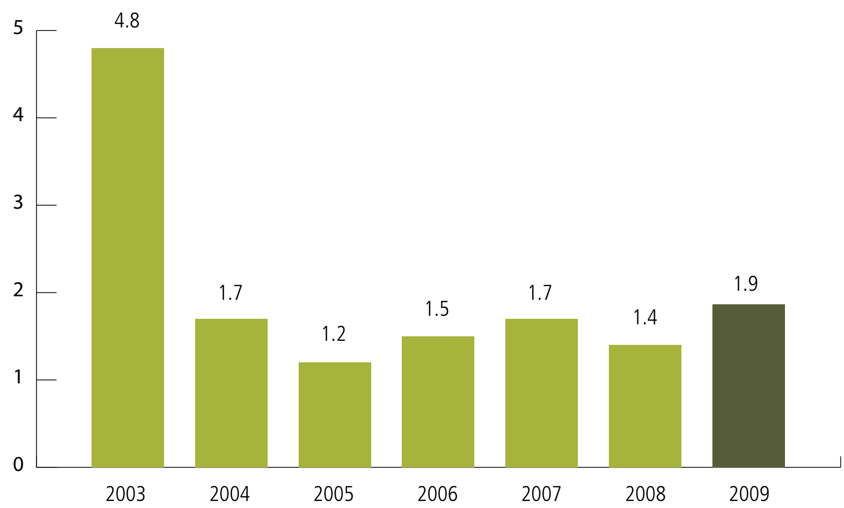
Norske Skog has an organisation which emphasises the value of cultural diversity; where it is considered unacceptable to discriminate on the basis of race, gender, religion, political beliefs, nationality, cultural background or similar factors. This applies to everyone we meet in our work with each other, customers, suppliers and other stakeholders.

Norske Skog is serious about employee participation and open co-determination. We have a comprehensive cooperation with the employees' representatives on various levels – departments, mills, countries and continents. We believe that, by involving our employees, we ensure good decision processes and a good basis for making decisions. This rationale supports our core values; openness, honesty and cooperation.

Absence rate developement (per cent)



Lost-time injuries developement (H1)
(Number of lost-time injuries per 1 million working hours)



GENDER EQUALITY

Norske Skog wants to facilitate an increase in the percentage of female employees in general and not least in leading positions.

The group belongs to a traditionally male-dominated industry sector with far more male than female employees. There is still just one female mill director among our 13 mills.

COOPERATION WITH THE EMPLOYEES

In accordance with the company's core values, Norske Skog emphasises close and positive cooperation with the employees, regardless of geography. A research report prepared by the Norwegian Institute of Applied Social Science (Fafo) in 2008 documents this. Norske Skog is also a company which explicitly emphasises the importance of open and positive cooperation with trade unions and employee representatives as part of its business philosophy. This has also been made a binding commitment through global agreements.

The Norwegian working life model is characterised by strong employee and employer organisations, close cooperation between these, and close cooperation between employees and management in the companies.

Norske Skog has signed the UN Global Compact, which includes guidelines for companies' responsibility as regards corruption, freedom of association, human rights, discrimination, the external environment and social development. Norske Skog has upped the commitment of the UN Global Compact by entering into a group agreement with ICEM (International Federation of Chemical, Energy, Mine and General Workers Union's) and The Norwegian United Federation of Trade Unions. This agreement was extended for another two years in 2009.

RESPONSIBILITY FOR THE SUPPLY CHAIN

Norske Skog assumes the responsibility for the input factors the company uses in its production satisfying the requirements we set in our own production. The control of the supply chain is an important factor in achieving recognition for the leading position we strive for among the world's paper producers.

Norske Skog purchased goods and services for almost NOK 15 billion in 2009. The requirements we set for our suppliers are therefore of great social importance. Norske Skog has its own policy for purchase of energy, timber and transport services. In addition, all purchases are subject to general guidelines and our environmental policy.

TIMBER

All timber purchased by Norske Skog shall be from sustainably managed forests. This requirement applies to all units, all over the world. This is a requirement with a basis in Norske Skog's environmental policy.

This means that Norske Skog only purchases timber certified through FSC or PEFC or corresponding schemes, or if there is a written guarantee that the forest is managed in line with national rules and regulations. Norske Skog does not accept illegally logged timber.

TRANSPORT

Transport is a very large and important part of Norske Skog's activities. Large amounts of raw materials – timber, chips, recovered paper, chemicals and energy - are transported to the mills and 5.4 million tonnes of paper are transported to the customers. The paper is often transported long distances. The choice of transport carrier is therefore of great environmental importance.

Norske Skog has policies for the choice of transport carrier:

- Always fully utilise the capacity of the chosen transport carrier,
- Look for efficient intermodal transport solutions (transferring from boat to rail to road),
- Minimise emissions and discharges when choosing the supplier,
- Look for vehicles with the most recent environmental standards,
- Use boats with environmentally friendly fuel and cleaning equipment,
- Use electric trains where they exist and are efficient,

The rules apply to all business units in Norske Skog and the company will work to ensure that all transport suppliers employ the same environmental standards as Norske Skog.

ENERGY

Norske Skog's energy policy sets high standards for consumption, production and purchase of energy (electricity and heating) in the company's operations. High energy utilisation and ambitious environmental goals reflect the fact that energy is a scarce resource and that energy production can harm the environment.

Energy is part of the mills' recognised management systems and improvements will be continuously assessed and implemented to the extent technically and financially acceptable.

Norske Skog has set the following goals for consumption, production and purchase of energy:

- High energy utilisation in the production is the basic goal,
- The mills will be continuously improved to minimise energy consumption and emissions,
- Each mill shall have its own goals for reducing energy consumption with associated annual plans,
- The responsibility for reducing consumption and emissions must be clearly defined and the employees must be given training so that they know and understand the energy policy and the resulting expectations,
- Organic waste from the production processes will primarily be used in energy production, and using renewable energy is a priority,
- The objective is to produce energy in the most efficient manner,
- When purchasing energy, priority shall be given to energy produced with the lowest possible emissions of greenhouse gases, given that the terms are commercially acceptable.

YOUNG READER

The cooperation between the World Association of Newspapers (WAN) and Norske Skog reached its seventh year in 2009, and the program has achieved noteworthy results. The number of participating students, teachers, schools and nations is rising steadily, as is the interest and commitment from newspaper publishers all over the world. Young Reader activities have been initiated in several new countries in 2009.

SOCIAL OBJECTIVES

- Encourage children to become good citizens, improve their reading skills and stimulate their interest in newspaper reading.
- Contribute to promote freedom of expression and the development of new democracies.
- Strenghten the educational role of newspapers.

COMMERCIAL GOALS

- Further sales activities through increased goodwill and building relations
- Strenghten the reputation of the company
- Contribute to ensure that the newspapers have a customer base in the new generations
- Build pride and commitment internally

KEY PEOPLE FIGURES - BY END 2009

	Number of employees (FTE) End of December 2009							Male and femal employees in % of ord. employees				
Mill - Unit	Ordinary	Temporary	Other employees	Focus	Total	Average age of ord. employees	Average seniority of ord. employees	Male	Female	Turnover of people in % (incl. retirement)	% of employees covered by trade union collective agreements	Average training hours for training/development per. employee
Albury	218	21	5	1	245	46	15	92	8	3	70	21
Boyer	305	26	24	0	355	45	20	91	9	12	73	38
New Zealand	323	23	15	0	361	48	20	91	9	8	59	68
Australia non mills	24	0	3	0	27	44	13	75	25	4	0	8
Singapore - NSPA	8	0	1	0	9	44	2	33	67	47	0	40
Australasia total	**878**	**70**	**48**	**1**	**997**	**46**	**18**	**90**	**10**	**9**	**64**	**44**
BioBio	228	10	0	1	239	44	17	92	8	4	71	54
Pisa (incl Curitiba)	304	13	0	0	317	41	12	91	9	0	95	45
South America total	**532**	**23**	**0**	**1**	**556**	**43**	**14**	**91**	**9**	**2**	**85**	**49**
Follum	378	18	0	2	398	46	21	88	12	13	87	59
Saugbrugs	579	50	0	16	645	46	22	92	8	7	91	43
Skogn	465	27	0	1	493	48	22	95	5	7	95	55
Corporate + Corp.Functions + Union	110	1	37	2	150	45	11	70	30	19	0	33
Norway total	**1 531**	**96**	**37**	**21**	**1 686**	**47**	**21**	**90**	**10**	**9**	**85**	**50**
Bruck	441	45	3	10	499	39	17	91	9	4	100	42
Parec	22	0	0	0	22	48	21	100	0	0	100	6
Golbey	421	14	10	3	448	43	14	88	12	3	100	48
Parenco	418	5	2	3	428	47	21	97	3	3	99	10
Walsum	506	29	1	1	537	49	24	94	6	6	92	24
Sales offices Europe +US+Nordic	113	2	0	0	115	45	10	40	60	5	14	38
Antwerp (BSCE, LOG)	34	15	1	0	50	39	6	33	67	3	0	38
Europe total	**1 954**	**110**	**17**	**17**	**2 098**	**47**	**19**	**89**	**12**	**4**	**91**	**31**
Reparco (incl. US, UK, Antw.,China)	71	13	0	0	84	42	8	84	16	2		22
Europe total Incl. Reparco	**2 025**	**123**	**17**	**17**	**2 182**	**45**	**18**	**88**	**12**	**4**	**88**	**31**
Thailand - Singburi/Bangkok	245	2	0	0	247	42	13	74	26	1	77	41
Asia total	**245**	**2**	**0**	**0**	**247**	**42**	**13**	**74**	**26**	**1**	**77**	**41**
Totals	**5 211**	**314**	**103**	**40**	**5 668**	**45**	**18**	**89**	**11**	**6**	**82**	**41**

FINANCIAL CALENDAR

22 APRIL 2010: GENERAL MEETING 2010

6 MAY 2010: FIRST QUARTER OF 2010

5 AUGUST 2010: SECOND QUARTER OF 2010

4 NOVEMBER 2010: THIRD QUARTER OF 2010

3 FEBRUARY 2011: FOURTH QUARTER OF 2010

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