ANNUAL REPORT

2011

NORSKE SKOG

NORWEGIAN PAPER TRADITION

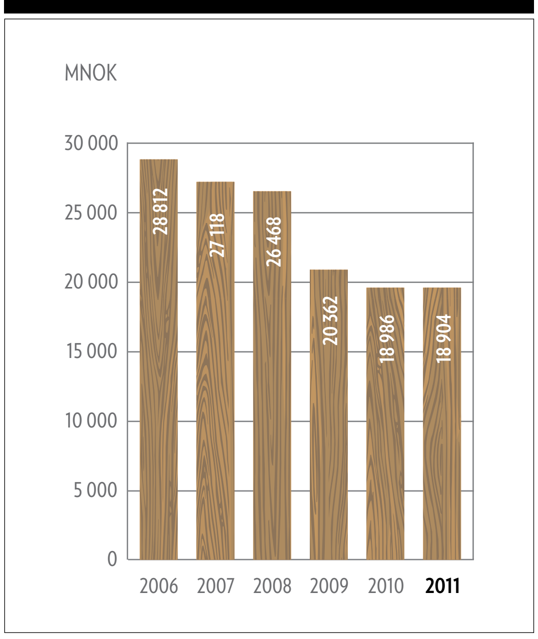
Norske Skog

KEY FIGURES

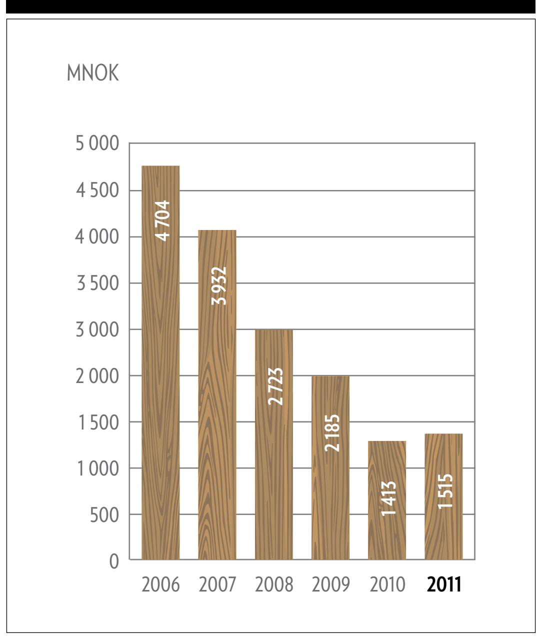
	DEFINITIONS	2011	2010	2009	2008	2007	2006
INCOME STATEMENT							
Operating revenue		18 904	18 986	20 362	26 468	27 118	28 812
Gross operating earnings	1	1 515	1 413	2 185	2 723	3 932	4 704
Operating earnings		-2 701	-2 379	-1 325	-1 407	677	-2 527
Net profit/loss for the year		-2 545	-2 469	-1 400	-2 765	-683	-3 017
Earnings per share (NOK)		-13.36	-12.97	-6.36	-14.33	-3.26	-14.84
CASH FLOW							
Net cash flow from operating activities		455	397	1 697	1 977	2 166	2 763
Net cash flow from investing activities		470	415	-587	2 289	-1 644	-498
Cash flow per share (NOK)		2.40	2.09	8.95	10.43	11.43	14.60
OPERATING MARGIN AND PROFITABILITY (%)							
Gross operating margin	2	8,0	7.4	10.7	10.3	14.5	16.3
Return on capital employed	3	-0,9	-3.1	-1.2	0.3	3.0	3.6
Return on equity	4	-28.9	-22.2	-10.9	-18.7	-4.0	-14.6
Return on assets	5	-8.7	-7.5	-3.1	-2.8	1.8	-4.7
PRODUCTION / DELIVERIES / CAPACITY UTILISATION							
Production (1 000 tonnes)		3 832	3 998	3 895	5 377	6 049	6 078
Deliveries (1 000 tonnes)		3 857	4 013	3 894	5 412	6 027	6 106
Production / capacity (%)		87	89	79	93	95	92

		31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
BALANCE SHEET							
Non-current assets		15 803	19 271	23 546	26 980	29 307	37 577
Current assets		6 171	10 027	9 609	18 211	13 953	7 653
Total assets		21 974	29 297	33 155	45 191	43 260	45 230
Equity		7 433	10 183	12 015	13 632	15 957	18 550
Net interest-bearing debt	6	7 863	8 889	9 595	14 047	16 408	17 320
Gearing (net interest-bearing debt / equity)	7	1.06	0.87	0.80	1.05	1.05	0.96

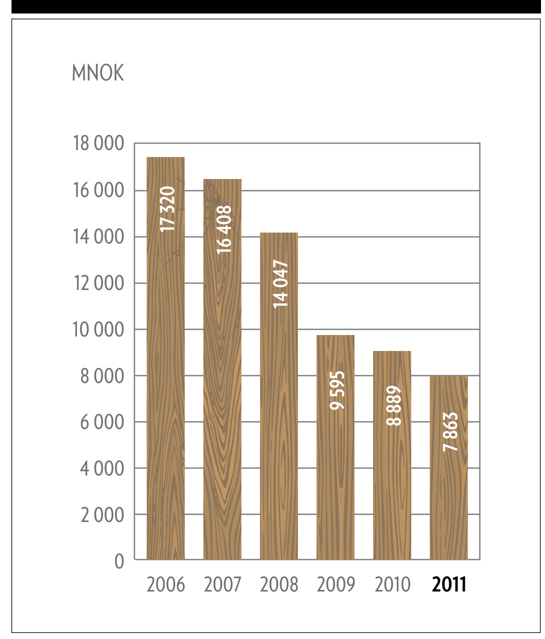
OPERATING REVENUE



GROSS OPERATING EARNINGS



NET INTEREST-BEARING DEBT



DEFINITIONS KEY FIGURES

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses + Other gains and losses + Impairments
2. Gross operating margin = Gross operating earnings : Operating revenue
3. Return on capital employed = Gross operating earnings after depreciation : Capital employed (average)
4. Return on equity = Net profit/loss for the year : Equity (average)
5. Return on total assets = Earnings before financial expenses : Total assets (average)
6. The calculation of net interest-bearing debt is presented in Note 11 in the annual financial statements for the group
7. Gearing = Net interest-bearing debt : Equity

THE WORLD OF NORSKE SKOG

PRODUCTION CAPACITY

TONNES PER BUSINESS UNIT 31.12.2011

	NEWSPRINT (INCL. IMPROVED NEWSPRINT)	SC (MAGAZINE PAPER)	LWC/MFC (MAGAZINE PAPER)	TOTAL
Norske Skog Skogn, Norway	560 000			560 000
Norske Skog Saugbrugs, Norway		545 000		545 000
Norske Skog Follum, Norway	150 000		140 000	290 000
Norske Skog Golbey, France	620 000			620 000
Norske Skog Bruck, Austria	125 000		280 000	405 000
Norske Skog Walsum, Germany			435 000	435 000
Norske Skog Parenco, The Netherlands	75 000	190 000		265 000
Total Europe	**1 530 000**	**735 000**	**855 000**	**3 120 000**
Norske Skog Albury, Australia	280 000			280 000
Norske Skog Boyer, Australia	270 000			270 000
Norske Skog Tasman, New Zealand	315 000			315 000
Sum Australia	**865 000**			**865 000**
Norske Skog Pisa, Brazil	185 000			185 000
Norske Skog Bio Bio, Chile	125 000			125 000
Total South America	**310 000**			**310 000**
Norske Skog Singburi, Thailand	130 000			130 000
Total Asia	**130 000**			**130 000**
Total capacity	**2 835 000**	**735 000**	**855 000**	**4 425 000**

Norske Skog's production capacity has been re-assessed during 2011.

NORSKE SKOG 2011

JANUARY

An agreement was reached to sell the Klosterøya property in Skien, Norway, to a consortium consisting of Conceptor Eiendomsutvikling and Bratsberg Gruppen.

FEBRUARY

A fire broke out at Norske Skog Saugbrugs in Halden, Norway. All production was halted, but was gradually resumed during the spring. There were no injuries to personnel.

Norske Skog presented a weak report for the fourth quarter 2010 and indicated a somewhat better result, but still unsatisfactory profitability, for 2011.

MARCH

Norske Skog and CellMark entered into a cooperation agreement in the United States, Canada and Mexico, and Norske Skog sold its sales company in the United States to CellMark.

APRIL

Maria Moræus Hanssen and Helge Leiro Baastad were appointed as new members of the corporate assembly. Finn Johnsson and Åse Aulie Michelet were appointed as new board members.
Eivind Reiten was reappointed as chair of the board and Tom Ruud as chair of the corporate assembly.

MAY

A forest area of 21,500 hectares in Brazil was sold to the Brazilian company CMNPAR Four Participacoes.

The report for the first quarter indicated a gradual improvement for newsprint in Europe as well as expectations that the operating result for 2011 would be somewhat improved despite continued high input prices

The shares of the energy company Enerpar-Energias do Paraná Ltda. were sold to SN Power Participacoes for NOK 410 million.

Norske Skog signed a new three-year bank facility of 140 million euros with DNB, SEB, Nordea and Citibank.

JUNE

The group's legal structure was reorganized, among other things putting the paper production operations at Skogn, Saugbrugs and Follum into newly-formed and wholly-owned subsidiaries of Norske Skogindustrier ASA.

Norske Skog issued a five-year NOK 150 million bond loan.

JULY

After the fire in February, Norske Skog Saugbrugs was again fully operational in July.

AUGUST

The quarterly report described a mixed second quarter. A refinancing process was completed, giving the group a more appropriated maturity profile, yet operations were still not satisfactory.

For the year as a whole, an improvement in underlying profitability was forecast.

OCTOBER

The Carbon Disclosure Project named Norske Skog Norway's leading company in terms of climate reporting as well as the fourth best in the Nordic region.

NOVEMBER

Norske Skog reported improved results for the third quarter. Expectations for improved underlying operations for all of 2011 were maintained.

A possible sale of Norske Skog Parenco in the Netherlands was reported.

DECEMBER

The corporate assembly decided to close down the production at Norske Skog Follum. The decision also meant that full operations at the mills in Skogn and Halden would be maintained.

CONTENTS

Design and layout: Design Container AS
Print: Color Print Norge AS
Paper: Norset 60 g/m² - Norske Skog
Photo: Carsten Dybevig, Erik Sandersen (p 6, 29, 71, 98, 118-119), Jens Borge (p 15, Thailand), black and white photos and p 9, 20, 45, 49 and 81 from Norske Skog archive.

CHALLENGES AND OPPORTUNITIES

2011 was a challenging year for Norske Skog. Long-term, structural changes in the paper industry interacted with macroeconomic uncertainty, especially in the eurozone. Norske Skog has faced the problems with determination, and we have made difficult, but necessary, choices. This lays the foundation for Norske Skog being a leading force in the future paper industry in Norway as well as internationally.

On a global basis the consumption of newsprint has declined moderately the last years, but the picture is mixed.

What the economists label emerging markets are also emerging when it comes to newspapers. Newspaper circulation in Asia has increased by 7 per cent from 2009 to 2010 and by 16 per cent during the last five years, according to numbers from the World Association of Newspapers and News Publishers. In Europe and North America, however, increased use of digital media in countries with stable populations and low economic growth has lead to substantially lower newspaper circulation. This proves that Norske Skog has challenges, but also that we have opportunities.

There has been an improvement in the price level for our products in 2011 compared to 2010, but at the same time the prices of our most important input factors have also been elevated, even if there was some levelling towards the end of the year. Pulp prices are now approaching the average level for the last 15 years, but all of our most important raw materials are far above their 15-year average prices. The effort to reduce fixed costs still has top priority.

Paper will, in the years ahead, live side by side with digital media. Nevertheless, we have to be prepared for substantial changes, as submarkets develop differently.

In a changing world, Norske Skog as a group must also adapt. In 2011 we took steps to reduce capacity in Europe, which is the part of Norske Skog's market where the trend has been weakest. We are concentrating our production at our most competitive mills. Meanwhile, we have followed up several initiatives started before 2011 to improve the competitive position of our production sites.

There will be demand for newsprint and magazine paper for a long time to come. The effectiveness of print advertising is, according to reputable market research, still superior to radio, TV and digital media. At the same time, paper is competitive from an environmental perspective, compared to digital media. A Swedish research report shows that the CO_2 emissions from a newspaper are comparable to the emissions generated when reading the same newspaper online.

We have completed a comprehensive internal reorganisation, making the group more flexible and agile. The organisation has proved that we are able to reach ambitious goals even without any help from the market, and that we are able to fulfill our social responsibility even during difficult times. We have completed a refinancing process, establishing a better maturity profile for our debt than when the year started. Although we have finished selling our non-core assets, we have continued to nearly reduce the interest-bearing debt of the group in 2011.

Norske Skog Saugbrugs was faced with a substantial challenge when a major fire halted production on 2 February. After changing substantial parts of the electrical equipment in the pulp mill, production was not ramped up to full capacity until the end of the second quarter. I would like to give special recognition to all the employees at Norske Skog Saugbrugs who answered this challenge in the best possible way.

Due to overcapacity in the market and limited competitiveness, production at Norske Skog Follum will be closed in 2012. Despite this sad message, I would like to thank the employees of Follum for having delivered quality products for generations. We will now try to establish new activities at Follum in cooperation with local authorities and businesses.

I would like to thank all employees of Norske Skog for their willingness and ability to stand tall in a turbulent market in recent years. The fighting spirit that the organisation has shown makes me proud – and it speaks well for future years.

FIVE MAIN PRIORITIES:

1 - Consolidation in Europe
2 - Improved profitability through adapting production to demand
3 - Improved competitiveness through reduction of fixed costs and more efficient use of raw materials
4 - Reduction of net debt ratio
5 - Increased diversification of the mills in Australasia

Sven Ombudstvedt
President and CEO

THE HISTORY OF NORSKE SKOG

Norske Skog was established in 1962, but several of our mills have been have been in operation much longer. Until around 1990, the company grew in Norway, acquiring businesses in paper production, paper pulp and wood-based construction materials.

Through the nineties, Norske Skog expanded internationally, first with the construction of a mill in France and later through acquisition of other newsprint and magazine paper companies all over the world. The activities within other paper grades, market pulp mass and construction materials were sold off.

In recent years, Norske Skog has seen weaker results due to surplus capacity and partly lower prices for finished products, while prices for input factors have been generally higher. As a result, it has been necessary to adapt capacity through shut-downs, comprehensive cost reductions and sale of assets to reduce debt.

Today, Norske Skog has 14 wholly and partly-owned mills in 11 countries and is one of the world's largest producers of publication paper to newspapers, magazines, periodicals and for advertising purposes. Norske Skog is listed on the Oslo Stock Exchange and had 5 100 employees at year-end 2011.

1962:
Norske Skog was established by Norwegian forest owners. The purpose was to exploit timber resources in central Norway, and a newsprint mill was built in Skogn, starting production in 1966.

1970-1990:
Expansion in Norway, within other paper industry, paper pulp and wood-based construction materials. Norske Skog merged with two other publication paper companies.

1992:
Start-up of production in Golbey in France, our first business outside of Norway.

1996-1997:
Purchase of paper mills in Austria and the Czech Republic.

1999:
Global expansion: establishment of the joint venture PanAsia Paper.

2000:
Sale of mass mills in Norway. Purchase of Fletcher paper in New Zealand, a firm that had business in Australasia, South America, Canada and Asia.

2001:
Purchase of mills in Germany and the Netherlands. Comprehensive restructuring of the business, and divestment of activities outside the defined core area of newsprint and magazine paper.

2006:
Five newsprint machines shut down, shares in the Canadian business sold.

2008:
Sale of two mills in South Korea, sale of property, shut-down of two paper machines in Europe.

2009:
Sale of two mills in China, shut-down of one paper machine in Europe.

MARKET DEVELOPMENT IN 2011

Demand for newsprint and magazine paper fell in all markets except Eastern Europe and parts of Asia in 2011. For the world as a whole, demand for newsprint fell by about 3 per cent when adjusted for uncertain figures from China. Magazine paper experienced a decline in demand by about 4 per cent in Europe, the most important market. The decline in both segments must be seen in the context of an underlying structural transition from paper media to electronic media, but the economic downturn with major economic uncertainty in Europe must also be taken into account. In order to adapt to this development, both UPM and Norske Skog announced that they would shut down capacity in 2011.

The structural decline in demand in mature markets such as Western Europe and Australasia is expected to continue in coming years. However, the strong decline seen in the US, where demand for newsprint has been halved over the last decade, is unlikely to reach other mature markets. Newspapers in the US are to a large extent advertising channels, with limited content characterised by little innovation. As a result, subscribing to newspapers is uncommon in the US. Europe is also clearly different from the US as regards language diversity, providing space for more newspapers and a completely different public transport infrastructure which is conducive to newspaper reading.

In the emerging markets in Asia, South America and Eastern Europe, where an increasing percentage of the population is moving to urban centres, there is still a potential for increased newsprint and magazine paper consumption.

NEWSPRINT

Europe: For newsprint, demand in 2011 was about 3 per cent lower than in 2010. The UK, the most mature paper market in Europe, and Italy saw the largest decline. In addition to the economic downturn in both countries, the closure of News of the World in the UK in the summer of 2011 caused lower demand. The Netherlands and France, however, showed growth, while demand in Germany was unchanged.

Imports to Europe from North America continued the falling trend from the last decade throughout 2011. The volumes from North America now only make up 3 per cent of demand in Europe, down from above 7 per cent at the turn of the millennium. As the export capacity, mostly located in Canada, has been shut down during the period, we are unlikely to see a return of those volumes.

Exports out of Europe, predominantly to Asia, showed growth in 2010, but declined again in 2011. The decline must be seen in the context of a significant price increase, from very low levels, for newsprint in Europe going into 2011.

In spite of the general drop in demand in the European market and the lower export to Asia, the capacity utilisation was relatively good for the industry throughout 2011. This can to a large extent be ascribed to the full effect from capacity closures implemented in 2010.

Norske Skog's newsprint production capacity in Europe is 1.5 million tonnes. This amounts to one-third of the group's total production capacity. From the fourth quarter of 2011, Norske Skog Parenco was reported under magazine paper. The unit was formerly reported under newsprint.

Asia: Several Asian countries, with China as a clear exception, showed growth in demand for newsprint in 2011. However, China reported a drop in demand of about 20 per cent for the year, in spite of stable newsprint prices and generally high economic activity. For Asia as a whole, the preliminary figures show a drop in demand of 9 per cent. Assuming that the figures from China are uncertain and that the development there is flat, there was a growth in the region of seven per cent.

Sales prices were mostly stable throughout 2011. Norske Skog's activities in Asia consist of a mill in Thailand with a capacity of 130 000 tonnes, 3 per cent of the group's total production capacity. In addition, Norske Skog owns 33.65 per cent of a mill in Malaysia.

Australasia: The calculated demand for newsprint fell by almost 6 per cent in Australasia in 2011, after a growth of about 4 per cent in 2010. Australasia is a mature paper market, and a structural drop in demand must be expected. The decline in 2011 is, however, also probably due to stockpile effects.

Norske Skog, as the only producer in Australasia, entered into new five-year contracts with the largest customers in 2010, which entailed price increases. The prices were adjusted upwards again in July 2011. More than x0 per cent of Norske Skog's production volume in the region is now sold under the new long-term contracts.

Norske Skog's total production capacity at the three mills in Australia and New Zealand amounts to 865 000 tonnes, 20 per cent of Norske Skog's overall capacity.

South America: The demand for newsprint in South America overall declined some in 2011, but there was an underlying growth in Chile and an underlying decline in Brazil.

The prices in South America mostly follow North America, with a time lag, due to large imports from the north. Prices measured in USD remained relatively stable throughout 2011. Norske Skog has a total production capacity in South America of 310 000 tonnes, representing 7 per cent of the total capacity.

MAGAZINE PAPER

The demand for magazine paper in Europe declined by about 4 per cent in 2011, following a growth of about six per cent in 2010. Unlike earlier years, there was little difference in the development for the two main qualities, SC (uncoated paper) and LWC (coated paper). Export markets were strong for both magazine paper qualities, with an increase in total ship loads from Europe of more than 10 per cent.

The price of magazine paper remained stable at a higher level than in the previous year in 2011. Additional price support is expected in 2012 following UPM's announcement of significant capacity reductions following the merger with Myllykoski.

Norske Skog's magazine paper production capacity is 1.7 million tonnes, corresponding to slightly more than one-third of the company's overall production capacity. As mentioned under the section on newsprint in Europe above, Norske Skog Parenco will be reported under magazine paper in 2012.

LE FIGARO
Aftenposten
自由時報
THE AUSTRALIAN
THE WALL STREET JOURNAL EURO
EUROPE'S INTERNATIONAL BUSINESS DAILY
nkfurter Allgemeine
Los Angeles Times
STAMPA
TECHNOLOGY'S NEXT WAVE
Local innovations guide a revolution in telecommunications
The San Diego
Union-Tribune.
SUNDAY
AUGUST 20, 2000
COUNTY FINAL
$1.50
TIMES
De Telegraaf
PAIS
Pizzaatje happen met Jos Verstappen?
Le Monde
Telegraph
WHEN THE NET WENT MAINSTREAM
BITTER LOSS FOR ANGELS
MOSTLY SUNNY
THE ORANGE COUNTY Register
TUESDAY, AUG. 22, 2000
ORANGE COUNTY, CALIFORNIA
ürcher Zeitung
Freitag, 11. August 2000
Weekend
USA TODAY
The Sydney Morning Herald
August 5, 2000
WIN A HONDA S2000
WORTH $74,000
Bondi's beach just fine and sandy, thanks
ock, rap and
broken bones
Metropolitan

CORPORATE MANAGEMENT

SVEN OMBUDSTVEDT (45)

PRESIDENT AND CHIEF EXECUTIVE OFFICER (CEO)
In Norske Skog since 2010

Background:

2010 –	President and CEO Norske Skogindustrier ASA
2008 – 2009	Senior vice president SCD SAS
2006 – 2008	Chief financial officer and Head of strategy Yara International ASA
2003 – 2006	Senior vice president upstream operations Yara International ASA
2002 – 2003	Senior vice president corporate strategy Norsk Hydro ASA
1999 – 2002	Senior vice president commercial policy and industrial restructuring Hydro Agri
1995 – 1999	Vice president market strategy and planning Hydro Agri
1991 – 1995	Various positions within Norsk Hydro

Education: Bachelor Business Administration from Pacific Lutheran University (USA), Master International Management from Thunderbird University (USA)

AUDUN RØNEID (55)

CHIEF FINANCIAL OFFICER (CFO)
In Norske Skog since 2008

Background:

2008 –	CFO Norske Skogindustrier ASA
2007 – 2008	CFO Davie Yards Inc.
2002 – 2007	CFO Jotun A/S
1999 – 2002	Senior vice president finance Kværner Oil and Gas Field Development
1998 – 1999	CFO Aker Yards
1994 – 1998	Senior vice president finance Kværner Ships Equipment
1992 – 1994	Senior vice president finance Kværner Eureka
1989 – 1991	Controller Mechanical Engineering Division Kværner
1984 – 1989	Vice president accounting and finance Kværner Rosenberg Verft

Education: Master International Business from Norwegian School of Management (Norway)

GAUTE HJELMBREKKE ANDREASSEN (36)

SENIOR VICE PRESIDENT (SVP)
PORTFOLIO AND STRATEGY
In Norske Skog since 2010

Background:

2010 –	Senior vice president portfolio and strategy
2007 – 2010	Director strategy and business development Yara International ASA
2007	Consultant The Boston Consulting Group
2005 – 2007	Project manager Yara International ASA
2001 – 2005	Consultant The Boston Consulting Group
2000 – 2001	Analyst Morgan Stanley

Education: Master Business Administration from Norwegian School of Economics (NHH) (Norway), Elementary and intermediate subjects in psychology, University of Bergen (Norway)

TROND STANGEBY (62)

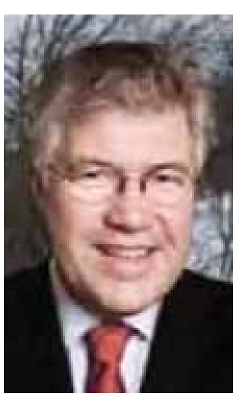
SENIOR VICE PRESIDENT (SVP)
ORGANISATION DEVELOPMENT
In Norske Skog since 2011

Background:

2011 –	Senior vice president organisation development
2010 – 2011	Business unit manager Technical Nitrates Yara International
2008 – 2009	Operations manager Ineos Chlor Vinyl Scandinavia
2007 – 2008	Operation manager Norsk Hydro Petrochemicals
2000 – 2006	Business unit manager global plants Hydro Agri/Yara International
1999 – 2000	Head of integrated nitrogen plants Hydro Agri
1993 – 1999	Senior vice president Hydro Rafnes Complex
1992 – 1993	Vice president Hydro Polymers
1975 – 1992	Various positions within Norsk Hydro

Education: Master Chemical Engineering from Norwegian University of Science and Technology (NTNU) (Norway)

JAN-HINRICH CLASEN (54)



SENIOR VICE PRESIDENT (SVP)
EUROPEAN SALES
I Norske Skog between 1992 and 1996, and since 1999

Background:

2010 –	Senior vice president European sales
2008 – 2010	Senior vice president Europe
2006 – 2008	General manager Norske Skog Walsum
2004 – 2006	Senior vice president sales and marketing
2003 – 2004	Vice president newsprint Norske Skog Europe
1999 – 2003	SVP and chief sales officer Pan Asia Paper
1996 – 1998	General manager printing plant Axel Springer Verlag AG
1992 – 1996	Sales director magazine Norske Skog

Education: Chartered Engineer with a Master of Engineering and Doktor Ing. from Technical University Clausthal (Germany)

TERRY HAMILTON (49)

SENIOR VICE PRESIDENT (SVP)
EUROPEAN OPERATIONS
In Norske Skog since 2000

Background:

2010 –	Senior vice president European operations
2009 – 2010	Senior vice president Asia, Australasia and South America
2008 – 2009	Senior vice president Asia and Australasia
2006 – 2008	Vice president Norske Skog Production System
2006	Vice president operations and strategy Norske Skog PanAsia
2003 – 2005	Managing director PanAsia Paper (Thailand)
2000 – 2003	CEO Malaysian Newsprint Industries
1996 – 2000	Mill manager Fletcher Challenge Crofton Pulp (Canada)
1987 – 1996	Various positions Fletcher Challenge (Canada)

Education: Bachelor and Master Mechanical Engineering from University of British Columbia (Canada), Master Business Administration from Simon Fraser University (Canada)

RUNE GJESSING (49)

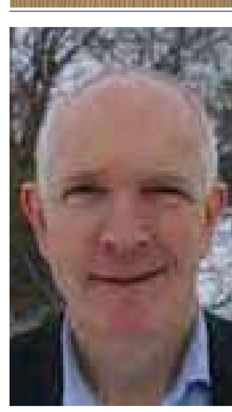
SENIOR VICE PRESIDENT (SVP)
NON-EUROPEAN OPERATIONS
In Norske Skog since 2002

Background:

2010 – SVP	SVP non-European operations
2007 – 2010	Senior vice president strategy
2006 – 2007	Vice president strategic business analysis
2006 –	Vice president corporate controlling
2002 – 2006	Director investor relations and Corporate secretary
1998 – 2002	Equity analyst National Bank Financial (Canada)
1992 – 1998	Finance and market analyst Simons Consulting Group (Canada)

Education: Bachelor Wood Science from University of British Columbia (Canada), Master Business Administration from Simon Fraser University (Canada)

ROBERT A. WOOD (49)



ACTING SENIOR VICE PRESIDENT (SVP)
EUROPEAN SALES
In Norske Skog betweem 1988 and 2001, and since 2007

Background:

2010 –	Managing director Central Europe/Norske Skog Deutschland GmbH
2008 – 2010	Vice president European Sales
2007 – 2008	General manager Norske Skog Pan Asia (Shanghai)
2002 – 2006	Production director Newsquest (Herald & Times) Ltd, UK
1999 – 2001	Sales director European Newsprint
1996 – 1999	Sales & product manager Follum
1988 – 1996	Regional sales director Norske Skog (UK) Ltd

Education: Bachelor in Mechanical Engineering from University of Strathclyde (UK)

BOARD OF DIRECTORS

EIVIND REITEN (58)

BOARD MEMBER AND CHAIRMAN SINCE 2009

Residence: Oslo
Education: Cand. oecon., University of Oslo
Position: Consultant
Directorships: Chairman of the Board AGR Group ASA, Backe Entreprenør Holding AS and Constructor Group AS. Board member AS Backe.

GISÈLE MARCHAND (53)

BOARD MEMBER SINCE 2002, DEPUTY CHAIRMAN SINCE 2010

Residence: Oslo
Education: Master of Business Adm., Copenhagen Business School
Position: CEO Eksportfinans ASA
Directorships: Deputy chairman of the board Fornebu Utvikling ASA and Oslo Børs VPS Holding ASA. Board member Oslo Børs ASA, Gjensidige Forsikring ASA, GIEK Kredittforsikring AS and Norwegian Refugee Council.

HELGE EVJU (57)

BOARD MEMBER SINCE 2010

Residence: Sandsvær in Kongsberg
Education: Educated in agriculture and forestry
Position: Forest owner
Directorships: Chairman of the board Viken Skog and Norwegian forest owner federations. Board member The Norwegian Institute for Forestry and Landscape and Norsk Landbrukssamvirke.

ALEXANDRA BECH GJØRV (46)

BOARD MEMBER SINCE 2010

Residence: Oslo
Education: Cand. jur., University of Oslo
Position: Partner of the law firm Hjort DA
Directorship: Chairman of the 22 July commission.

FINN JOHNSSON (65)

BOARD MEMBER SINCE 2011

Residence: Lysekil, Sweden
Education: Master of business administration, Handelshögskolan Stockholm
Position: Prior CEO Mölnlycke Healthcare AB
Directorships: Chairman of the board Thomas Concrete Group AB, Luvata, European Furniture Group AB, West Sweden Chamber of Commerce, Geveko AB, Ovako Steel, Bravida AB and Poseidon AB.

PAUL KRISTIANSEN (56)

BOARD MEMBER SINCE 2009

Residence: Halden
Education: Certificate of apprenticeship as process operator
Position: Line driver at Norske Skog Saugbrugs
Directorships: Main employee representative Norske Skog Saugbrugs, chairman Norske Skog Works Council Norway, secretary European Works Council (EWC), member Global Works Council and the section council Fellesforbundet.

ÅSE AULIE MICHELET (59)

BOARD MEMBER SINCE 2011

Residence: Oslo
Education: Cand.pharm. University of Oslo, Pharmacy studies at Eidgenössische Technische Hochschule Zürich, ETH, Switzerland
Position: CEO Teres Medical Group AS
Directorships: Chaiman of the board Photocure ASA, board member Orkla ASA, Cermaq ASA, and Aim Norway SF.

INGE MYRLUND (42)

BOARD MEMBER SINCE 2009

Residence: Jevnaker
Education: Certificate of apprenticeship in chemistry and process and in wood processing, technology management from UiB
Position: Shift manager at Norske Skog Follum
Directorships: Employee representative in the union for management and technic at Follum (FLT-LO), board member and cashier in FLT-LO dept. 10 Ringerike and member of Norske Skog Works Council Norway

SVEIN ERIK VEIE (39)

BOARD MEMBER SINCE 2010

Residence: Skogn
Education: Process operator and industrial mechanic
Position: First machine operator Skogn
Directorships: Chairman Fellesforbundet dept. 461, representative to Fellesforbundet board, deputy chairman of Norske Skog Works Council Norway, member of EWC and GEF. chairman of Fellesforbundets Avdelingslederforum Nord-Trøndelag, Municipal council member in Levanger municipal (Labour Party), and deputy chairman Plan and development committee Levanger municipal.

CORPORATE SOCIAL RESPONSIBILITY IN NORSKE SKOG

Norske Skog's vision is to be a leading player in the global paper industry. This is an ambitious vision, and it requires that we produce and sell paper in better ways and more sustainably than our competitors, with regard to health, environment and safety, as well as financially. In order to achieve and ensure a leading position in the market place, we measure our performance in a number of areas.

Our three core values openness, honesty and cooperation guide our behavior, decisions and daily work. In order to promote responsible and profitable decisions and activities, we practice open communication with various stakeholders. In 2011, we have implemented our reviewed steering documents, laying out principles for our decisions and activities in the areas health and safety, environment, people, financial management and reporting, as well as corporate conduct. Corporate standards support this implementation. The group's new operating model implemented in 2011 emphasises the business units' responsibility for their own results in all areas, hereunder social responsibility and compliance.

ORGANISATION OF CSR WORK IN NORSKE SKOG

The chief executive officer has the overall responsibility for the company´s CSR performance. However, each entity is given the responsibility to ensure the group's standards for corporate social responsibility is followed locally. Corporate functions develop and maintain the corporate standards and strategic targets with contributions from the entities.

All business units have dedicated people to facilitate and follow up efforts and results within health, environment and safety. Sales offices and other units are similarly bound by Norske Skog's requirements for responsible conduct.

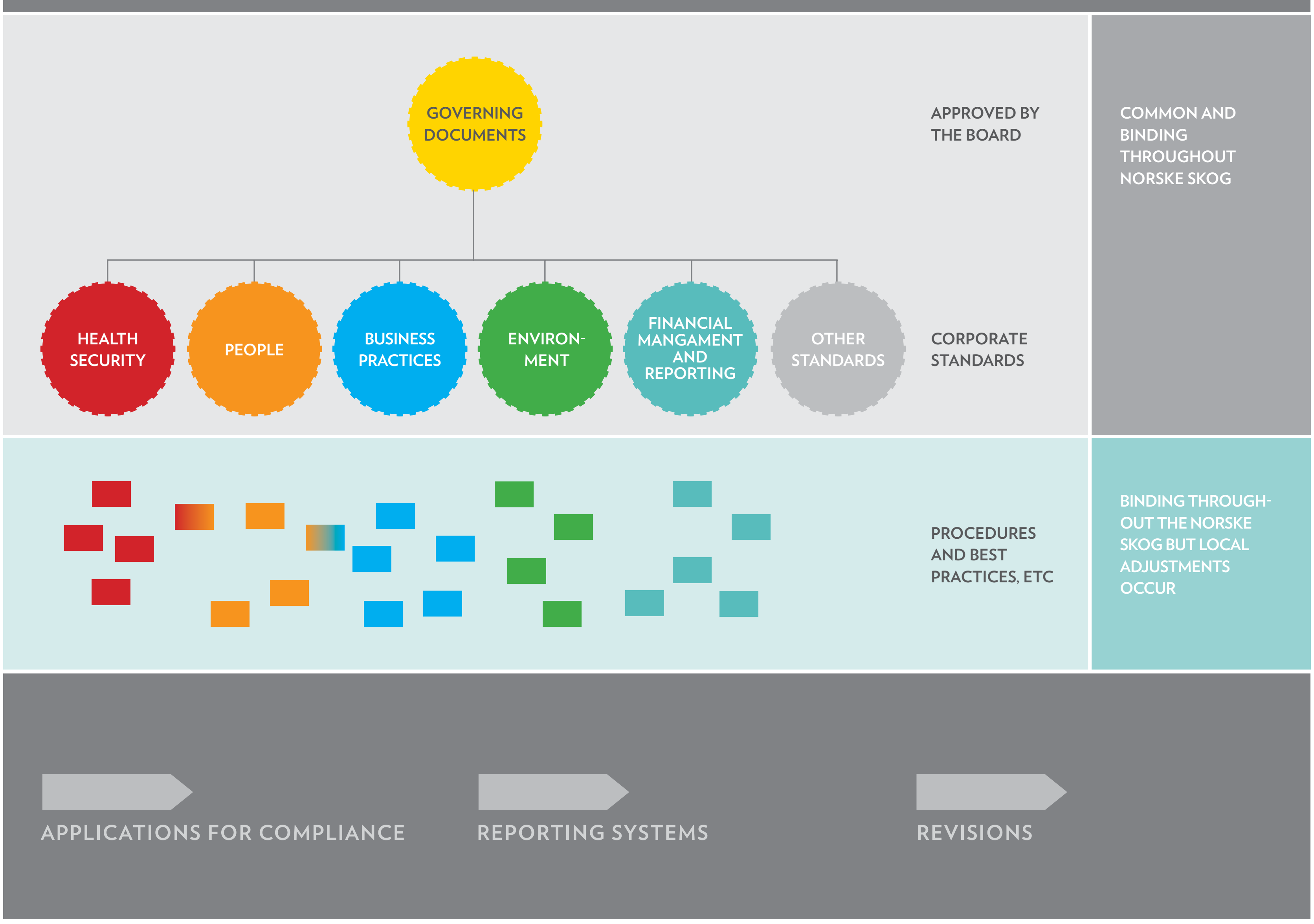
COMPLIANCE

The risk of non-compliance may entail unethical conduct and legal- and financial consequences, and may affect our reputation negatively. In accordance with the principles for the new operating model from 2011, Norske Skog emphasises that the line organisation has the responsibility to comply with the Steering Documents. Compliance must take place where the risk lies, primarily in the production and commercial operations and their associated activities.

Even if the new operating model implies decentralisation of a multitude of functions within the group, the compliance work is based on Norske Skog having common standards for conduct for all business units and all employees. This strengthens the quality of our operations and promotes our predictability and credibility with customers, suppliers and other partners. Compliance is included as specific topic in the group's risk reporting.

The company has established a system where a compliance officer for the group, ensures that that the steering documents are updated and ensure that adequate internal control systems exist globally and locally. A whistle-blowing channel has existed for a long time, where employees are ensured confidential and serious treatment of reported issues. Whistle blowing can be reported to: **compliance@norskeskog.com.**

DOCUMENT STRUCTURE NORSKE SKOG



CSR TARGETS

Norske Skog measures a number of CSR elements. Some of the results for 2011 are shown below. Some of the targets are long-term targets. The results will be discussed further in the following pages.

Subjetc	Target 2011	Result 2011	Comments
Health & Safety			
- H1 [1]	0	1.99	Increased from 0.7 in 2010
- H2 [2]	11	9.8	Improved from 12 in 2010
- Absence due to sickness [3]	3	3.6	Improved from 3.7 in 2010
Environment			
- Percentage certified fibre, %	100	76	Same result as in 2010
- Environmental index	1.08	1.10	Improved from 1.14 in 2010
- Greenhouse gas reduction, %	25 (2020)	18.2	18.2% below base year (2006)
People and value creation			
- New operating model	Implement	Implemented	

[1] Lost time injuries per million working hours
[2] Total number of injuries with and without lost time per million working hours
[3] The target is for no business unit to have a higher absence due to sickness than 3%

NORSKE SKOG AND LOCAL COMMUNITIES

Our activities affect employees, suppliers, customers and partners in many countries, regions, towns and villages. Our decisions and activities, production and sales have an impact on a multitude of individuals, groups and companies, both financially and otherwise. We recognise our impact and take this into consideration when making decisions.

Sales revenues from production in Norske Skog in 2011 traced back to key stakeholders:

- Purchase of goods and services: NOK 14.5 billion
- Capital expenditures: NOK 0.5 billion
- Salaries NOK: 2.5 billion
- Taxes and public fees: NOK 0.6 billion
- Financial costs and working capital: NOK 0.6 billion

The table above shows that Norske Skog is important for many parts of society. Further down the value chain, our paper is the source of income for newspapers and magazines, with all their journalists and other contributors, and a natural source of ideas for business people and other readers throughout the world. This network of businesses, communities and individuals generates significant value in the public and private sectors, as well as stability and other benefits to all affected individuals.

In order to improve our role in society, and to maintain our role as an important employer in local communities, our business units are encouraged to be pro-active and open in their communication with their local stakeholders. Examples include reports to neighbours and other local stakeholders, open days for the public to inform about paper production, engagement in nature protection projects, support to local museums, involvement in sports and cultural initiatives, support to charitable organisations, as well as integration of immigrants and disabled persons through vocational training. Most business units co-operate with educational institutions at different levels. This co-operation includes visits from schools, colleges, high schools and universities, scholarships for students, trainees and apprentices working at our mills or engaged in project work.

HEALTH AND SAFETY

Health and Safety has the highest priority for Norske Skog, twenty four hours a day, seven days a week. Norske Skog's health and safety programme at the business units, called "Take Care 24 hours", is is under continuous development, but shall always meet the requirements of our health and safety standards for international activities. Our goal is a safe working environment where health and safety receive equal attention in planning and in the daily operations of the company.

All employees in Norske Skog must take responsibility for improving the working environment for themselves, their colleagues, visitors and sub-contractors. Internal cooperation, involving sharing of experience and best practice, enables us to adapt preventive activities to all our mills. Through the activities in Take Care 24 hours, the group stimulates and encourages the same attitudes and behaviour at work and during our spare time, for our own employees and their families.

Norske Skog had an absence rate due to illness of 3.6 per cent in 2011, compared with 3.7 per cent in 2010. We achieved an H1 level, lost-time injuries per million working hours, in 2011 of 1.99 compared with 0.7 in 2010. Five of the group's mills had no lost-time injuries in 2011. The H2-rate, all injuries with and without lost time per million working hours, was 9.8 in 2011, compared with 12 in 2010.

EMPLOYEES

Norske Skog has highly qualified and dedicated employees at all levels and in all units. Due to challenging developments in the paper industry, downsizing and restructuring have been an inevitable consequence of cost-cutting over recent years, and 2011 has been no exception. However, Norske Skog employees have managed to maintain a high level of expertise, with improvements in certain areas. Our goal to develop an organisation with business-oriented, international and highly competent people still applies. Due to the group's situation, employees are given challenging tasks and significant responsibilities. Structured on the job training and rewarding achievements provide excellent career development opportunities and the best results for the company. This ensures mutual attractiveness for our employees and for Norske Skog as employer.

Norske Skog recognises the value of having a work force based on diversity, and any discrimination on the basis of gender, nationality, colour or ethnicity, religious or political beliefs, sexual orientation, physical disabilities or similar factors violate our obligations of equality and threaten the company's interests and objectives. Our leaders have a special responsibility for developing and coaching their sub-ordinates and, through visible leadership, demonstrate what is expected from Norske Skog employees and leaders. Our employee representatives contribute in strategic and major decisions in accordance with our values of openness, honesty and cooperation.

KEY FIGURES - EMPLOYEES 2011

Business- Unit	Number of employees (FTE) end of December 2011			Average age of ordinary employees	Average seniority of ordinary employees	Female in % of ordinary employees
	Ordinary employees	Other employees	Total	End 2011	End 2011	End 2011
Albury	183	16	199	44.7	13.9	8.0
Boyer	267	43	310	46.0	22.0	8.0
New Zealand	287	25	312	48.5	19.3	10.0
Australia. non mills	22	4	26	45.0	13.6	29.2
Singapore	7	-	7	43.4	9.5	85.7
Australasia Total	**767**	**88**	**855**	**46.6**	**18.7**	**10.1**
Bio Bio	229	8	237	44.0	16.0	8.0
Pisa (incl. Curitiba)	268	28	296	42.7	14.6	6.3
SA Total	**497**	**36**	**533**	**43.3**	**15.3**	**7.1**
Follum	328	32	360	46.6	22.1	10.0
Saugbrugs	561	54	615	45.0	21.0	9.0
Skogn	442	19	461	48.0	23.0	4.5
Corp. Functions	68	30	98	48.0	15.0	33.0
Norway Total	**1 399**	**135**	**1 534**	**46.5**	**21.6**	**9.0**
Bruck	407	49	456	41.8	17.9	8.2
Parec	21	-	21	50.0	24.0	-
Golbey	397	28	425	44.0	16.0	11.5
Parenco	248	11	259	47.0	22.0	5.0
Walsum	490	62	552	50.0	25.0	8.0
Sales offices Europe+Exp.+Nordic	97	1	98	41.9	8.3	60.3
Antwerp	17	4	21	39.0	5.6	73.0
Europe Total	**1 677**	**155**	**1 831**	**45.6**	**19.5**	**12.0**
Reparco (incl. US. UK. Antwerp. China)	67	18	85	43.0	12.0	22.0
Europe Total Incl. Reparco	**1 744**	**173**	**1 916**	45.5	19.2	12.4
Thailand - Singburi/Bangkok	238	-	238	42.0	14.0	25.0
Asia Total	**238**	-	238	42.0	14.0	25.0
Totals NSI Group	4 644	431	5 075	45.5	19.2	11.1

FLOOD IN THAILAND

Unusually heavy rainfall and mismanagement of water resources during last year's monsoon season resulted in the most severe flooding in Thailand in 50 years. Heavy rain, backed up by a period of high tide affected about six million hectares of land. More than 750 000 residential properties were reported to be damaged or destroyed. The major cost of the flooding came, however, as a result of the disruption to manufacturing and supply chains.

Extensive local engagement, through building a flood prevention wall, prevented the mill at Norske Skog Singburi being directly affected by the flood. However the mill had to stop production for a period due to logistic difficulties caused by flooded roads. More than one hundred Norske Skog employees were affected by the flooding, mainly through damage of property, logistics difficulties and of course everyday hardship. The company has, in many ways, provided assistance to the affected employees, in the form of food and drinking water and flexible working hours.

YOUNG READERS

Norske Skog supports the actions of the World Association of Newspapers and News Publishers to help newspapers, parents and teachers work together to create a literate, civic-minded new generation of readers all over the world.

HIGHLIGHTS FOR 2011 INCLUDED:

- Awarding a special new "Natasa" World Young Reader prize to the small, family run Sinag printing plant in the Philippines that holds free journalism workshops, with up to 1 000 youths in addition to their families and teachers attending. The prize is named after Natasa Vuckovic Lesendric (1966-2011) who, after creating a distribution system and printing plant for the independent press in Serbia, made sure the profits supported a nationwide programme for using newspapers in education,
- Introducing new, and very different countries like Namibia, Botswana, Zambia and Ireland, to the use of newspapers in the classroom as a strong tool for improving reading abilities.
- Creating a "Design an Ad for the 21st Century" DVD toolkit to help newspapers teach the young about advertising and, through exercises that call for creating a special advertisement for Press Freedom Day on 3 May, about the importance and fragility of freedom of expression.

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.
- Strengthen the educational role of newspapers.

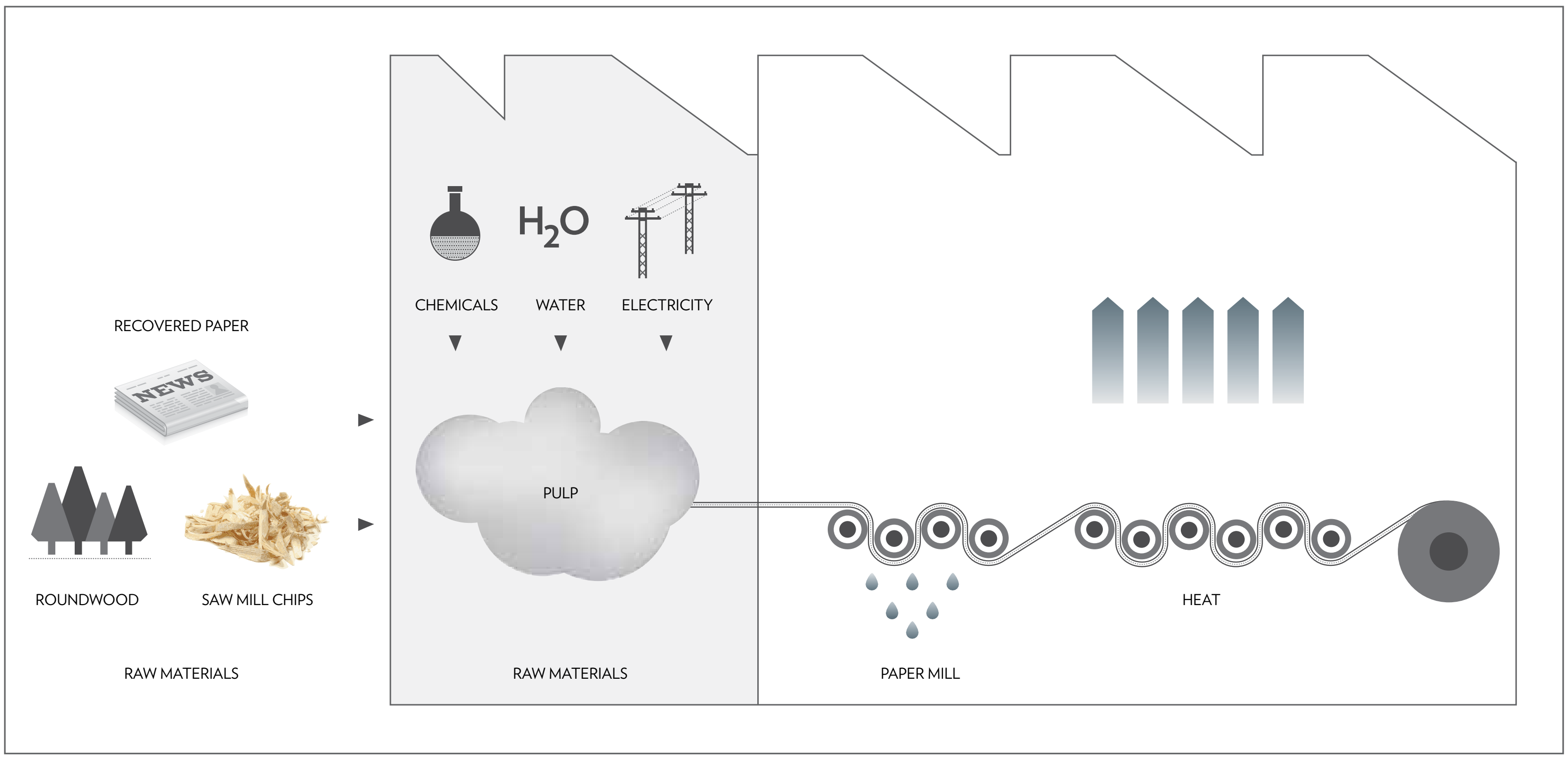
COMMERCIAL GOALS:

- Further sales activities through increased goodwill and building relations.
- Strengthen the reputation of the company.
- Contribute to ensure that the newspapers have a customer base in the new generations.
- Build internal pride and commitment.

PAPER PRODUCTION

Norske Skog has the capacity to produce four million tonnes of publication paper each year, of this is 2.5 million tonnes newsprint and 1.5 million tonnes magazine paper.

The highly simplified diagramme illustrates the paper production process. In reality, the paper machines differ quite significantly. The raw materials consist mainly of wood and/or recovered paper, as well as electricity and chemicals. The wood- and recovered fibres are separated during pulp production in two different processes. Pulp production based on recovered paper consumes less energy than production from fresh fibre because the fibres in recovered paper are more easily separated than those within wood. In the paper machine, the pulp passes along a web, firstly through a wet section, then a press section and finally through a drying section. The paper is finally rolled up on reels and then cut to sizes ordered by the customer. During this process more than 90 per cent of the wood fibres in trees are converted to paper products.



EVALUATION OF OUR ENVIRONMENTAL PERFORMANCE

It is important for us to identify our environmental challenges, continuously improve our environmental standards throughout the value chain and report openly on our performance.

In the pulp and paper industry, environmental topics that we focus on are fibre supply, energy sources and energy use, greenhouse gas emissions, the efficiency of mill production processes, and the fate of our products at the end of the life cycle. The importance of these topics varies at local, regional and national levels.

Norske Skog uses a combination of fresh fibres and recovered paper as raw material, depending on local conditions. Both sources are necessary to exploit the global fibre resources in a sustainable manner.

All our mills have traceability certificates for timber purchase to ensure that they come from sustainably managed forests. We do not source raw materials from controversial areas. Our suppliers comply with local rules and regulations and, where possible, we source wood locally to minimise costs and transport emissions. Our goal is to have a 100 per cent certified wood supply. In Europe, the growth of forests is increasing in all countries where we purchase wood. In South America and Australasia, we source only fresh fibre from plantations. In Asia, only recovered paper is used as a raw material.

In a world where increasing demands are being placed upon finite natural resources, and the ecosystems which supply them are more and more strained, it is important that our production processes are efficient and continuously improving. In addition to 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 reduce our emissions on a continuous basis. The goal is to use technology that meets the requirements of what the EU defines as the best available technology (as described in the EU's IPPC reference document). We have also implemented a water profile tool to compare, 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. Greenhouse gas emissions 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.

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 the 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.

SUSTAINABLE RAW MATERIALS

Forestry and use of forest products play an important role in the combat of climate change. For the forest value chain to be a part of the climate change solution, the forests must be managed sustainably. Norske Skog has several systems and processes to make sure that all wood used in Norske Skog's products comes from sustainably managed forests. All Norske Skog mills utilising fresh fibre have third party verified Chain of Custody (CoC) certification systems in place. The average share of certified fresh fibre in 2011 was similar to that of 2010, at 76 per cent.

FRESH FIBRE

In 2011, Norske Skog consumed 2.2 million tons of fresh fibre, of which 76% was certified. Our goal is to have 100 per cent certified fibre in our products. Norske Skog is not a significant forest owner. A very small proportion of the wood we use comes from our own forests in Australia. The ability to increase the share of certified wood therefore depends largely on decisions taken by forest owners. Norske Skog encourages its suppliers to adopt forest certification. These certificates are the most credible way to demonstrate our responsible procurement of wood fiber. The most environmentally friendly purchases are delivered by local, certified forests.

Today, only a relatively small portion of the global forest area is certified. The two main global certification systems are the Forest Stewardship Council (FSC), and the Programme for the Endorsement of Forest Certification (PEFC). PEFC is now the dominant global certification system, with a certified forest area twice as large as FSC. Norske Skog regards the two systems as equally valuable tools to demonstrate responsible management and stewardship of the forest resources that our company and customers rely upon. Both systems are based on inspections and auditing by independent third parties.

We recognise our responsibility as the purchaser of wood through our global procurement rules. They state that all wood used in our paper shall originate from sustainably managed forests. Such forests are defined as:

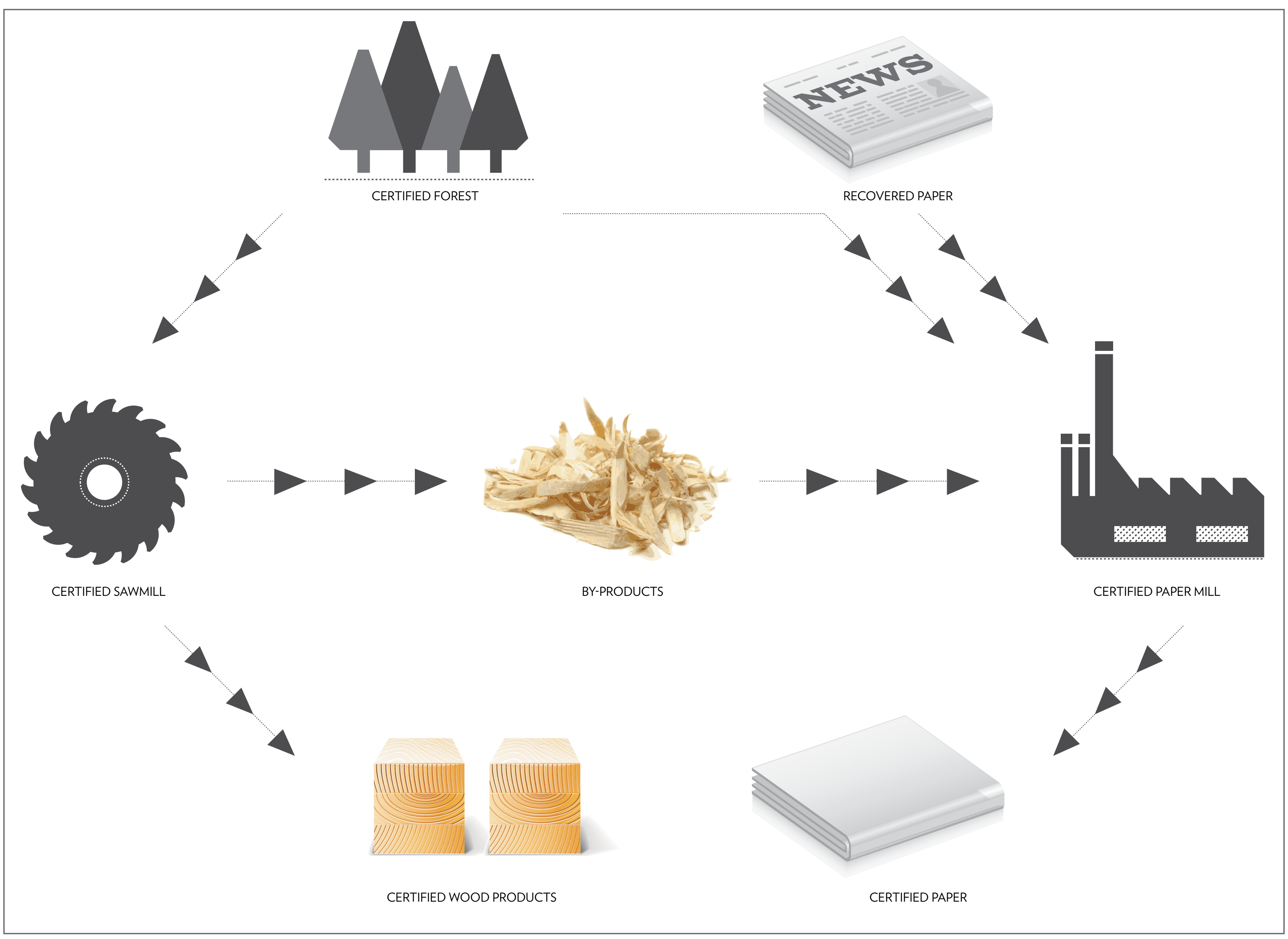
- Certified forests - we recognize the systems from FSC and PEFC
- Forests declared to be managed according to national laws and regulations

All Norske Skog's business units that buy fresh fibre have traceability certificates. The choice of the mill certification system depends on the certification system used in the forests or plantations.

Roundwood accounted for 68 per cent of our consumption of fresh fibres in 2011. Sawmill chips, a by-product from the sawmill industry, accounted for the remaining 32 per cent. The roundwood component of our fresh fibre came from both forests (50 per cent) and plantations (50 per cent). In all countries where Norske Skog sources wood, except Brazil, the area of land under forest is increasing. In Brazil, Norske Skog's wood supply comes exclusively from plantations.

The main global forest challenges are related to deforestation in developing countries and forest biodiversity degradation through the logging of high conservation areas in many parts of the world. In order to meet these challenges, we need 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.

In the European countries where we operate, the share of wood from certified forest areas is 61 per cent, of which 59 per cent is PEFC certified and two per cent FSC certified. Many customers want paper based only on FSC certified wood. In our opinion, it is most important that the wood comes from sustainable, managed forests.



CERTIFICATION OF FRESH FIBRE THROUGH THE VALUE CHAIN
Forest owners have systems for sustainable forest management (SFM). Forest product traders rely on chain of custody (CoC) certification. Traceability is important to ensure responsible purchasing, and to halt illegal logging. CoC tools make 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.

RECYCLED FIBRE

Recovered paper is an important fibre source for Norske Skog. In 2011, recycled fibre made up 34 per cent of the raw materials used in our products. Mills utilising recovered paper consumed in total 1.4 million tonnes in 2011.

Some customers want paper based entirely on recovered paper. However, a value chain based only on recovered paper is not sustainable. About one third of the paper is lost in the recovered paper cycle. 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 paper making are rejected in our mill pulping processes and are generally used as a source of renewable energy. In Europe, the recycling rate was 69 per cent in 2010. The new target is a recycling rate of 70 per cent by 2015. To make the recovered paper value chain sustainable, fresh fibre from forests, plantations or sawmill by-products must be added.

On a tonnage basis, our largest consumption of recovered paper takes place in continental Europe and Asia. Our mills in Thailand and the Netherlands use recovered paper as their sole raw material. The fibre source used at the different Norske Skog mills depends upon availability and economic considerations. The minimisation of transport distances and costs is an increasingly important economic and environmental consideration.

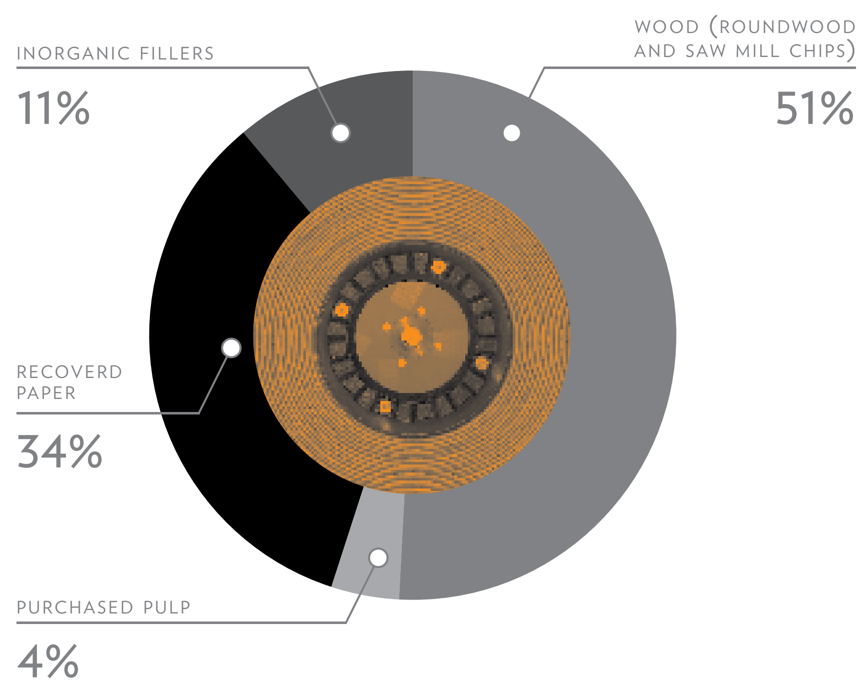
FORESTS AND CLIMATE CHANGE

The main global challenges related to forest management and climate change are deforestation in developing countries. This deforestation is currently responsible for approximately 20 per cent of the world's greenhouse gas emissions. The use of forests, forest products and bio-energy can, however, be a sound climate change strategy, depending on where and how the forest biomass is harvested. It is important to distinguish between forest types and the existing use of the forest. In forest areas where biomass is accumulated (annual growth exceeds annual harvest), the use of forest resources for renewable products and energy will be possible while still keeping the forest stock stable. Forest land soil will release carbon dioxide after harvesting but this is partly compensated by increased radiation reflection from the same area (the Albedo effect). As long as only the net forest growth is harvested, the carbon stock will be left stable and bio-energy and forest products can substitute more carbon intensive products and fuels and thereby give a positive climate effect.

There is a large potential to use the forest resource more efficient. Today forest residues, waste from the harvest operation, are not utilised to a full extent. As long as removal of forest residues does not lead to loss of nutrients in the forest soil, these residues can be used for bio-energy purposes and to substitute fossil fuels. By-products from the forest value chain, such as sawmill chips, should be used for making products before being used as bio-energy at the end of their life-cycle.

CONSUMPTION OF RAW MATERIALS, 2011

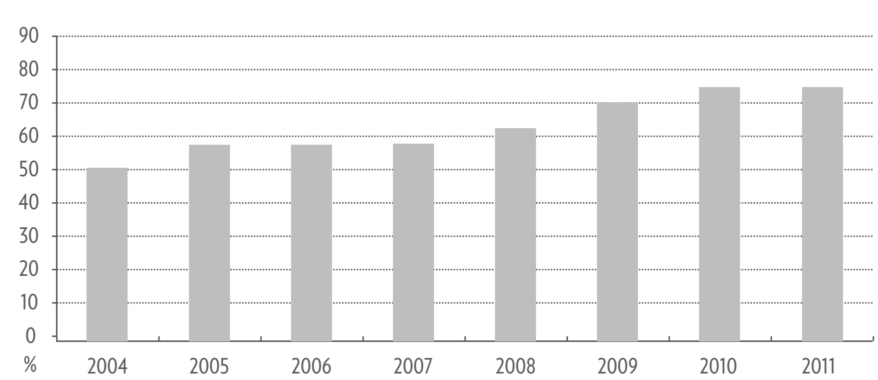
TOTAL OF 4.4 MILLION TONNES



RECOVERED PAPER IN NEWSPRINT PRODUCTION, 2011

Norske Skog Albury, Australia	33%
Norske Skog Bruck, Austria	88%
Norske Skog Golbey, France	58%
Norske Skog Parenco, The Netherlands	100%
Norske Skog Skogn, Norway	32%
Norske Skog Singburi, Thailand	100%

CERTIFIED PROPORTION OF FRESH FIBRE, 2004-2011 (%)



ENERGY CONSUMPTION

Norske Skog has comprehensive programmes in place to continuously reduce energy consumption and to make it more environmentally friendly. We are already a large producer of bio-energy.

The production of paper is an energy intensive process. Energy is consumed mainly for two purposes:
• To separate, process and transport fibre and water (electrical energy),
• To provide process heat and to dry the paper (thermal energy).

The major use of electrical energy in mills which process fresh fibre is the process which mechanically converts wood chips into fibres. This process is called the thermo-mechanical pulping process (TMP). Paper production based on recovered paper consumes less energy because the fibres from recovered paper are more easily separated than those within wood. The group's average energy consumption per tonne of paper produced in 2011 is similar to that of 2010. Seven mills had lower or similar energy consumption per tonne of paper in 2011 compared to 2010.

Approximately half of the total energy consumed by the group is electricity. In 2011, the remaining energy sources were fossil fuel (16 per cent), bio-fuel (15 per cent), heat recovery from TMP (nine per cent), other sources such as geothermal energy and heat (steam) purchased from third parties (eight per cent).

In 2011, 91 per cent of electricity was purchased from the grid. A number of mills can generate a proportion of the electricity requirement themselves, based on bio-fuel, hydroelectric, natural gas or geothermal sources.

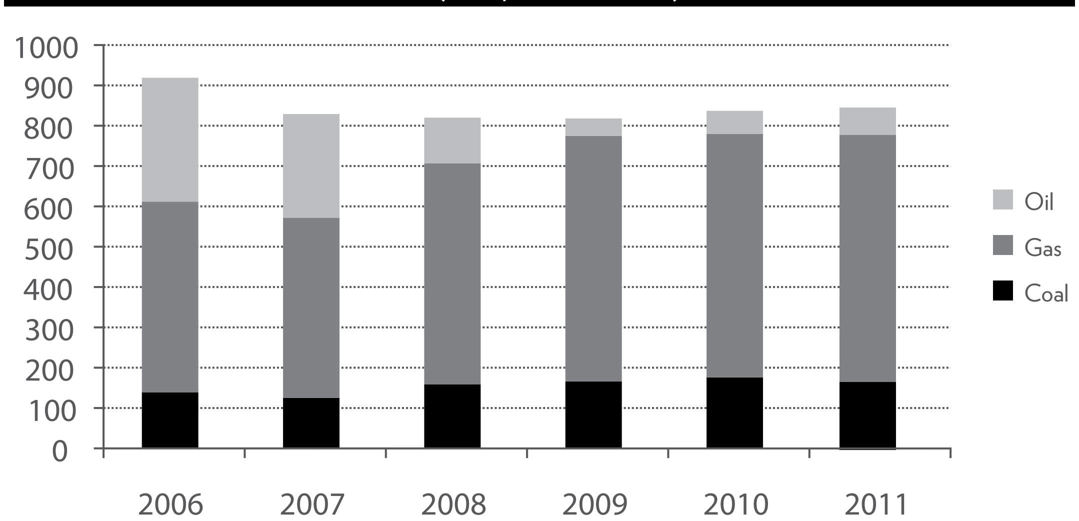
Norske Skog is a large producer of bio-energy. Organic waste from the production processes is used as bio-fuel where possible. Some mills also purchase bio-fuel from external suppliers.

Natural gas is the most commonly used fossil fuel, with a share of 74 per cent, up two per cent from 2010. Coal constitutes 20 per cent of fossil fuel consumption while oil makes up six per cent, both reduced by one per cent from 2010.

Thermal energy is used for heating and drying of paper. In contrast with electrical energy, thermal energy is mostly 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, purchased bio-fuel, oil, gas or coal. In some cases, the thermal energy is supplied by third parties located externally to the mill or in the form of geothermal energy.

The share of purchased energy makes up about half of the energy consumption in Europe, approximately 60 per cent in Australasia and South America and about 40 per cent in Asia. There is, however, significant variation in thermal energy sources used between different geographic regions. South American mills use bio-energy and very little fossil fuel. The Thai mill uses only fossil fuel. Australasian mills mainly use fossil and geothermal energy. In Europe, the mills use mainly bio-fuel, fossil fuel and heat recovered from the production of thermo-mechanical pulp from fresh fibre.

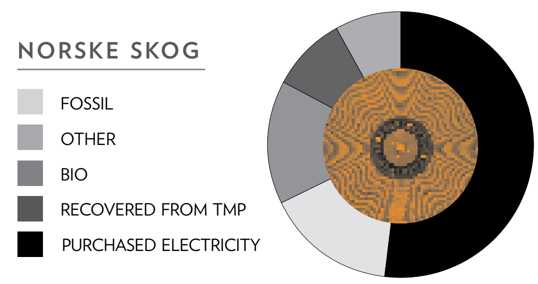
CONSUMPTION OF FOSSIL FUEL (KWh/TONNE OF PAPER)



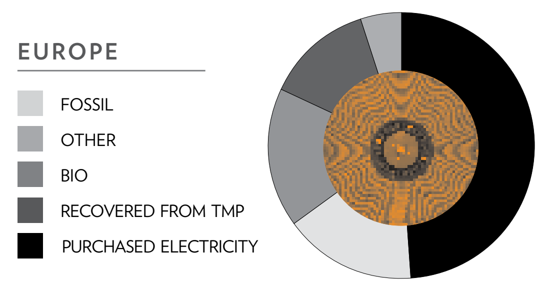
NORSKE SKOG ENERGY CONSUMPTION (TOTAL AND BY REGION)

Total 14 678 GWh; 3,84 MWh/tonne of paper

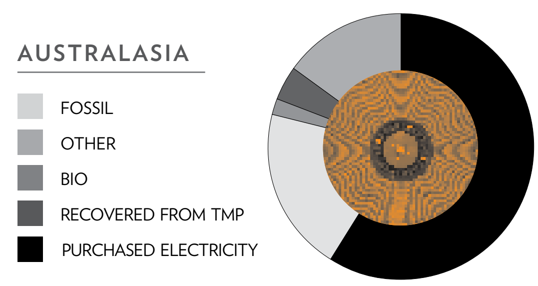
NORSKE SKOG



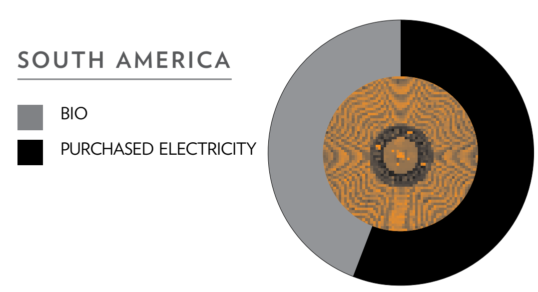
EUROPE



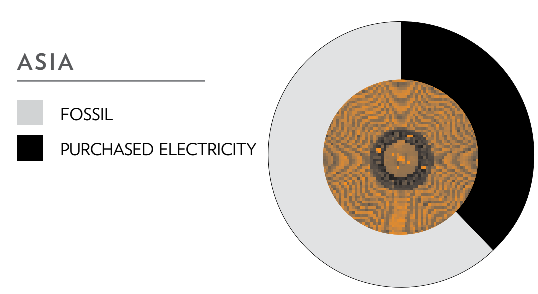
AUSTRALASIA

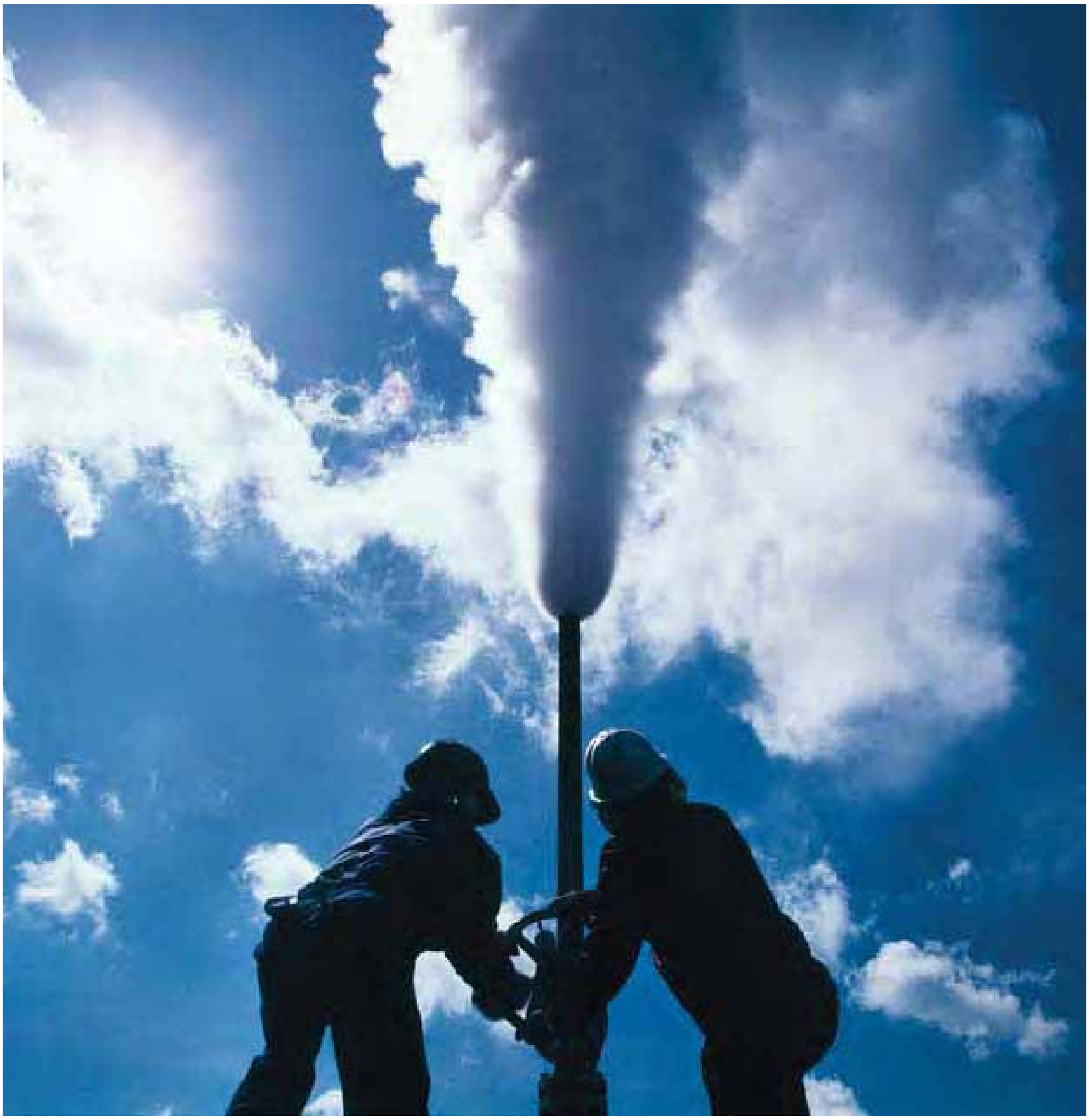


SOUTH AMERICA



ASIA





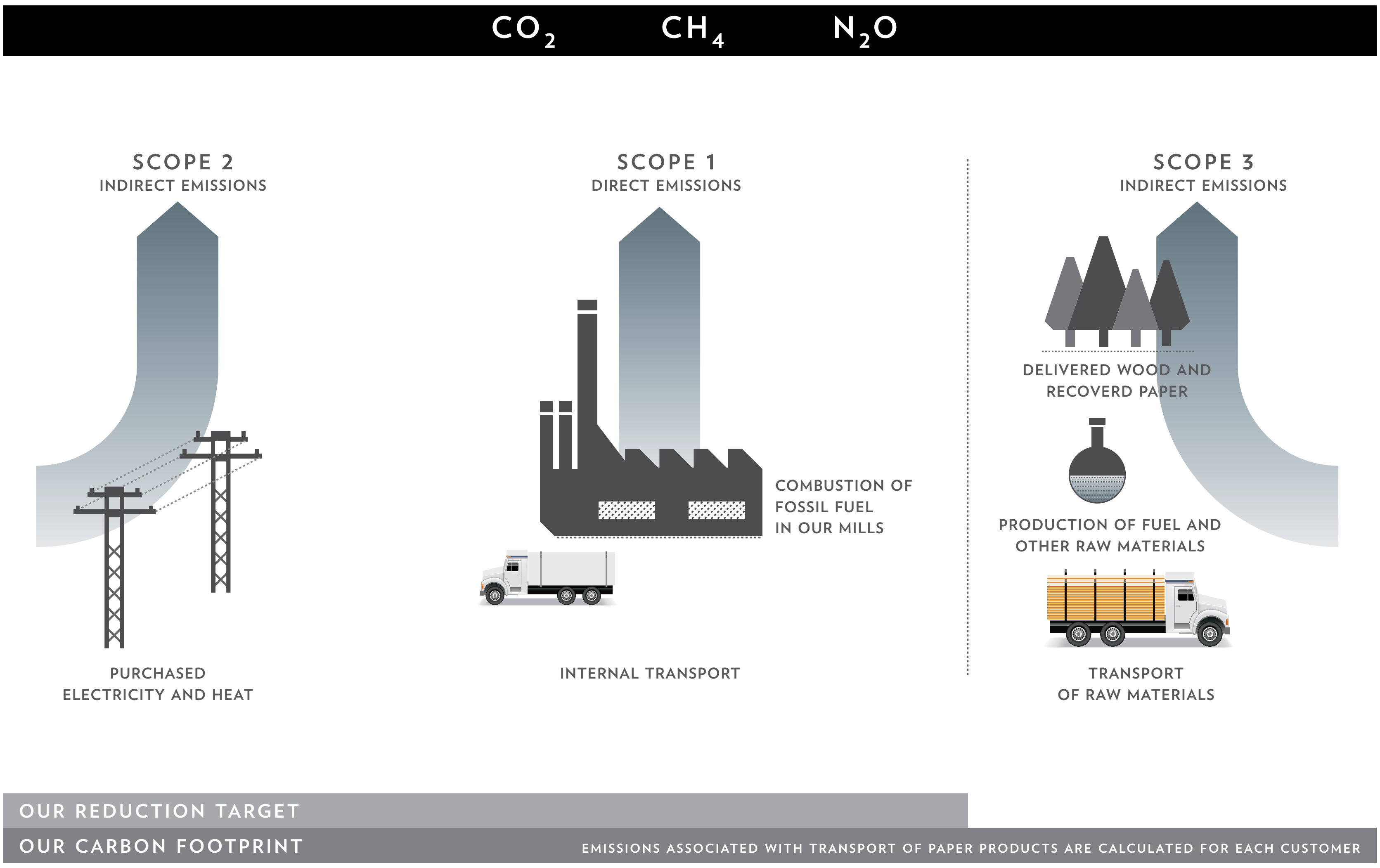
THE WORLD'S ONLY PAPER MILL THAT ONLY USES GEOTHERMAL ENERGY

Geothermal energy is heat energy from within the ground. The water that is warmed up by the heat from the ground can be used as a cost effective, sustainable, and environmentally friendly source of energy. Geothermal wells release some greenhouse gases trapped deep within the earth, but these emissions are much lower per energy unit than those from fossil fuels. Also electricity produced from renewable steam has low greenhouse gas emissions. Geothermal power can therefore help to mitigate global warming if widely deployed in place of fossil fuels.

The Mighty River Power, a geothermal power station that was commissioned in 2008, supplies up to 100 MW of Norske Skog Tasman's electricity requirement of 130 MW. The power station, along with the direct use of geothermal steam for heating purposes, means that 90 per cent of the mill's energy requirements are presently being supplied from geothermal energy.

A new project, scheduled for commissioning at the end of 2012, will produce 21 MW of electricity based on renewable geothermal steam. Norske Skog Tasman will then be the only paper producer in the world using almost 100 per cent geothermal energy.

NORSKE SKOG'S GREENHOUSE GAS EMISSIONS



As a large industry player, Norske Skog recognises its responsibility to reduce the greenhouse gas emissions. In 2007, we established our goal to, within 2020, have 25 per cent lower greenhouse gas emissions compared with emissions in 2006. As of 2011, our emissions were 18.2 per cent lower than in 2006.

Norske Skog has integrated reduction of greenhouse gas emissions as a key part of our business strategy. The goal is to reduce energy consumption, change the sources of energy and to optimise the use of process chemicals and transport.

In the work to reduce greenhouse gas emissions, we report on a greenhouse gas reduction target and our carbon footprint. The reduction target is based on the WRI/WBCSD Greenhouse Gas Protocol, the Pulp and Paper Workbook. The carbon footprint is built on the Confederation of the European Paper Industries' (CEPI) tool developed in 2007. The CEPI carbon footprint is related to the products we make and covers the whole value chain, whilst the Norske Skog reduction target is focused on the paper production process and covers Scopes 1 and 2 as shown in the figure. Both the Norske Skog emission reduction target and the carbon footprint are based on greenhouse gas emission data from our 13 wholly-owned mills.

In 2011, Norske Skog was again named best Norwegian company by the Carbon Disclosure Project's (CDP) 2011 Nordic report, which ranked companies based on their climate change strategy and reporting of greenhouse gas emissions. 2011 was the fourth year that Norske Skog participated in the Carbon Disclosure Project and was featured in the Carbon Disclosure Leadership Index.

OUR REDUCTION TARGET

Norske Skog's target for reducing greenhouse gas emissions covers direct emissions (referred to as 'Scope 1' in the Greenhouse Gas Protocol) 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 emissions ('Scope 2') from the purchase of electricity and heat.

Based on the above scope and emission estimation processes, Norske Skog operations emitted 2.38 million tonnes of fossil fuel derived CO_2-equivalents (including CO_2, CH_4 and N_2O) in 2011. The total emissions from our mills were reduced by six per cent in 2011 compared to emissions in 2010. This is due to both lower paper production and reduced emissions per tonne of paper in 2011 compared to 2010. The total emission reduction achieved to date, compared to our revised base year 2006 is 18.2 per cent.

The greenhouse gas emissions arising from the combustion of bio-fuels are deemed to be 'carbon neutral' as only the net forest growth is harvested from sustainably managed forests and plantations leaving the carbon stock stable. Direct emissions of biologically sequestered CO_2 from the combustion of organic residues such as wood and bark are estimated to be approximately 799 000 tonnes.

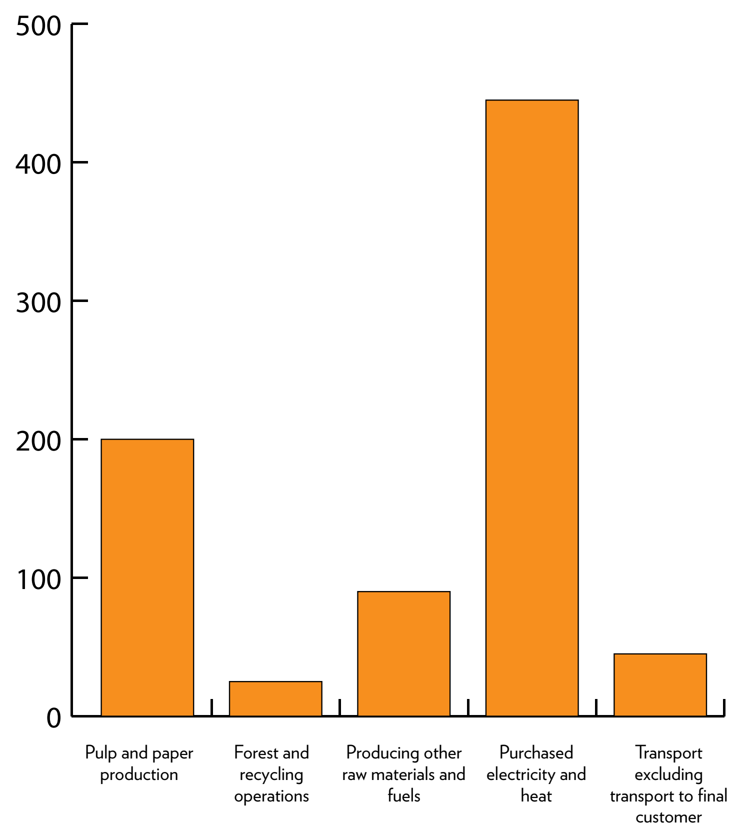
NORSKE SKOG GREENHOUSE GAS EMISSIONS 2011

	CO_2	CH_4	N_2O	CO_2-equiv.
Direct (Scope 1) emissions	**1 000 tonnes**	**tonnes**	**tonnes**	**1 000 tonnes**
Direct emissions from stationary fuel combustion	722	24	3	723
Direct emissions from transportation and mobile sources	13	3	1	13
Total direct emissions	734	27	5	736
Indirect (Scope 2) emissions				
Indirect emissions from steam and power imports	1 642	0	0	1 642
Total fossil fuel based emissions				
Direct & indirect	2 376	27	5	2 378
CO_2 emissions from combustion of biomass *	799			

* Wood and bark residues only

OUR CARBON FOOTPRINT

NORSKE SKOG CARBON FOOTPRINT KG CO_2/TONNE OF PAPER



Based on the CEPI carbon footprint tool, our carbon footprint covers emissions from the following elements of our value chain:

- Pulp and paper production
- Forest and recycling operations
- Producing other raw materials and fuels
- Purchased electricity and heat
- Transport- excluding transport to final customer which is calculated on a case by case basis
- Carbon stored in forest products (biogenic carbon) is reported separately.

The average global carbon footprint per tonne of paper produced by the Norske Skog mills in 2011 was 786 kg/tonne fossil CO_2 equivalents. This represents a reduction of one per cent compared to 2010. 1 360kg/tonne biogenic CO_2 is estimated to be contained in the product.

As seen in the figure, the largest contributor to our carbon footprint is purchased electricity and heat, which make up 55 per cent of the emissions per tonne of paper. Pulp and paper production makes up 25 per cent, forest and recycling operations three per cent, production of other raw materials 12 per cent and innoval transport five per cent of the emissions per tonne of paper.

The carbon 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 556 kg CO_2-equivalents/tonne of paper in Europe to 1 537 kg CO_2-equivalents/tonne in Australasia.

CONTINUOUSLY IMPROVING OUR PRODUCTION PROCESSES

Norske Skog's environmental policy commits us to continuous improvement in the environmental performance of our business units.

The wish to measure this continuous improvement in our mills and as a company over the short and long term led us to implement an environment index (E-index) several years ago.
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 areas for additional investment
- demonstrate the environmental improvements following process changes or investments.

Mill performance is measured in the index against a standard which should be attainable with the use of best available technology (BAT) or best practice, as described in the European Union IPPC reference document. An index value of 1.0 or less indicates that the mill has an environmental standard which satisfies the ambitious levels which can be attained with BAT or best practice. The BAT level of performance is mill specific and is a function of age, technology, investment history and operational performance.

The environmental index for the whole group is calculated as an average of each mill's index score weighted by production volumes.

The table below shows the targets for 2011 and 2012 for the parameters included in the E-index, as well as the results achieved during the last three years for our present mill portfolio. These figures represent production-weighted averages for all mills. In 2011, nine mills reached their E-index targets. The results for all specific parameters were better or equal to 2010 results, and overall there was a significant improvement compared to 2010. The group's ambitious 2011 target was, however, not reached. Changes in production levels and process changes within mills will impact the individual mill and company E-Index scores.

ENVIRONMENTAL INDEX

	Achieved 2009	Achieved 2010	Achieved 2011	Target 2011	Target 2012
Discharged process water(m^3/tonne)	19.3	18.7	18.7	17.7	18.0
COD (kg/tonne)	5.37	4.79	4.61	4.53	4.48
Suspended solids (kg/tonne)	0.62	0.56	0.50	0.50	0.49
Nitogen oxides (g/GJ)	93	106	95	106	98
Waste to landfill (kg/tonne)	20.4	21.4	21.2	19.5	19.3
Total energy consumption(GJ/tonne)	12.5	12.56	12.49	12.57	12.42
Environmental Index	**1.15**	**1.14**	**1.10**	**1.08**	**1.07**

KEY FIGURES

FOR NORSKE SKOG'S WHOLLY-OWNED MILLS IN 2011

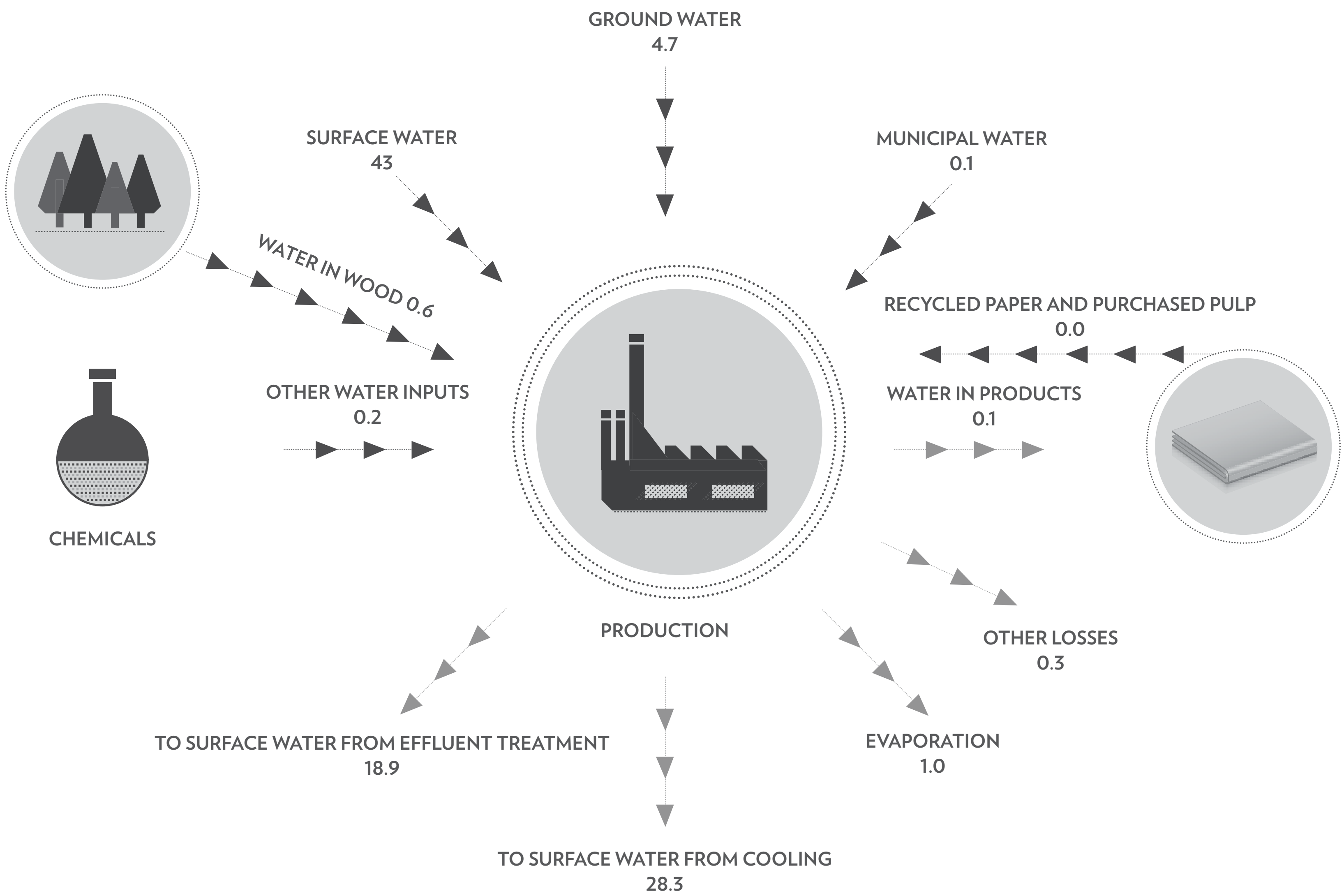
Consumption of raw materials	
Roundwood	3 565 000 m^3
Saw mill chips	1 674 000 m^3
Recovered paper	1 428 000 tonnes
Purchased pulp	154 000 tonnes
Inorganic fillers	473 000 tonnes
Energy	
Electricity	8 300 GWh
Heat	6 400 GWh
Discharges to water	
Discharged process water	72 million m^3
Organic material (COD)	18 000 tonnes
Suspended solids (TSS)	1 900 tonnes
Phosphorus (Tot-P)	56 tonnes
Emissions to air	
CO_2 equivalents (direct)	736 000 tonnes
SO_2	480 tonnes
NO_x	1 420 tonnes
Production waste	
Sludge (dry)	427 000 tonnes
Bark	185 000 tonnes
Other	46 000 tonnes
Production	
Newsprint grades	2 530 000 tonnes
Magazine paper	1 295 000 tonnes

WATER FOOTPRINT: THE TOTAL WATER CONSUMPTION IN THE PAPER VALUE CHAIN

Humans increasing use of freshwater resources place strain on global water resources. Policies and practices for sustainable use of this natural resource are a prerequisite for a sustainable global development. To help assessing the impact of different products on water resources, different water footprint tools are under development. Water footprint accounting includes both direct and indirect use of freshwater, measured over the full supply chain. For paper products, this includes water evaporated during tree growth (green water), water consumed during the production phase (blue water) and the water required to assimilate the discharged pollutants based on existing ambient water quality standards (grey water).

It is important to realise that the water footprint figure itself does not reveal much about the actual impact of operations at the local watershed level. A low water footprint could be less sustainable than a high water footprint. For instance, the water footprint for paper depends mainly on the time it takes for trees to grow. Trees use a lot of water to grow and paper will therefore have a large water footprint. Boreal forests are characterised by a humid climate, where precipitation is higher than evaporation. Forests sustain and slow down the surface runoff preventing flooding, erosion and leaching of nutrients. A sustainability assessment using many indicators is needed to gain understanding on whether mill operation and forest management practices are within the boundaries of what a water catchment can sustainably support.

Norske Skog will implement water footprint reporting when an international standard has been agreed. In the meantime we will report our water profile. Water scarcity is not an issue in any of the forest or plantation areas supplying Norske Skog or in any area where our mills are located. 97 per cent of the water entering Norske Skog mills is returned to rivers and lakes after treatment. All mills operate in accordance with local operating permits.



THE NORSKE SKOG WATER PROFILE
GLOBAL AVERAGE WATER USE M³/TONNE OF PAPER

The figure presents the 2011 water profile for Norske Skog. The profile has been developed by examining the major inputs and outputs of water in the manufacturing process. The data presented is a combination of all 13 wholly-owned mills and represents a 'group average'. The total water use per tonne of paper in 2011 increased by six per cent compared to 2010. The increase was due to increased use of cooling water. 97 per cent of the water entering our mills is returned to rivers and lakes after treatment. Approximately three per cent is returned to the atmosphere as water vapour, retained in the products or used for irrigation of forest plantations or agricultural areas.

WATER SUPPLY

The majority of fresh water used by Norske Skog's mills (88.6 per cent) originates from surface water sources. A further 9.6 per cent is supplied from ground water supplies and a relatively small amount, 0.2 per cent, comes from municipal water supplies.

Water also enters the manufacturing process through the raw materials which are purchased. Fibre based raw materials (wood, wood chips, recycled fibre and purchased pulp) constitute approximately 1.3 per cent of water input. 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 used to cool machinery and equipment performing electricity or steam generation and/or pulp and paper manufacturing activities. The rest of the water is used in the papermaking processes ("process" water)

Most mill effluents are discharged to river and lake systems after treatment. No effluent is discharged to groundwater aquifers.

EMISSIONS TO AIR AND DISCHARGES TO WATER

Manufacturing pulp and paper requires raw materials and energy. Norske Skog's environmental policy requires us to make efficient use of these resources and to continuously reduce our emissions and discharges.

SOLID RESIDUES AND EMISSIONS TO AIR

Emissions to air occur primarily from energy generation processes, and the majority of solid wastes occur 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 from these solid residues. Fossil fuels in the form of natural gas, oil and coal may also be used. The main emissions 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 result from combustion processes involving solid fuels.

In 2011, the emission of sulphur dioxide per tonne of paper was increased by two per cent compared to 2010 due to increased use of oil at the mill in Chile. The emissions of NOx per tonne of paper were similar to last year.

The total quantity of production waste generated by the group in 2011 was 658 000 dry tonnes. This is a decrease of about 12 000 tonnes compared to 2010. In 2011, 199 000 tonnes of ash were generated from combustion, an increase of 13 000 tonnes compared to 2010.

The residues from the production processes are reused or disposed of in a number of ways as shown in the figure. Where possible, process residues are used to generate energy for the pulp and paper manufacturing process. In 2011 76 per cent of the waste was used as bio-fuel, up from 75 per cent in 2010. Other residues, for example ash, are used in concrete or brick making, or in road construction. Agricultural re-use is also an option for some ash and organic materials. Part of the production residues are deposited in landfills. Many of our mills participate in projects to find alternative or additional methods of reusing the by-products from the production processes.

Hazardous waste amounted to 740 tonnes in 2011, an increase of nine per cent compared to 2010. The increase is related to an increased amount of waste oil which made up 61 per cent of the hazardous waste. The increase is due to a fire at Norske Skog Saugbrugs. Hazardous waste is disposed through authorised collection systems in accordance with national regulations.

WATER DISCHARGES

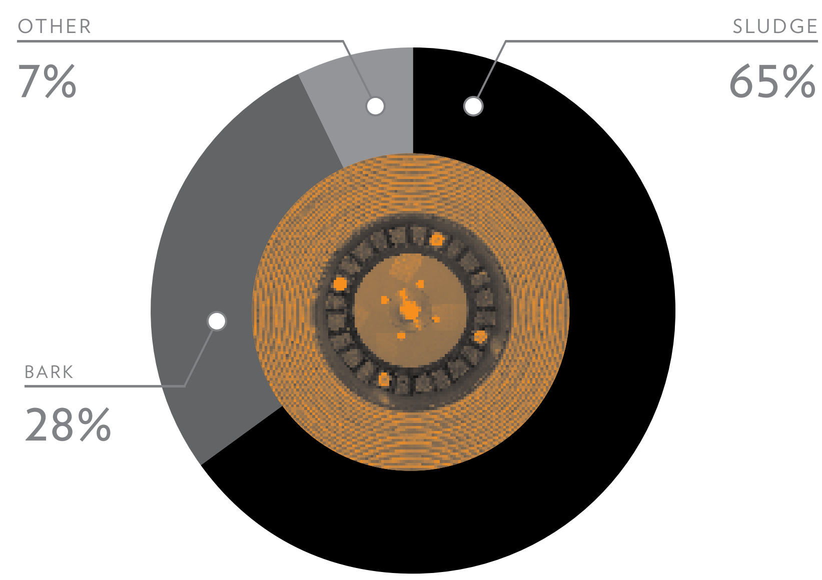
Water is generally used and recovered multiple times through the pulp and paper-making processes before finally being discharged to a number of treatment stages. These treatments remove solid particles as well as dissolved organic material, making the water suitable for safe return to the natural environment. In 2011, the water consumption in the production process per tonne of paper was similar to 2010. The discharges of dissolved organic material, suspended matter and nitrogen per tonne of paper were reduced by four per cent, 11 per cent and five per cent respectively compared to 2010. The discharge of phosphorous increased by 39 per cent compared to 2010. The difference in results from one year to the next is the result of many factors, including process improvements, utilisation of equipment, production issues and product changes.

Norske Skog does not use bleaching chemicals containing chlorine in any mills. Chlorinated organic compounds are therefore not created and AOX is not included in our emission reporting.

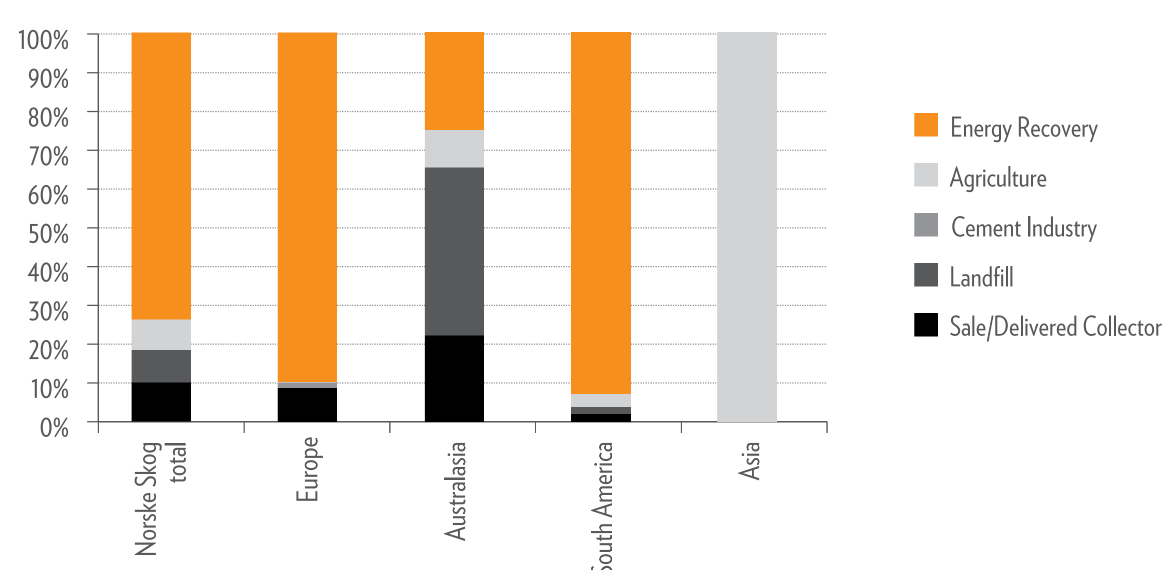
During 2011, the mills Norske Skog Pisa, Norske Skog Saugbrugs, Norske Skog Boyer and Norske Skog Albury reported to the authorities that they had exceeded permit limits relating to the quality of discharged water. None of these overruns resulted in sanctions from the authorities.

PRODUCTION WASTE, 2011

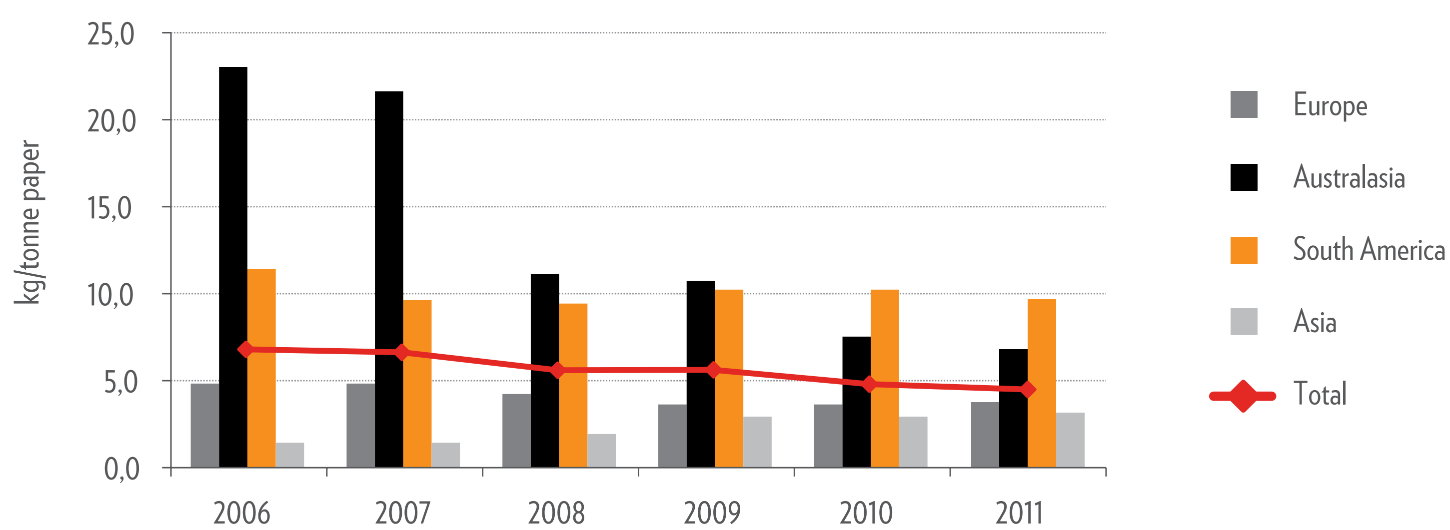
TOTAL 658 000 TONNES



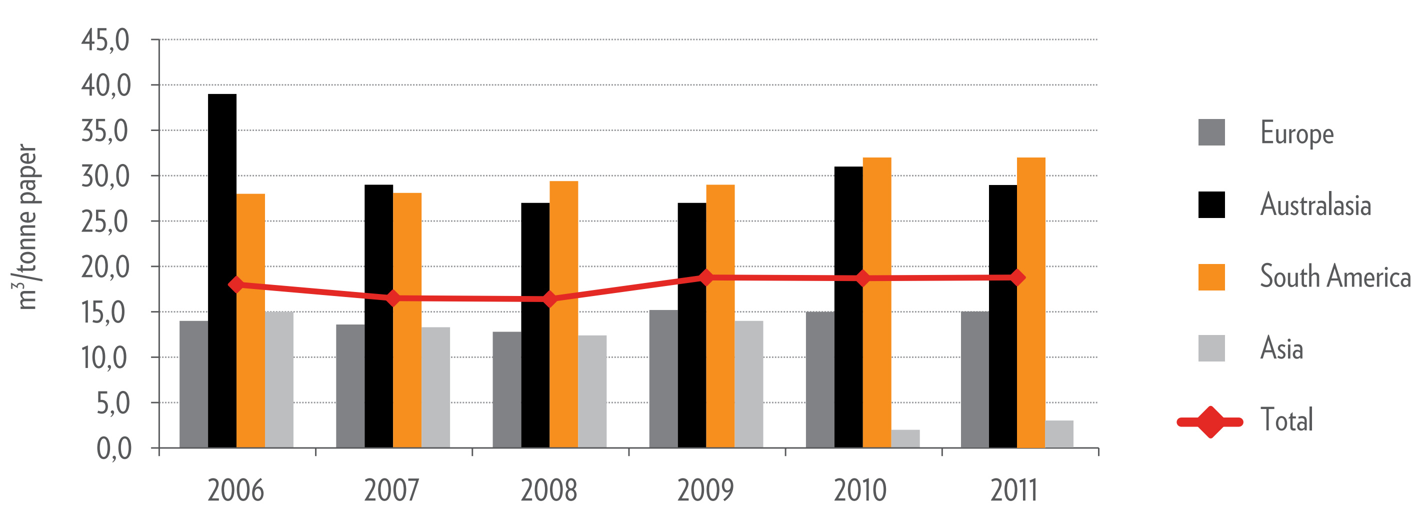
DISPOSAL OF MILL WASTE, 2011



TRENDS IN DISCHARGES OF ORGANIC SUBSTANCES (COD) PER TONNE OF PAPER FOR THE PERIOD 2006-2011



TRENDS IN DISCHARGES OF WASTEWATER PER TONNE OF PAPER FOR THE PERIOD 2006 - 2011



ENVIRONMENT-RELATED INVESTMENTS, OPERATING COSTS AND TRANSPORT

ENVIRONMENT-RELATED INVESTMENTS

Environmental investments of NOK 60 million were made at our mills in 2011. This is the same investment level as in 2010. Most of the investments regarded waste handling, energy saving and reduction of emissions to the receiving water. Most mills implemented a number of smaller environmental related initiatives as part of their continuous improvement programs.

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 consumption because a lower volume of water is pumped, heated or treated. Investments in solid waste handling systems are often made to improve the suitability of the waste for combustion and heat recovery. Improvements in chemical handling often have an improved health and safety dimension.

ENVIRONMENT-RELATED OPERATING COSTS

Approximately NOK 295 million of environment-related operating costs were incurred in 2011, equivalent to approximately NOK 77 per tonne of paper produced. The cost per tonne of paper increased by five per cent compared to 2010. The main increase was related to the cost of chemicals in treatment plants and sludge dewatering which accounted for 33 per cent. Payroll costs and maintenance were responsible for 16 and 13 per cent of the environment-related operating costs respectively. Government taxes and other charges relating to operating and monitoring treatment plants and waste management accounted for the remainder.

TRANSPORT

Norske Skog strives continually to have efficient logistics systems for the materials it purchases and for its products. Efficient systems contribute to the reduction of transport-related costs and greenhouse gas emissions. The ongoing optimisation of our logistics arrangements is done in co-operation with our transport providers.

TRANSPORT OF RAW MATERIALS

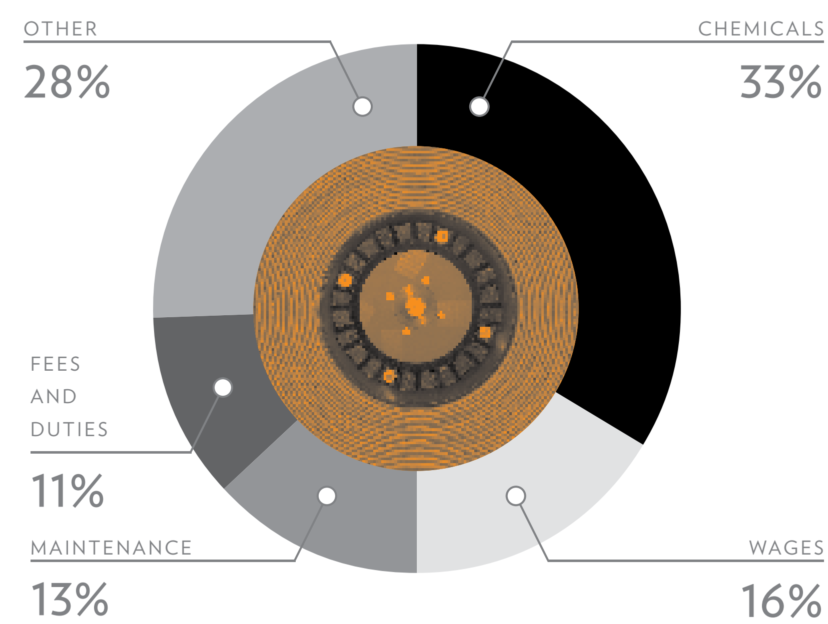
The most environmentally friendly form of wood sourcing is to be supplied by local, certified wood sources, because it minimises transport distances and requires sustainable logging. Recycled fibre is a globally traded commodity, with the same environmental considerations as when purchasing wood. Truck transport is the primary raw material transport method, accounting for more than 84 per cent of inwards transport in 2011. Transport via ship and train accounted for 10 and seven per cent respectively.

TRANSPORT OF PRODUCTS

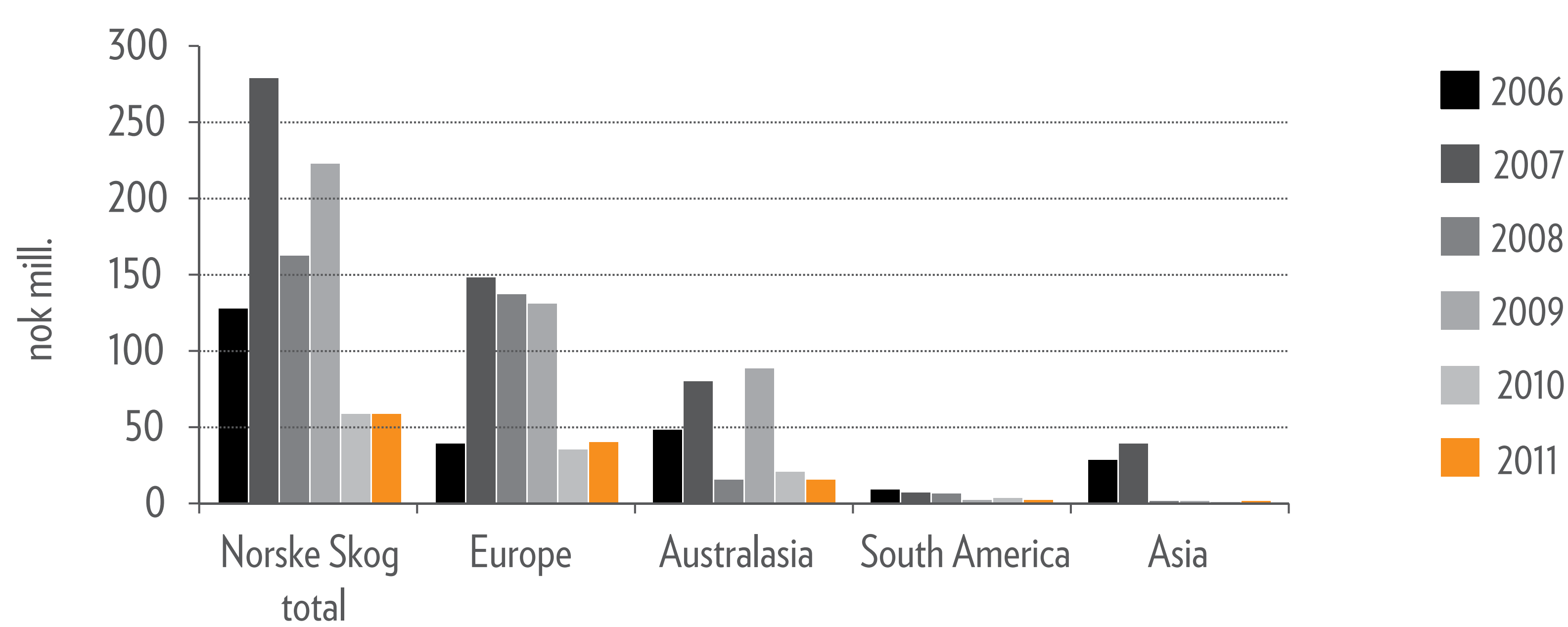
In 2011, we transported 3.9 million tonnes of paper to our customers. A large proportion of the paper is exported. This means that the distribution methods used to transport our finished products differ from the transport methods for raw materials.

There was a small change in transport methods compared to 2010. Truck transport continues to be the dominant distribution method, with 52 per cent of our finished products being transported by truck (50 per cent in 2010). Rail and ship transportation amounted to 19 and 29 per cent respectively.

ENVIRONMENT-RELATED OPERATING COST, BY TYPE OF COST, 2011



ENVIRONMENT-RELATED INVESTMENTS 2006 - 2011




Hapag-Lloyd
Hapag-Lloyd
EVERGREEN
CAPITAL

MILL FIGURES 2011

		Bruck	Follum	Golbey	Parenco	Saugbrugs
PRODUCTION						
Paper	tonnes	363 335	239 720	568 554	253 476	336 505
CONSUMPTION						
Roundwood	1 000 m^3	218	441	120	0	444
Saw mill chips	1 000 m^3	0	70	352	0	50
Recovered paper	1 000 tonnes	201	0	472	314	0
Purchased pulp	1 000 tonnes	20	4	0	0	34
Pigments and fillers	1 000 tonnes	88	39	16	17	116
Electric power	MWh/tonne	1.20	2.95	1.67	1.09	2.77
	GWh	434	707	948	276	933
Thermal energy [1]	GJ/tonne	4.35	6.95	4.95	5.39	6.21
	TJ	1 580	1 667	2 812	1 366	2 090
DISCHARGE TO WATER						
Treated process water	m^3/tonne	13.3	20.0	9.4	13.4	24.0
	1 000 m^3	4 840	4 970	5 350	3 400	8 090
Organic material (COD)	kg/tonne	2.8	8.1	1.7	2.9	5.3
	tonnes	1 010	1 950	984	745	1 770
Suspended solids (SS)	kg/tonne	0.2	0.5	0.1	0.1	0.4
	tonnes	80	128	72	16	125
Phosphorus (tot-P)	g/tonne	2.9	6.9	19.7	11.8	11.8
	tonnes	1.0	1.7	11.0	3.0	4.0
AIR EMISSIONS						
CO_2-e (fossil) (direct)	tonne/tonne	0.59	0.01	0.03	0.66	0.02
CO_2-e (fossil) (indirect)	tonne/tonne	0.01	0.02	0.13	0.06	0.02
CO_2-e (fossil) (total)	1 000 tonnes	219	6	86	181	11
WASTE [2]						
Waste to landfill	kg/tonne	1.2	11.5	0.7	0.1	23.1
	tonnes	430	2 760	380	33	7 770
MANAGEMENT SYSTEMS						
Environmental MS [3]	Certificate	ISO/EMAS	ISO	ISO	ISO	ISO
CoC-systems	Certificate	PEFC/FSC	PEFC/FSC	PEFC/FSC	PEFC	PEFC/FSC
FORESTRY CERTIFICATION [4]						
Certified (PEFC or FSC)	%	87	86	67	0 [5]	90

[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
[5] 100% Recovered fibre, 100% PEFC certified
[6] 100% Recovered fibre

	Skogn	Walsum	Albury	Boyer	Tasman	Bio Bio	Pisa	Singburi
	484 943	398 356	261 236	247 933	290 286	113 868	157 998	110 930
	545	0	401	573	229	269	325	0
	203	419	2	30	471	0	77	0
	194	0	107	0	0	0	0	140
	2	70	0	2	1	9	12	0
	32	150	0	4	11	0	0	0
	2.22	1.90	2.60	3.05	3.28	2.32	2.66	0.88
	1 093	760	681	756	951	264	420	98
	5.34	6.28	7.11	7.49	8.14	4.70	7.74	4.94
	2 590	2 502	1 857	1 859	2 363	535	1 223	548
	15.4	14.7	10.0	30.5	41.7	34.6	30.2	18.0
	7 880	5 840	2 600	7 550	12 130	3 940	4 770	1 980
	2.9	3.7	3.5	9.2	7.9	13.0	7.2	3.2
	1 390	1 490	914	2 280	2 130	1 480	1 140	355
	0.5	0.2	0.1	1.5	2.1	1.4	0.0	0.3
	216	79	18	360	683	154	4.73	29
	14.7	5.8	3.0	50.8	0.0	65.0	29.3	5.7
	7.0	2.3	1.0	13.0	0.0	7.4	4.6	0.6
	0.01	0.06	0.24	0.78	0.00	0.35	0.01	0.35
	0.01	1.21	2.31	0.36	0.62	0.99	0.08	0.50
	12	505	669	284	180	116	13	95
	31.8	0.0	7.5	64.6	24.4	26.4	4.8	231
	15 400	0	1 960	16 010	6 060	3 000	760	25 630
	ISO	ISO/EMAS	ISO	ISO	ISO	ISO	ISO	ISO
	PEFC/FSC	PEFC/FSC	PEFC	PEFC/FSC	FSC	PEFC	FSC	
	86	85	28	97	55	31	92	0 [6)]

INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT OF NORSKE SKOG

We have reviewed the environmental information presented in Norske Skog's 2011 Annual Report, pages 16 – 32 ("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 32, 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 2011 reported from a sample of two reporting units visited (Norske Skog Saugbrugs and Norske Skog Follum) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
- Norske Skog applies a reporting practice for its environmental reporting aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines reporting principles. The GRI Index referred to on page 32 in the Report appropriately reflects where relevant information on each of the elements and performance indicators of the GRI guidelines is to be found within the Norske Skog Annual Report 2011. The UN Global Compact table appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2011.

Copenhagen, 29 February 2012
Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised
Public Accountant
(Corporate Responsibility)

ENVIRONMENT AND CORPORATE SOCIAL 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 2011 includes wholly owned paper mills which were part of the group as of 31 December 2011. 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 21 and 22. 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 2011 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).

REPORT OF THE BOARD OF DIRECTORS

Norske Skog is one of the world's leading producers of newsprint and magazine paper. Around two thirds of the group's production capacity is located in Europe, consisting of a balanced portfolio of newsprint and magazine paper, while the remaining third is newsprint located in Australasia, South America and Asia.

Paper is expected to face increased competition and lower demand in mature markets, as a result of major changes in the media picture, driven by electronic innovations. However, paper has unique characteristics as a conveyor of knowledge, entertainment and advertisements. Paper will therefore continue to be a significant distribution channel in the overall media picture.

The debt crisis in Europe in 2011 led to lower economic growth in the region and also put a damper on growth in the global economy. This resulted in a weaker advertising market and thus a decline in publication paper volumes. However, sales prices increased from the low levels in 2010, through capacity adjustments in the industry. In spite of this, the improvement in margins was reduced due to higher prices for input factors, driven by demand from Asia.

The underlying global demand for newsprint dropped by about three per cent in 2011, after an increase of just under two per cent the year before. In Europe, the decline was three per cent for newsprint and four per cent for magazine paper.

NORSKE SKOG IN 2011

2011 was better, but another challenging year for Norske Skog. Better selling prices were offset by higher raw material costs, a strong Norwegian krone and weaker demand. The company was also affected by a fire at Norske Skog Saugbrugs which led to lower production.

With a strong Norwegian krone and limited competitiveness in a falling market, Norske Skog decided in December to shut down Norske Skog Follum. The mill has an annual production capacity of 290 000 tonnes. Production will be discontinued at the end of the first quarter of 2012. Norske Skog is now looking to create new activities at Follum in cooperation with local authorities and businesses.

Norske Skog assessed the future strategies for Norske Skog Parenco during 2011, without coming to a conclusion. The mill is the least competitive in the group's portfolio after the closure of Norske Skog Follum.

Norske Skog sold a significant share of its non-core assets in 2011. The total sales value amounts to nearly NOK 1 billion. This related primarily to energy and forests in Brazil and other property in Europe.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue in 2011 was NOK 19 billion (NOK 19 billion in 2010). Operating revenue remained at a stable level due to higher selling prices in 2011, particularly for newsprint, but also for magazine paper. However, delivery volumes were lower, particularly as a result of the fire and subsequent shutdown at Norske Skog Saugbrugs.

Gross operating earnings were NOK 1 515 million in 2011 (NOK 1 413 million). Gross operating earnings in 2010 included income recognised in relation to pensions and environmental provisions. The underlying improvement in gross operating earnings was close to NOK 400 million. Depreciation was NOK 1 658 million in 2011 (NOK 1 991 million). The reduction was mainly due to the impairment of fixed assets due to a higher required rate of return used for the group, and a new assessment of the expected economic life.

Gross operating earnings after depreciation but before restructuring costs, other gains and losses, and impairments, were NOK -143 million in 2011 (NOK -578 million).

Restructuring expenses in 2011 amounted to NOK 387 million (NOK 57 million) and were mainly provisions related to the decision to close Norske Skog Follum, and a cost reduction programme at Norske Skog Walsum. Other gains and losses in 2011 were NOK -201 million (NOK -1 578 million). This was due to both the gain on sale of non-core assets and changes in the value of the group's energy portfolio. Impairments totalled NOK 1 969 million in 2011 (NOK 165 million). The impairments in 2011 were mainly related to Norske Skog Parenco, and the utilisation of a higher required rate of return for the group. Operating earnings after these non-recurring items were NOK -2 701 million in 2011 (NOK -2 379 million).

Net financial items in 2011 amounted to NOK -629 million (NOK -924 million). Net interest expense including interest rate instruments was NOK 696 million in 2011 (NOK 753 million) and the reduction was mainly due to lower net interest-bearing debt throughout 2011. Total currency items, mainly realised and unrealised gains/losses from currency hedging were NOK -43 million in 2011 (NOK -136 million). Foreign exchange loss in 2011 was related to the slight weakening of the Norwegian krone when compared the closing rates in 2010 and 2011. Financial items in 2011 also included gains on the buy-back of treasury bonds.

Income relating to tax in the income statement for 2011 amounted to NOK 588 million (NOK 851 million). The tax income in 2011 was due to a pre-tax loss of NOK 3 132 million.

Net profit after tax in 2011 was NOK -2 545 million (NOK -2 469 million). Earnings per share in 2011 were NOK -13.36 (NOK -12.97).

Cash flow from operations, taking into account the increase in working capital, paid financial items and taxes, was NOK 455 million in 2011 (NOK 397 million). The improvement in operating earnings contributed to the stronger cash flow.

BALANCE SHEET

Total assets were NOK 21 974 million at 31 December 2011, compared with NOK 29 297 million at 31 December 2010. The reduction of NOK 7 323 million is due to impairments, the fact that investments were lower than depreciation, and reduced cash holdings as a result of the repayment of bank debt and bonds. Total non-current assets were NOK 15 803 million at 31 December 2011, compared to NOK 19 271 million at 31 December 2010. Capitalised investments in property, plant and equipment were NOK 490 million in 2011 (NOK 411 million), of which NOK 93 million related to the reconstruction at Norske Skog Saugbrugs after the fire. Underlying investments have been around NOK 400 million in the last two years.

Total current assets were NOK 6 171 million at 31 December 2011, compared with NOK 10 027 million at 31 December 2010. The decrease was primarily due to reduced cash holdings as mentioned above.

Total non-current liabilities were NOK 10 184 million at 31 December 2011, compared with NOK 13 875 million at 31 December 2010. The main reason for the reduction in debt was repayments that fell due in 2011.

Net interest bearing debt was reduced by NOK 1 026 million through 2011 and amounted to NOK 7 863 million at 31 December 2011.

Equity excluding minority interests was NOK 7 433 million at 31 December 2011, compared with NOK 10 183 million at 31 December 2010. The reduction of NOK 2 750 million reflects the negative result in the financial statements. Equity per share was NOK 39 at 31 December 2011, compared with NOK 54 at 31 December 2010.

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

PROFITABILITY IMPROVEMENTS AND FINANCIAL POSITION

Norske Skog introduced quarterly contracts for newsprint customers in Europe. In 2010, newsprint prices remained stuck at an unnaturally low level throughout the year as a result of annual contracts, despite the increased demand and higher prices for input factors. Price increases for newsprint were realised into 2011, with gradual increases through the year.

Initiatives to reduce fixed costs continued. Total fixed costs for the group at the end of 2011 were around NOK 4.1 billion per year, compared with NOK 4.4 billion in 2010. In addition, the company implemented efficiency programmes to limit the impact of higher raw material costs with a more optimal consumption.

The Norwegian krone appreciated slightly on average against the major currencies throughout 2011. A strong Norwegian krone is challenging for Norske Skog, which has a large cost base in Norway and most of its revenue in other currencies. In order to mitigate the currency effect on operations, the group continued its rolling cash flow hedging programme in 2011.

In the spring of 2011, Norske Skog carried out a refinancing of the outstanding bank debt, financed by a new bond loan of EUR 150 million and a reduction of cash holdings. Meanwhile, a new credit facility was entered into with a bank syndicate. The loan terms in the facility were renegotiated at the end of 2011 and gave Norske Skog increased flexibility in 2012. The loan terms include requirements to both debt levels and interest payments relative to earnings, as measured by EBITDA. Norske Skog met these requirements at 31 December 2011.

At the end of the year, Norske Skog had cash holdings and existing credit facilities which gave sufficient liquidity to meet debt maturing through 2012.

DIVIDEND PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend is disbursed for the financial year 2011.

SEGMENT ACTIVITY

Norske Skog's reporting structure in 2011 consisted of the main segments newsprint and magazine paper. In addition, energy and other activities were reported as separate segments. The newspaper segment is divided into two geographic regions, newsprint Europe and newsprint outside Europe.

NEWSPRINT TOTAL

The segment includes Norske Skog's production and sale of newsprint. Production capacity at the end of 2011 was 2 760 000 tonnes and accounted for two thirds of the total capacity of the group.

Operating revenue was NOK 11 967 million in 2011 (NOK 11 535 million in 2010) and gross operating earnings were NOK 1 318 million (NOK 1 059 million). The underlying development in 2011 was stronger than the reported figures show, because the 2010 figures included non-recurring positive effects related to pensions and environmental provisions. Higher newsprint prices in Europe were the main explanation for the improved earnings.

The underlying global demand for newsprint declined by around three per cent in 2011, assuming a flat trend in China. The group's capacity utilisation for newsprint was 90 per cent in 2011, compared with 89 per cent in 2010.

NEWSPRINT EUROPE

At the end of 2011, the region included the paper mills Norske Skog Skogn, Norske Skog Golbey and one of the paper machines at both Norske Skog Follum and Norske Skog Bruck. Production capacity was 1 455 000 tonnes, which accounted for one third of Norske Skog's total capacity. Norske Skog Parenco, with a production capacity of 265 000 tonnes, was reported in newsprint up to and including the third quarter of 2011. From the fourth quarter of 2011, Norske Skog Parenco was reported in magazine paper.

Operating revenue was NOK 6 034 million in 2011 (NOK 5 642 million) and gross operating earnings in 2011 were NOK 387 million (NOK 0 million). The improvement was due to higher newsprint prices in 2011, from low levels in 2010, which more than offset higher costs and a stronger krone. The earnings in 2010 results included additional income recognised in relation to pensions, so that the underlying improvement was stronger than reported. Sales volumes were relatively stable in 2011 and 2010.

Demand for newsprint in Europe dropped by about three per cent in 2011 after an increase of around two per cent in 2010. Capacity utilisation for newsprint Europe was 90 per cent in 2011, compared with 89 per cent in 2010.

NEWSPRINT OUTSIDE EUROPE

The region includes Norske Skog's newsprint operations in Australasia, South America and Asia. Total production capacity is 1 305 000 tonnes, which accounts for almost one third of the group's capacity. Of this, 865 000 tonnes are in Australasia, 310 000 tonnes are in South America and 130 000 tonnes are in Asia.

Operating revenue in 2011 was NOK 5 679 million (NOK 5 617 million) and gross operating earnings were NOK 915 million (NOK 1 065 million). Gross operating earnings were slightly weaker in 2011 than in 2010, even when excluding the revenue recognised in related to environmental provisions in 2010. Higher costs for input factors in 2011, along with increased exports to Asia led to margin pressure in Australasia. Sales volumes and production were stable both years.

Demand for newsprint in Australia fell by seven per cent in 2011. In South America, there was a decline in demand of about one per cent. Capacity utilisation for the operations outside Europe was 91 per cent in 2011, compared with 90 per cent in 2010.

MAGAZINE PAPER

At the end of 2011, the segment included the mills Norske Skog Saugbrugs and Norske Skog Walsum, as well as one of the paper machines at both Norske Skog Follum and Norske Skog Bruck, and the one paper machine in operation at Norske Skog Parenco. Production capacity was 1 665 000 tonnes, of which uncoated magazine paper was 810 000 tonnes and coated magazine paper 855 000 tonnes. The segment accounted for just over one third of the group's overall production capacity.

Operating revenue in 2011 was NOK 6 291 million (NOK 6 288 million) and gross operating earnings were NOK 291 million (NOK 305 million). Gross operating earnings in 2010 included a reversal of pension provisions. There was therefore an improvement in underlying operating earnings. Higher prices for magazine paper and underlying relatively stable volumes contributed positively. The fire at Norske Skog Saugbrugs and higher costs for input factors had a negative impact on earnings.

Demand for both SC (uncoated) and LWC (coated) magazine paper in Europe was lower in 2011 than the year before, with a decrease of four and five per cent, respectively. Capacity utilisation for magazine paper was low because of the shutdown at Norske Skog Saugbrugs, and was 79 per cent in 2011 compared with 89 per cent in 2010.

OTHER ACTIVITIES

In addition to the main activities within newsprint and magazine paper, the group is involved in the purchase and resale of energy to the mills, in trading activities related to recovered paper, and it has a minority stake in MNI.

For accounting purposes, the purchase of energy for the mills is recognised as a cost of materials in the segment, with resale at the contract price. In 2010, there were significant gross operating earnings in the segment due to ongoing sales of excess energy in Norway. This was not the case in 2011. The remaining excess energy in Norway was sold in its entirety in 2010.

Norske Skog owns 33.65% of MNI, which owns the only newsprint mill in Malaysia. Norske Skog uses the equity method of consolidation for MNI, which means that Norske Skog's share of MNI's net profit/loss is included in the income statement the line Share of profit in associated companies. In 2011, the share of profit amounted to NOK 198 million. There was a loss of NOK 17 million in 2010.

COST DEVELOPMENT

The group's total costs (excluding depreciation) were NOK 17.4 billion in 2011, compared with NOK 17.6 billion in 2010. Of the total costs in 2011, 75 per cent were variable costs and 25 per cent fixed costs. The corresponding distribution in 2010 was 76 per cent variable and 24 per cent fixed costs. The change mainly reflects the low capacity utilisation at Norske Skog Saugbrugs.

INPUT FACTOR COSTS

Norske Skog's consumption of wood in the form of round logs and sawmill chips was around 5.2 million m^3 in 2011. The distribution by geographic region was 34 per cent in Norway, 21 per cent on the European continent and 45 per cent in Australasia and South America together. Wood accounted for 13 per cent of the total costs payable in 2011. Wood prices in Europe remained at a generally high level in 2011, and this was related to the strong market for chemical pulp through much of the year. Norske Skog has long-term purchase contracts with price-regulating clauses in Norway, and also purchases wood under long-term purchase agreements in Australasia and South America.

Norske Skog's consumption of recovered paper was 1.4 million tonnes in 2011, of which 1.2 million tonnes were in Europe. The consumption of chemical pulp, which is primarily used in the production of magazine paper, was about 160 000 tonnes. These two input factors accounted for 12 per cent and four per cent respectively of the total costs payable in 2011. Both recovered paper and chemical pulp prices peaked in 2011 and fell back towards the end of the year. For both of these, the cost increase was largely driven by strong demand from Asia.

Energy is the largest single cost for Norske Skog. It accounted for 22 per cent of the total costs payable in 2011. About two thirds of energy costs are purchased electricity. Energy consumption in 2011 was 14 700 GWh (15 400 GWh). Of the volume in 2011, 8 300 GWh was electricity, 5 900 GWh was self-generated heat energy, and 500 GWh was purchased thermal energy. Around two thirds of the group's electricity consumption is purchased under long-term contracts entered into in Norway and New Zealand. In 2011, the company signed a new long-term contract which, together with a contract entered into previously, ensures adequate energy supply for full operation at Norske Skog Skogn. The group's exposure to spot prices in the electricity market is mainly in continental Europe.

FIXED COSTS
Work on further reductions in fixed costs will continue in 2012. The level of fixed costs will be approximately NOK 3.6 billion at the end of 2012. This includes both underlying improvements and reduction due to the closure of Norske Skog Follum. Fixed costs include employee benefit expenses and other operating expenses.

ORGANISATION

BOARD OF DIRECTORS
Norske Skog's board of directors consists of Eivind Reiten (chair), Gisèle Marchand (deputy chair), Helge Evju, Alexandra Bech Gjørv, Finn Johnsson, Åse Aulie Michelet and three employee-elected representatives Paul Kristiansen, Inge Myrlund and Svein Erik Veie. Johnsson and Aulie Michelet were elected at the corporate assembly on 23 April 2011. Nine board meetings have been held since the last general meeting, and there have been seven meetings in the audit committee and four meetings in the remuneration committee.

CORPORATE MANAGEMENT
Norske Skog's corporate management consists of Sven Ombudstvedt (president and CEO), Audun Røneid (CFO), Terry Hamilton (senior vice president European operations), Jan-Hinrich Clasen (senior vice president European sales), Rune Gjessing (senior vice president non-European operations), Gaute Hjelmbrekke Andreassen (senior vice president portfolio and strategy) and Trond Stangeby (senior vice president organisation development). Since August, Robert Wood has served as acting senior vice president for European sales.

REMUNERATION AND INCENTIVE PROGRAMME FOR CORPORATE MANAGEMENT
In accordance with the provisions in section 6-16a of Public Limited Liability Companies Act, the board's statement regarding salaries and other remuneration to senior management is presented to the general meeting. An overview of the remuneration to senior management is disclosed in Note 12 to the consolidated financial statements. Corporate management has an incentive programme with disbursements based on the relative performance of the Norske Skog share compared with a selection of relevant companies.

EMPLOYEES
Norske Skog had 5 075 employees at the end of 2011. At the end of 2010, there were 5 257 employees.

HEALTH AND SAFETY
Norske Skog aims to have zero injuries among our employees. Health and safety is the responsibility of the individual business units, and is followed up globally. All near misses and injuries are reported in a global system, and experiences from every single event are shared with the entire organisation. Norske Skog had an absence rate due to sickness of 3.6 per cent in 2011. In 2010, the sickness absence was 3.7 per cent. The H-value, which represents lost-time injuries per million working hours, was 1.99 in 2011. In February 2011, there was a tragic death at Norske Skog Golbey in connection with a truck collision. The following five mills had zero lost-time injuries in 2011: Norske Skog Albury, Norske Skog Boyer, Norske Skog Tasman, Norske Skog Pisa and Norske Skog Follum.

RESEARCH AND DEVELOPMENT
Norske Skog's research and development work is performed in the individual business units and in cooperation with external research institutions. The work is coordinated centrally by Norske Skog, where the aim is to exploit synergies and learning opportunities throughout the group.

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY
The paper industry has traditionally had few female employees. The proportion of women in Norske Skog has been stable at around 10-12 per cent for many years.

Norske Skog's board of directors consists of six members elected by the shareholders and three members elected by and from among the employees. There are three men and three women among the shareholder-elected members. All of the employee-elected representatives are men. An exception from the gender balance requirement for employee-elected board members is granted for companies with a total female percentage of less than 20 per cent. Norske Skog complies with the requirement for gender balance on boards of Norwegian public limited companies.

Norske Skog is a global company that sees the value of an international corporate management. Three nationalities are currently represented in corporate management. Norske Skog works to increase awareness that discrimination based on gender, race or beliefs not only violates laws and regulations, but is also in conflict with the interests of diversity, our ethical standards and our global agreement with the Norwegian Federation of Trade Unions and ICEM for the development of good working conditions. The company complies with the purposes and provisions of the Anti-Discrimination and Accessibility Act. Some of the mills have their own equality committees.

EMPLOYEE REPRESENTATIVES
The ICEM treaty is a global agreement to safeguard employee rights. Norske Skog is a signatory to the treaty, which has been made with the Norwegian United Federation of Trade Unions and the International Federation of Chemical, Energy, Mine and General workers' unions (ICEM).

Norske Skog has global and regional forums for employee representatives. The current system was established in 2004 and is regulated by a separate agreement between corporate management and its representatives. Most regional forums held a meeting in 2011.

COOPERATION PROJECTS
Through cooperation with the World Association of Newspapers (WAN), Norske Skog contributes to literacy programmes for children in large parts of the world. The programme is called Young Reader. Newspapers and magazines form the basis for the teaching. Norske Skog also sponsors WAN's initiative for development of innovative newspaper products. The project is called Shaping the Future of the Newspaper, and is a collaboration with newspaper publishers and other industry players.

RISK MANAGEMENT
Throughout 2011, the board was kept up to date on the group's performance, with particular focus on market and liquidity. Norske Skog makes an annual Enterprise Risk Management (ERM) evaluation based on reports from all operating units and key functions. The report was presented to the board and is part of the group's risk management activities.

The main risk exposure for the group is linked to prices and sales volumes of newsprint and magazine paper, and the cost of key input factors such as energy, wood and recovered paper.

Norske Skog's operations are mainly concentrated on the production of newsprint and magazine paper, and the group is therefore directly exposed to market trends. However, the spread between newsprint and magazine paper gives some product-related diversification and the company's operations in Australasia, South America and Asia provide some geographic diversification.

Norske Skog has limited own wood and fiber resources. The supply of these input factors is largely covered by long-term contracts. The group has long-term wood contracts in Norway, for certain mills in Europe and in Australasia and South America, which ensure a stable supply of raw materials for the business units there. The contracts contain pricing clauses that provide a certain price stabilising effect. Recovered paper is purchased by the mills based on local contracts, which largely follow the market. Recovered paper prices have increased sharply in recent years, especially due to high demand from packaging manufacturers in Asia, but prices peaked and began to fall back towards the end of 2011.

Energy supply is ensured primarily through long-term energy contracts. Long-term contracts have been entered into in Norway and Australasia, and these cover most of the anticipated use. These contracts also reduce the fluctuations in energy costs. In addition, some of the energy exposure is covered through financial hedging contracts, primarily forward contracts. This applies particularly to continental Europe. Financial risk management primarily includes foreign exchange risk, interest rate risk and liquidity risk.

Norske Skog has revenues and expenses in various currencies, and changes in exchange rates can therefore have a major impact on the group's earnings and cash flow. The group manages this risk through its active hedging programme. The group hedges a large portion of the expected cash flow in foreign currencies on a rolling basis for the next nine to 12 months. The purpose is to improve the predictability of the group's cash flow. Forward contracts and options are used for cash flow hedging.

Currency fluctuations will also affect equity and debt-related covenants. The balance sheet is primarily hedged by matching the currency composition of the loan portfolio to the currency composition of assets and cash flow. Norske Skog's debt is primarily in euro and U.S. dollars, which are both currencies in which the group has positive underlying cash flow. In addition to borrowings in foreign currencies, instruments such as short forward contracts and long-term currency swaps are used. In this way, fluctuations in equity and debt-related covenants are reduced.

Norske Skog mainly pays fixed interest rates on the group's loans to ensure predictability in interest payments, something that is considered appropriate given the pressure on the group's earnings and cash flow. The allocation between fixed and floating rate is governed by the underlying loans and the use of interest rate hedging agreements.

Norske Skog performs credit evaluations of counterparties to financial trading. These counterparties consist mainly of international banks and the requirement is that these should have a credit rating of at least A-. Assessments are also made of the counterparties in long-term contractual relationships and of the group's customers.

The group's general insurance is managed centrally through a well-established insurance programme. The group's risk factors are discussed further in Note 8 to the consolidated financial statements and the group's corporate governance is discussed in the annual report under Corporate governance.

The company's internal audit function has an important role in controlling that working- and decision-making processes take place in accordance with laws and regulations in the respective countries, and according to the company's own requirements for ethical business conduct. Regular internal audits are performed at the group's units. The internal audit reports include the unit's status when it comes to compliance, improvements since the previous audit and mapping of areas that need to be improved or changed. These reports are submitted routinely to corporate management and the board's audit committee. Annual audit reports are discussed in the company's board along with the administration's recommendations for improvements.

ENVIRONMENT

Norske Skog sets high goals for its environmental work, both at corporate and unit level. Clear environmental targets are set for each individual production unit, and the company has procedures for internal reporting of environmental performance. The group's annual report is prepared in accordance with the Global Reporting Initiative (GRI). Norske Skog signed the UN Global Compact treaty in 2003. Companies that have signed the treaty undertake to comply with the principles of human rights, employee rights, the environment and anti-corruption work. Norske Skog puts great emphasis on having a comprehensive and transparent reporting of environment and social corporate responsibility. In 2011, Norske Skog received recognition from the Carbon Disclosure Project for being the best Norwegian company and the fourth best in the Nordic region when it comes to environmental reporting.

Norske Skog made environmental investments of NOK 60 million in 2011, primarily aimed at energy conservation and waste water treatment. All Norske Skog's business units are environmentally certified in accordance with ISO 14001.

RESOURCES AND GREENHOUSE GAS EMISSIONS

Use of recovered paper is an important part of the group's energy and climate work. Recovered paper requires less energy for production of new paper than wood and thereby reduces greenhouse gas emissions.

Norske Skog prioritises the procurement of logs and wood chips from certified forestry. The company's procurement policy is that all wood shall come from sustainable forestry. All Norske Skog business units have traceability certificates to document the origin of wood.

Norske Skog has determined to reduce its greenhouse gas emissions by 25 per cent from 2006 to 2020. The reduction target includes direct greenhouse gas emissions from paper production, and indirect emissions from purchased electricity and heat. The goal will be achieved through a combination of energy conservation and use of alternative energy sources. Greenhouse gas emissions per tonne of paper from Norske Skog mills was reduced by two per cent and total emissions by six per cent in 2011.The total reduction of greenhouse gas emissions as at 2011 is 18.2 per cent compared to the base year 2006.

Dry waste generated from operations in 2011 amounted to 658 000 tonnes, compared with 669 000 tonnes in 2010. Of this, 76 per cent was utilised as bio-energy. The company produced 2 100 GWh of bio-energy in 2011.

EVENTS AFTER 31 DECEMBER 2011

In December 2011, Norske Skog signed an agreement on the settlement of seller's credit related to the sale of Klosterøya, the site where Norske Skog Union was located. The agreement was signed with a reservation linked to the purchaser obtaining necessary financing. Financing has been arranged in 2012 and settlement of the purchase price of the order of NOK 100 million took place in February 2012. Impairment of the seller's credit of NOK 42 million was included in the income statement line Financial items.

During the third and fourth quarters of 2011, a review of Norske Skog's European shared services function was conducted. As a result of this review, it was decided in January 2012 to close Norske Skog's shared service function located in Antwerp in Belgium. The closure will be implemented during the first half of 2012. Restructuring costs are estimated to be approximately NOK 10 million and will be expensed in the first quarter of 2012.

In January 2012, Norske Skog signed a long-term energy contract with Nord-Trøndelag Electricity Works (NTE) for the supply of electricity to the mill at Skogn. The agreement ensures the delivery of 0.4 TWh per year until the end of 2018.

In February 2012, Norske Skog signed an agreement for the sale of part of a power contract in southern Norway. The sold portion of the contract had an annual supply of 0.7 TWh until the end of 2020.

There have been no subsequent events with significant impact on the financial statements for 2011.

OUTLOOK FOR 2012

It is expected that prices will remain at current levels in 2012. Volumes are expected to be somewhat lower, with weak economic conditions and a structural decline in demand. The market balance for magazine paper is more stable due to reduced capacity in the industry. A lower price level for input factors is expected to contribute positively to the group's profitability. There is considerable uncertainty associated with estimates of future prospects.

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)

The paper-making activities in Norway, consisting of eight paper machines at the mills at Skogn in Levanger, Saugbrugs in Halden and Follum in Hønefoss, were part of Norske Skogindustrier ASA until 1 June 2011. With effect from 1 June 2011, the mill operations were transferred to new operational subsidiaries. Similarly, the activities of the company's shared service function at Skogn and the Nordic region sales function were transferred to separate subsidiaries. After the reorganisation, the activities of Norske Skogindustrier ASA consist primarily of corporate functions, and purchase and resale of wood, recovered paper and energy to the mills in Norway. As a result of the transfer of activities, the figures for 2011 and 2010 are not comparable.

Norske Skog has entered into energy contracts for a volume that is higher than the anticipated future needs for own use. Change in value of energy contracts in Norway that are not for own use affects the parent company's income statement in a similar manner to the consolidated financial statements. Change in value of energy contracts is recognised as a loss of NOK 710 million in 2011. Part of this value decline has arisen because the total volume has been reduced by one year. The value of the company's energy contracts is presented in the balance sheet lines Other non-current assets and Other current assets, while changes in value are presented in the income statement as Other gains and losses.

Restructuring expenses are related to downsizing at the company headquarters at Oxenøen. Financial items amounted to NOK 2 354 million in 2011. This item includes impairment of the carrying value of shares in subsidiaries of NOK 2 093 million and dividends from subsidiaries of NOK 229 million. Impairment of shares in subsidiaries is a consequence of reduced values of the underlying assets. Financial items also include net interest costs of NOK 818 million and positive currency effects of NOK 151 million.

Net cash flow from operating activities in the parent company was negative with NOK 741 million in 2011. This amount included financial payments of NOK 543 million. The net increase in working capital of NOK 104 million has also contributed to the negative cash flow from operations.

At the end of 2011, Norske Skogindustrier ASA had 98 employees, of which 33 were women.

PROFIT ALLOCATION

The net loss for the year for Norske Skogindustrier ASA (the parent company) in 2011 was NOK 2 989 million, which has been allocated in its entirety to other paid-in equity. Distributable equity in Norske Skogindustrier ASA amounted to NOK 968 million at 31 December 2011.

EFFORTS IN 2011

The work to increase the group's profitability through cost reductions, staff reductions and optimisation of operations was ongoing throughout 2011. The number of employees decreased by 182 persons in 2011 and there will be a further reduction of 356 after production is ceased at Norske Skog Follum in March 2012. The measures in 2011 confirm the value of constructive initiatives and implementation capability in the organisation, as well as a good working relationship with the unions. The board would like to thank each employee for their efforts in 2011.

OXENØEN BRUG, 29 FEBRUARY 2012
THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Finn Johnsson
Board member

Paul Kristiansen
Board member

Åse Aulie Michelet
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

ANNUAL FINANCIAL STATEMENTS
NORSKE SKOG GROUP

ANNUAL FINANCIAL STATEMENTS NORSKE SKOG GROUP

INCOME STATEMENT

NOK MILLION	NOTE	2011	2010
Operating revenue	3	**18 904**	**18 986**
Distribution costs		-1 786	-1 856
Cost of materials		-11 243	-11 539
Change in inventories		-118	-31
Employee benefit expenses	12	-2 793	-2 709
Other operating expenses	14	-1 450	-1 438
Gross operating earnings		**1 515**	**1 413**
Depreciation	4	-1 658	-1 991
Gross operating earnings after depreciation		**-143**	**-578**
Restructuring expenses	16	-387	-57
Other gains and losses	17	-201	-1 578
Impairments	4	-1 969	-165
Operating earnings		**-2 701**	**-2 379**
Share of profit in associated companies	20	198	-17
Financial items	5	-629	-924
Profit/loss before income taxes		**-3 132**	**-3 320**
Income taxes	18	588	851
Net profit/loss for the year		**-2 545**	**-2 469**
Majority share of net profit/loss for the year		-2 536	-2 462
Minority share of net profit/loss for the year	22	-8	-6
Basic/diluted earnings per share (in NOK)	23	**-13.36**	**-12.97**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2011	2010
Net profit/loss for the year	**-2 545**	**-2 469**
Other comprehensive income		
Currency translation differences	69	532
Tax expense on translation differences	-68	-26
Hedge of net investment in foreign operations	19	162
Tax expense on net investment hedge	-268	-22
Reclassifications to income statement (divestment of operations)	42	0
Tax expense on reclassifications	0	0
Other items	2	-9
Tax expense on other items	0	0
Other comprehensive income	**-205**	**637**
Comprehensive income	**-2 749**	**-1 832**
Majority share of comprehensive income	-2 740	-1 828
Minority share of comprehensive income	-9	-4

BALANCE SHEET

NOK MILLION	NOTE	31.12.2011	31.12.2010
Assets			
Deferred tax asset	18	352	137
Other intangible assets	4	148	160
Property, plant and equipment	4	12 622	15 909
Investments in associated companies	20	422	209
Other non-current assets	10	2 258	2 856
Total non-current assets		**15 803**	**19 271**
Inventories	19	1 867	2 013
Receivables	10	2 732	2 485
Cash and cash equivalents		1 200	4 440
Other current assets	19	372	1 089
Total current assets		**6 171**	**10 027**
Total assets		**21 974**	**29 297**
Shareholders' equity and liabilities			
Paid-in equity		12 303	12 303
Retained earnings and other reserves	23	-4 883	-2 143
Minority interests	22	13	22
Total equity		**7 433**	**10 183**
Pension obligations	13	541	559
Deferred tax liability	18	500	923
Interest-bearing non-current liabilities	11	8 407	11 717
Other non-current liabilities	19	736	676
Total non-current liabilities		**10 184**	**13 875**
Interest-bearing current liabilities	11	931	1 954
Trade and other payables	19	2 837	2 845
Tax payable	18	31	32
Other current liabilities	19	557	409
Total current liabilities		**4 356**	**5 240**
Total liabilities		**14 540**	**19 115**
Total equity and liabilities		**21 974**	**29 297**

OXENØEN BRUG, 29 FEBRUARY 2012
THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Finn Johnsson
Board member

Paul Kristiansen
Board member

Åse Aulie Michelet
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2011	2010
Cash flow from operating activities			
Cash generated from operations		18 726	18 920
Cash used in operations		-17 594	-18 070
Cash flow from currency hedges and financial items		216	257
Interest payments received		47	46
Interest payments made		-820	-823
Taxes paid		-121	67
Net cash flow from operating activities	3	**455**	**397**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3	-490	-411
Sales of property, plant and equipment and intangible assets		246	168
Acquisition of shares in companies and other financial payments made		-63	-112
Sales of shares in companies and other financial payments received		777	770
Net cash flow from investing activities		**470**	**415**
Cash flow from financing activities			
New loans raised		1 141	53
Repayments of loans		-5 311	-465
Purchase/sale of treasury shares		0	1
New equity		0	1
Net cash flow from financing activities		**-4 170**	**-409**
Foreign currency effects on cash and cash equivalents		5	-204
Total change in cash and cash equivalents		**-3 240**	**199**
Cash and cash equivalents 1 January		4 440	4 241
Cash and cash equivalents 31 December		1 200	4 440
Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		-3 132	-3 320
Depreciation/impairments	4	3 627	2 156
Share of profit in associated companies	20	-198	17
Gains and losses from divestment of business activities and property, plant and equipment	17	-354	-148
Taxes paid		-121	67
Change in receivables		81	-67
Change in inventories		59	4
Change in trade and other payables		-178	-182
Financial items with no cash impact		72	404
Gains and losses on commodity contracts and embedded derivatives	17	602	1 582
Adjustments for items with no cash impact		-3	-117
Net cash flow from operating activities		**455**	**397**

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 2010	**12 302**	**-583**	**349**	**-81**	**11 987**	**28**	**12 015**
Net profit/loss for the year	0	-2 462	0	0	-2 462	-6	-2 469
Other comprehensive income	0	0	140	494	634	2	637
Change in holding of treasury shares	2	0	0	0	2	0	2
Change in ownership in subsidiaries	0	-2	0	3	1	-3	-2
Equity 31 December 2010	**12 303**	**-3 048**	**489**	**416**	**10 161**	**22**	**10 183**
Net profit/loss for the year	0	-2 536	0	0	-2 536	-8	-2 545
Other comprehensive income	0	0	-249	45	-204	-1	-205
Equity 31 December 2011	**12 303**	**-5 584**	**240**	**461**	**7 420**	**13**	**7 433**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 Oxenøen 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 29 February 2012.

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

RECLASSIFICATION IN THE BALANCE SHEET

A review of the balance sheet was carried out during 2011. This resulted in reclassification of certain current asset and liability items. The modified classification has been applied retrospectively, and comparative figures in the balance sheet have been restated. Prepayments to suppliers have been moved from Other current assets to Receivables. The change has an effect of NOK 73 million as at 31 December 2011 and NOK 88 million as at 31 December 2010. Accrued financial costs and short-term obligations related to financial instruments are moved from Trade and other payables to Other current liabilities. The change has an effect of NOK 216 million as at 31 December 2011 and NOK 332 million as at 31 December 2010. Accrued expenses and provisions for goods received but not invoiced are reclassified from Other current liabilities to Trade and other payables. The change has an effect of NOK 46 million as at 31 December 2011 and NOK 103 million as at 31 December 2010.

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) and interpretations from the IFRS Interpretations Committee (IFRIC), 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 group also assesses whether control exists where it does not have more than 50% of the voting power, but is able to govern the financial and operating policies by virtue of de-facto control. An important factor when assessing de-facto control is whether or not the group can choose the board of directors.

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.

Intercompany transactions, balances, income and expenses on transactions are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. The accounting policies of subsidiaries have been amended where necessary to ensure consistency with the policies adopted by the group.

b) Change in ownership interests in subsidiaries without loss of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Upon further acquisition of shares in subsidiaries from non-controlling interests, the difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries
When the group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

d) 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. The investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Profits and losses resulting from transactions between the group and its associates are recognised in the group financial statements only to the extent of unrelated investors' interests in the associates.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the amount as Share of profit in associated companies.

Dilution gains and losses arising in investments in associates are recognised in the income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

SEGMENT REPORTING

Reportable segments
The activities in the group are divided into three operating segments: newsprint, magazine paper and energy. The newsprint segment is further segregated into two geographical regions. The 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.

Accounting policies applied in the segment reporting
Recognition, measurement and classification applied in the segment reporting are consistent with the accounting principles applied for the group's consolidated income statement and balance sheet. The option in IFRS 8 allowing different accounting policies to be applied in segment reporting and group reporting is, for transparency reasons, not applied in Norske Skog.

Performance measurement
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 items 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.

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 group financial statements. All sales transactions between operating segments are carried out at arm's length prices as if sold or transferred to independent third parties.

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 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 or 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. Gains and losses subject to hedge accounting and relating to currency positions qualifying as net investment hedges and which are hedge accounted, are booked as part of comprehensive income.

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.

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 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 and impairments. 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 line Other gains and losses.

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 patents 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 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, and financial assets available for sale. This classification depends on the purpose for which the investments were acquired. Management determines the classification of an investment at initial recognition and re-evaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it was acquired principally for the purpose of short-term sale or if so designated by management. Derivatives are also categorised as held for trading unless designated as hedges. Assets in this category are classified as current 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 *Financial Instruments – recognition and measurement*. Such contracts are treated as derivatives in accordance with IAS 39. Norske Skog currently has energy contracts in Norway and South America that do not meet the own use criteria according to IAS 39.5. The contracts must therefore be treated as derivatives and are booked to fair value through profit or loss (see also Notes 7, 8 and 9). 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 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.

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 recognising 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) Hedging of a net investment in a foreign operation (net investment hedge),
c) Derivatives at fair value through profit or loss.

Upon inception of a transaction, the group documents 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 amortised 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) Net investment hedge

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 line Financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

c) 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 9).

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 Interest-bearing 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. Trade 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. Interest costs are recognised in profit or loss in the period in which they are incurred.

BOND LOANS

The value of bond loans in the balance sheet is reduced by holdings of Norske Skog bonds. Amounts above or below amortised 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 includes 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 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.

PENSION OBLIGATIONS, BONUS ARRANGEMENTS AND OTHER 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 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 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 allocated 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 12.

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.

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 2010, 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. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases relating to property and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised in the balance sheet to the lower of the fair value of the lease property and 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 (except for emission rights, described below) are recognised as income over the period necessary to match the grants on a systematic basis to the costs that they are intended to compensate for. 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 no accounting standard or interpretation in IFRS regarding the accounting treatment for emission allowances or renewable energy certificates. Received allowances are recognised in the balance sheet as intangible assets at the market value on the date the rights are granted. The difference between fair value and the nominal amount paid for the rights is recognised in the balance as a government grant (deferred income).

Emissions are recognised in the income statement as Cost of materials, and the government grant (deferred revenue) is recognised concurrently with emission costs. Unused credits (deferred income) and used allowances are netted against the carrying amount of intangible asset recognised in the balance sheet, when the individual contracts for emission allowances fall due for settlement.

If the received allowances are sufficient to cover the company's emissions, there will be no net cost or net income in gross operating earnings. If it is necessary to acquire additional allowances on the open market, a provision is made based on actual emissions.

If the number of allowances received exceeds actual consumption, the surplus is sold in the market. The gain/loss from the sale is presented as Other gains and losses. Emission rights sold in advance are recognised as income in line with actual consumption.

DIVIDEND DISTRIBUTION
Dividend distribution to the company's shareholders is recognised as a liability in the group financial statements in the period in which the dividend is approved in the general meeting.

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 property, plant and equipment (PPE)
The group performs periodic tests to assess whether there has been a decline in the value of intangible assets and PPE. These are written down to their recoverable amount when the recoverable amount is lower than the assets carrying value. The recoverable amount from assets or 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 magazine paper (light weight coated (LWC)), Australasia newsprint, South America newsprint, Norske Skog Saugbrugs magazine paper (super-calendered (SC)), Norske Skog Parenco magazine paper (NorCal), Norske Skog Follum magazine paper and Norske Skog Singburi newsprint. Norske Skog Parenco was included in the cash-generating unit Europe newsprint up to and including the second quarter of 2011. In recent years, production at the mill has gradually been converted from newsprint to magazine paper. For 2011, the bulk of production consisted of magazine paper (NorCal). Since Norske Skog Parenco is the only mill in the group producing this magazine paper quality, it is included as a separate cash-generating unit.

The capitalised value of intangible assets and PPE within the cash-generating units is measured against the value in use of intangible assets and PPE 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 PPE.

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

The prognosis for long-term prices is an estimated equilibrium price level which the least cost-efficient mills in the industry need in order to survive an economic cycle. Only the capacity necessary to meet market requirements is included in the analysis. 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 PPE.

The required rate of return applied when discounting future cash flows is crucial for the calculated value of intangible assets and PPE. A future increase in the required rate of 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 PPE.

b) Annual assessment of the remaining economic life of PPE
The group conducts annual reviews of the remaining economic life of PPE. An increase or decrease in the remaining economic life will have an impact on future depreciation, as well as affect the cash flow horizon for calculating value in use. Economic life is estimated by considering the expected usage, physical wear and tear, as well as technical and commercial development. Assessment of future developments in demand in the markets Norske Skog's products are sold is central to the assessment of the economic life of the group's mills. Expected future demand, together with the competitiveness of Norske Skog's mills, is crucial for the determination of economic life. In addition, legal or other restrictions relating to usage could affect the economic life of the mills in the group.

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. See Note 21 for further information.

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 balance sheet and a provision is recognised as a liability. The group performs a review of the residual value of 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. See Note 21 for further information.

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 9 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 INTERPRETATIONS AND STANDARDS ADOPTED BY THE GROUP

The group has adopted the following new and amended IFRSs in 2011:

IAS 1 Presentation of financial statements (amendment)
The change means that it is no longer required to show all items that are included in comprehensive income in the statement of changes in group equity. These may instead appear as a single sum. The group has previously presented the statement of changes in equity in accordance with the amended standard, and the change has therefore not affected the presentation in the financial statements.

IAS 24 Related party transactions (amendment)
The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. The amendment has not had a material impact on the disclosures given in the financial statements.

IFRS 7 Financial instruments – disclosures (amendment)
The change clarifies the information requirement relating to financial instruments, and has not had a material impact on the disclosures given in the financial statements.

IAS 32 Financial instruments – presentation (amendment)
The amendment concerns rights issues in foreign currencies. When the functional currency is different from the nominal currency of the shares, the standard opens for rights issues in the nominal currency of the shares not having to be classified as liabilities. The group does not have such instruments, and the amendment has therefore not had any impact on the financial statements.

IFRS 3 Business combinations (amendment)
The amendments relate to the measurement options for non-controlling interests, contingent consideration arising from business combinations prior to adoption of IFRS 3, and the accounting treatment of share-based payment awards. The amendments have not had any impact on the financial statements.

IFRIC 13 – Customer loyalty programmes
The interpretation concerns the measurement of points earned in customer loyalty programmes. The group does not have these types of programme, and the changes have therefore not had any impact on the financial statements.

IFRIC 14, IAS 19 – Prepayments of a minimum funding requirement (amendment)
The amendment permits a prepayment of future service cost to be recognised as an asset rather than a cost. The amendment has not had any impact on the financial statements.

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 group has not carried out this type of transaction, and the change has therefore not had any impact on the financial statements.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

Listed below are new standards, interpretations and changes to published standards that are not yet mandatory, and for which early adoption is permitted. These have not been early adopted in 2011:

IAS 1 Financial statement presentation (amendment)
Items in the statement of comprehensive income that will be reclassified to profit or loss at a future point in time must be presented separately from items that will never be reclassified. The amendment is effective for annual periods beginning 1 July 2012 or later, but has not yet been approved by the EU.

IAS 19 Employee benefits (amendment)
The change means that all actuarial gains and losses shall be recognised in other comprehensive income as they occur (i.e. elimination of the corridor approach), all past service costs shall be recognised immediately, and that interest cost and expected return on plan assets shall be replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The amendment is effective for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU.

IAS 27 Separate financial statements (revised)
The rules for consolidated financial statements are replaced by the new IFRS 10 and IFRS 12. What remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The changes are effective for annual periods beginning 1 January 2013 or later, but have not yet been approved by the EU. The changes are not expected to have a significant impact on the separate financial statements.

IAS 28 Investments in associates and joint ventures (revised)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed, and the standard now describes the application of the equity method to investments in joint ventures in addition to associates. The change is effective for annual periods beginning 1 January 2013 or later, but is not yet approved by the EU. It is not expected that the change will have a significant impact on the financial statements.

IFRS 7 Financial Instruments – disclosures (amendment)
The amendment introduces new disclosure requirements related to the derecognition of financial assets. The change applies to annual periods beginning 1 July 2011 or later, but has not yet been approved by the EU. It is not expected to have a significant effect on the note disclosures given.

IFRS 9 Financial Instruments
The new standard replaces the provisions on recognition, classification and measurement of financial assets and financial liabilities in the current IAS 39. The standard is effective for annual periods beginning 1 January 2015 or later. The standard has not yet been approved by the EU. The group has not fully assessed the impact of the adoption of IFRS 9.

IFRS 10 Consolidated financial statements
The new standard builds on the existing principles that define the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control. The standard is effective for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU. The group has not fully assessed the impact of the adoption of IFRS 10.

IFRS 11 Joint arrangements
The new standard removes the option for jointly controlled entities to use proportionate consolidation. Instead, the equity method of accounting must be used. IFRS 11 specifies two main categories of joint control: joint ventures and joint operations. For joint ventures, joint control is recognized in accordance with the equity method, but for joint operations, the parties shall recognize their rights in the assets and liabilities included in the collaboration. The standard is mandatory for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU. It is not expected to have a material impact on the financial statements.

IFRS 12 Disclosures of interests in other entities
The standard contains disclosure requirements for financial interests in subsidiaries, joint ventures, associated companies, special purpose entities and other off balance sheet entities. The group has not considered the impact of IFRS 12, but the standard only affects the presentation in the financial statements. The standard is mandatory for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU.

IFRS 13 Fair value measurement
The standard defines what is meant by fair value when the term is used in IFRS, provides a unified description of how fair value should be determined by IFRS, and defines what additional information should be provided when fair value is used. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards. The standard is mandatory for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU. The group uses fair value as the measurement criterion for certain assets and liabilities, but has not yet fully considered the impact of IFRS 13.

3. OPERATING SEGMENTS

REPORTABLE SEGMENTS

The group is divided into three operating segments: newsprint, magazine paper and energy. The segment selection is based on the product and on the organisational structure used in the group's internal performance measurement and resource allocation. The newsprint segment is further divided into two geographical regions.

At the end of 2011, Norske Skog had 14 fully or partly owned paper mills on four continents. Two of the mills produce only magazine paper, three produce both magazine paper and newsprint and nine produce newsprint only. Norske Skog Parenco was included within the operating segment for newsprint, up to and including the third quarter of 2011. From the fourth quarter of 2011, the mill is included within the operating segment for magazine paper, since production at the mill has in recent years been gradually converted from newsprint to magazine paper. The bulk of production at the mill is now magazine paper (NorCal). 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 grammes per square meter, will normally be in the range 40-57 g/m². These paper qualities are for instance used in newspapers, and advertising materials.

Magazine paper
The magazine paper segment encompasses production and sale of the paper qualities super calendered (SC), machine finished coated (MFC), light weight coated (LWC) and NorCal. These paper qualities are for instance used in magazines, periodicals, catalogues and brochures.

Energy
The energy segment includes purchase and sale of energy for the group's mills in Norway, 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 and purchase and resale of wood.

REVENUES AND EXPENSES NOT ALLOCATED TO OPERATING SEGMENTS

Norske Skog manages non-current debt, taxes and cash positions 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 20 Investments in associated companies.

MAJOR CUSTOMERS

Norske Skog had a total sales volume of newsprint and magazine paper of 3 857 000 tonnes in 2011, of which sales to the group's largest customer constituted approximately 430 000 tonnes.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

2011	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**11 967**	**6 291**	**1 497**	**2 193**	**-3 043**	**18 904**
Distribution costs	-1 129	-577	0	-80	0	-1 786
Cost of materials	-6 904	-3 775	-1 493	-1 744	2 674	-11 243
Change in inventories	-13	-104	0	-1	0	-118
Employee benefit expenses	-1 597	-976	0	-220	0	-2 793
Other operating expenses	-1 006	-568	-1	-246	370	-1 450
Gross operating earnings	**1 318**	**291**	**3**	**-98**	**0**	**1 515**
Depreciation	-1 145	-488	0	-25	0	-1 658
Gross operating earnings after depreciation	**174**	**-197**	**3**	**-123**	**0**	**-143**
Restructuring expenses	-160	-217	0	-11	0	-387
Other gains and losses	20	115	-497	160	0	-201
Impairments	-624	-1 345	0	0	0	-1 969
Operating earnings	**-589**	**-1 644**	**-494**	**26**	**0**	**-2 701**
Share of operating revenue from external parties (%)	99	95	33	28		100

2010	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**11 535**	**6 288**	**2 218**	**2 154**	**-3 209**	**18 986**
Distribution costs	-1 108	-632	0	-116	0	-1 856
Cost of materials	-6 761	-3 889	-2 064	-1 588	2 763	-11 539
Change in inventories	6	-35	0	-1	0	-31
Employee benefit expenses	-1 617	-854	0	-238	0	-2 709
Other operating expenses	-996	-573	-4	-310	446	-1 438
Gross operating earnings	**1 059**	**305**	**150**	**-100**	**0**	**1 413**
Depreciation	-1 421	-520	0	-49	0	-1 991
Gross operating earnings after depreciation	**-363**	**-215**	**150**	**-150**	**0**	**-578**
Restructuring expenses	-43	-5	0	-9	0	-57
Other gains and losses	44	7	-1 693	64	0	-1 578
Impairments	-165	0	0	0	0	-165
Operating earnings	**-527**	**-214**	**-1 543**	**-95**	**0**	**-2 379**
Share of operating revenue from external parties (%)	98	95	49	28		100

OPERATING REVENUE PER MARKET

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

	2011	2010
Norway	996	1 693
Rest of Europe	9 695	10 276
North America	1 023	826
South America	1 507	1 311
Australasia	3 657	3 801
Asia	1 678	887
Africa	348	193
Total	**18 904**	**18 986**

NET CASH FLOW FROM OPERATING ACTIVITIES

	2011	2010
Newsprint	915	726
Magazine paper	262	319
Energy	-25	29
Other activities	-20	-225
Total before cash from net financial items and taxes paid	**1 132**	**850**
Cash from net financial items	-557	-520
Taxes paid	-121	67
Net cash flow from operating activities	**455**	**397**

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2011	2010
Newsprint	325	319
Magazine paper	156	52
Energy	0	0
Other activities	9	39
Total	**490**	**411**

INVENTORIES

Inventories include raw materials, work in progress, finished goods and other production materials.

	31.12.2011	31.12.2010
Newsprint	1 088	1 230
Magazine paper	735	744
Energy	0	0
Other activities	44	40
Total	**1 867**	**2 013**

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.

	31.12.2011	31.12.2010
Norway	2 994	3 571
Rest of Europe	3 155	4 820
Australasia	5 157	5 396
Asia	159	388
South America	855	1 177
Activities not allocated to regions	302	556
Total	**12 622**	**15 909**

4. OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

OTHER INTANGIBLE ASSETS	GOODWILL	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2010	5 684	112	251	6 047
Additions	0	0	62	62
Disposals	0	-3	-94	-97
Reclassified from plant under construction	0	2	0	2
Currency translation differences	0	0	6	6
Acquisition cost 31 December 2010	**5 684**	**111**	**225**	**6 020**
Accumulated depreciation and impairments 1 January 2010	5 626	90	123	5 839
Depreciation	0	5	20	25
Impairments	0	0	0	0
Disposals	0	-3	-8	-11
Currency translation differences	0	-2	9	7
Accumulated depreciation and impairments 31 December 2010	**5 626**	**90**	**144**	**5 860**
Carrying value 31 December 2010	**58**	**21**	**81**	**160**
Acquisition cost 1 January 2011	5 684	111	225	6 020
Additions	0	0	99	99
Disposals	0	0	-81	-81
Reclassified from plant under construction	0	0	0	0
Currency translation differences	0	0	2	2
Acquisition cost 31 December 2011	**5 684**	**111**	**245**	**6 040**
Accumulated depreciation and impairments 1 January 2011	5 626	90	144	5 860
Depreciation	0	3	0	22
Impairments	0	0	0	0
Amortisation of credit facility	0	0	9	9
Disposals	0	0	-1	-1
Currency translation differences	0	0	2	2
Accumulated depreciation and impairments 31 December 2011	**5 626**	**93**	**173**	**5 892**
Carrying value 31 December 2011	**58**	**18**	**72**	**148**

Goodwill is not depreciated. Licenses, patents and other intangible assets are depreciated over a period from five to 20 years.
Other intangible assets consist mainly of capitalised development costs related to customising of software.

GOODWILL SPECIFIED PER ACQUISITION	ACQUISITION YEAR	31.12.2011	31.12.2010
Norske Skog Golbey	1995	58	58

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTR-UCTION	TOTAL
Acquisition cost 1 January 2010	390	41 396	9 570	1 039	642	53 037
Additions	8	192	50	5	223	478
Disposals	-13	-415	-173	-80	0	-681
Dismantling provision	0	-37	-140	0	0	-177
Transfer to assets held for sale	0	-7	-142	0	-2	-151
Reclassification	0	140	-140	0	0	0
Reclassified from plant under construction	12	509	174	5	-702	-2
Currency translation differences	41	652	-144	-26	15	538
Acquisition cost 31 December 2010	**438**	**42 430**	**9 055**	**943**	**176**	**53 042**
Accumulated depreciation and impairments 1 January 2010	64	28 711	5 476	879	346	35 476
Depreciation	1	1 686	242	37	0	1 966
Impairments	0	147	45	0	0	192
Reversal of impairments	0	319	0	0	-346	-27
Value changes	30	0	0	0	0	30
Transfer to assets held for sale	0	-3	-9	0	0	-12
Disposals	-11	-402	-121	-75	0	-609
Currency translation differences	21	201	-84	-21	0	117
Accumulated depreciation and impairments 31 December 2010	**105**	**30 659**	**5 549**	**820**	**0**	**37 133**
Carrying value 31 December 2010	**333**	**11 771**	**3 506**	**123**	**176**	**15 909**
Acquisition cost 1 January 2011	438	42 430	9 055	943	176	53 042
Additions	0	50	68	7	408	533
Disposals	-120	-279	-136	-76	-8	-619
Dismantling provision	0	3	0	0	0	3
Reclassification	0	-138	138	0	0	0
Reclassified from plant under construction	16	59	207	4	-286	0
Currency translation differences	8	261	-4	-1	4	268
Acquisition cost 31 December 2011	**342**	**42 386**	**9 328**	**877**	**294**	**53 227**
Accumulated depreciation and impairments 1 January 2011	105	30 659	5 549	820	0	37 133
Depreciation	7	1 192	408	29	0	1 636
Impairments	14	1 478	410	22	45	1 969
Reversal of impairments	0	0	0	0	0	0
Value changes	-35	0	0	0	0	-35
Reclassification	0	-65	65	0	0	0
Disposals	74	-230	-16	-76	0	-248
Currency translation differences	4	147	-1	0	0	150
Accumulated depreciation and impairments 31 December 2011	**169**	**33 181**	**6 415**	**795**	**45**	**40 605**
Carrying value 31 December 2011	**173**	**9 205**	**2 913**	**82**	**249**	**12 622**

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 in the income statement line Other gains and losses. Machinery and equipment is depreciated over a period from ten to 25 years. Buildings and other property are depreciated over a period from ten to 40 years. Fixtures and fittings are depreciated over a period from three to ten years. Land and plant under construction are not depreciated.

The difference between total additions and purchases of property, plant, equipment and intangible assets in the cash flow statement is due to capitalised allocated emission allowances, finance leases and accruals for payments. In 2011, acquisition costs of NOK 138 million and accumulated depreciation of NOK 65 million were reclassified from machinery to land and buildings. In 2010, NOK 140 million relating to a prior year reversal of dismantling provision was reclassified from land and buildings to machinery and equipment.

NON-CURRENT ASSETS HELD FOR SALE

In the second quarter of 2010, Norske Skog initiated a sales process for some of the group's non-production related properties in Norway. The assets had a carrying value of NOK 139 million at 31 December 2010 and were reclassified from Property, plant and equipment to Other current assets, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The assets were classified as part of other activities in the segment reporting. The sale was completed in 2011. Norske Skog does not have any non-current assets held for sale per 31 December 2011.

ASSUMPTIONS APPLIED WHEN CALCULATING THE RECOVERABLE AMOUNT

PPE and intangible non-current assets are written down to their recoverable amount when this is lower than the carrying value of the asset. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows expected to arise from an asset or cash-generating unit. From the third quarter of 2011, Norske Skog started to use an adjusted present value model (APV) for calculating the present value of future cash flows. The reason for this is that the present value model (NPV) used previously is not very well suited to assess the value of assets in companies with poorer credit rating than BBB+ or A-3.

Nominal cash flow is estimated in the currency in which it will be generated. In the adjusted present value model, the value is calculated by discounting based on a required rate of return on equity that is relevant for the cash-generating unit or the individual asset. The required rate of return is based on the interest rate on ten year government bonds in the currency of the cash flow estimate. This is adjusted for a specific operational risk relevant to Norske Skog, uncertainty in the estimated cash flow and, in certain instances, a country-specific risk premium relevant to the cash-generating unit or individual asset.

When calculating value in use at the end of 2011, the discount rate after tax was in the interval from 8.6% to 12.4% (7.7% to 10.8% in 2010, but then calculated as a weighted average cost of capital). The calculations are based on cash flow and the required rate of return after tax. Net present value of future cash flows after tax is adjusted for tax effects to arrive at the value in use when assessing impairment.

When calculating value in use, the group is divided into the following cash-generating units: Europe newsprint, Europe magazine paper (light weight coated (LWC)), Australasia newsprint, South America newsprint, Norske Skog Saugbrugs magazine paper (super-calendered (SC)), Norske Skog Parenco magazine paper (NorCal), Norske Skog Follum magazine paper and Norske Skog Singburi newsprint. Norske Skog Parenco was part of the cash-generating unit Europe newsprint, up to and including the second quarter of 2011. In recent years, production at the mill has gradually been converted from newsprint to magazine paper. For 2011, the bulk of the production consists of magazine paper (NorCal). Since Norske Skog Parenco is the only mill in the group producing this magazine paper quality, it has been included as a separate cash-generating unit from the third quarter. In cases where several mills are part of a cash-generating unit, this is because production can be moved between the mills, based on what gives best profitability for the group as a whole.

Cash flow is calculated individually for up to ten years for each cash-generating unit, based on the estimated useful life. The paper industry is a capital intensive industry where investment decisions are made based on projects with a long time horizon. The production machines have a long technical life. The estimated remaining useful life of the individual paper machines forms the basis for determining the length of the cash flow period. Sales prices and input prices are based on short-term forecasts in the first two years and on long-term forecasts for prices thereafter. The short-term forecasts are based on budgets from the mills, updated with the latest estimates for sales prices and prices for input factors. The expected value of operations beyond ten years is assessed as a terminal value based on industry average for the Enterprise Value / EBITDA, adjusted for the technical quality of the specific asset and the cash flow horizon. The rate of growth in the terminal value is zero.

The prognosis for long-term prices is an estimated equilibrium price level which the least cost-efficient mills in the industry need to survive an economic cycle. Only the capacity necessary to meet market requirements is included in the analysis. As for most industrial products, paper prices show a declining real price of approximately 1-2% per year. This means that the cash flow decreases gradually in the years where long-term prices are used.

SENSITIVITY TO ESTIMATES OF RECOVERABLE AMOUNT

The estimation of recoverable amount is based on assumptions regarding the future development of several factors. These include future changes in the prices for finished goods, sales volumes, prices for input factors (wood, recovered paper, energy, development in salaries, etc.), investment in fixed assets, foreign exchange rates and interest rates. This means that there will be uncertainty when it comes to the outcome of the calculations. Norske Skog has conducted sensitivity analyses to assess how various changes in the assumptions made will impact the recoverable amount. In relation to the assumptions made in the present value calculations, recoverable amount is most sensitive to changes in the prices of finished goods, sales volumes and currency movements. A reduction in sales prices (from 2013) and sales volume in the cash flow period of 5% would result in a reduction in the recoverable amount in the order of NOK 5 400 million and NOK 1 900 million, respectively. Similarly, a weakening of USD of 5% would lead to a reduction in the recoverable amount of approximately NOK 800 million. A price increase of 5% on the input prices for wood, recovered paper, energy and labour would reduce the recoverable amount by approximately NOK 800 million, NOK 600 million, NOK 500 million and NOK 700 million, respectively.

IMPAIRMENT LOSSES RECOGNISED IN 2011

Norske Skog has assessed the recoverable amount at each quarter-end during 2011. Total impairments recognised in 2011 amounted to NOK 1 969 million. These impairments consist of NOK 96 million for Europe newsprint, NOK 139 million for Europe magazine paper (light weight coated (LWC)), NOK 103 million Australasia newsprint, NOK 241 million South America newsprint, NOK 184 million Norske Skog Singburi newsprint, NOK 244 million Norske Skog Saugbrugs magazine paper (super-calendered (SC)), NOK 35 million Norske Skog Follum magazine paper and NOK 927 million Norske Skog Parenco magazine paper (NorCal). The impairments have mainly arisen due to a higher required rate of return, reduced cash flow horizon, a stronger Norwegian krone (Norske Skog Saugbrugs magazine paper (super-calendered (SC)), the permanent closure of Norske Skog Follum, and changes in the composition of cash-generating units (Norske Skog Parenco magazine paper (NorCal)).

EXPECTED USEFUL LIFE

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

In connection with the year-end closing process for 2011, Norske Skog performed a review of the expected remaining useful lives of property, plant and equipment. The outcome of the review was that the lifetimes of some of the group's paper machines were extended with effect from 1 January 2012. The extended useful life means that the future annual depreciation charge will be reduced.

5. FINANCIAL ITEMS

FINANCIAL INCOME	2011	2010
Dividends received	1	1
Interest income	74	75
Realised/unrealised gain on foreign currency	392	406
Other financial income	163	7
Total	**630**	**489**

FINANCIAL EXPENSES	2011	2010
Interest cost	-770	-828
Realised/unrealised loss on foreign currency	-435	-543
Other financial expenses	-54	-43
Total	**-1 259**	**-1 414**
Net financial items	**-629**	**-924**

6. MORTGAGES

LOANS SECURED BY MORTGAGES ON PROPERTY	31.12.2011	31.12.2010
Other mortgage debt	148	126

CARRYING VALUE OF ASSETS SECURING THIS DEBT	31.12.2011	31.12.2010
Property, plant and equipment	172	121

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 2011 and 31 December 2010 related to land and forest areas at Norske Skog Boyer in Australia.


C8114899

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2011	NOTE	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Non-financial assets	Total
Other non-current assets	10	2 029	39	117	73	2 258
Receivables	10	0	2 614	0	117	2 732
Cash and cash equivalents		0	1 200	0	0	1 200
Other current assets	19	327	45	0	0	372
Total		**2 356**	**3 898**	**117**	**190**	

	NOTE	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing non-current liabilities	11	0	8 407	0	8 407
Interest-bearing current liabilities	11	0	931	0	931
Other non-current liabilities	19	191	0	546	736
Trade and other payables	19	0	2 837	0	2 837
Other current liabilities	19	320	0	237	557
Total		**511**	**12 174**	**783**	

31.12.2010	NOTE	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Non-financial assets	Total
Other non-current assets	10	2 595	102	69	89	2 856
Receivables	10	0	2 400	0	85	2 485
Cash and cash equivalents		0	4 440	0	0	4 440
Other current assets	19	905	45	0	139	1 089
Total		**3 500**	**6 987**	**69**	**313**	

	NOTE	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing non-current liabilities	11	0	11 717	0	11 717
Interest-bearing current liabilities	11	0	1 954	0	1 954
Other non-current liabilities	19	190	0	487	676
Trade and other payables	19	0	2 845	0	2 845
Other current liabilities	19	205	0	204	409
Total		**395**	**16 516**	**691**	

FINANCIAL ASSETS AND LIABILITIES

	31.12.2011 CARRYING AMOUNT	31.12.2011 FAIR VALUE	31.12.2010 CARRYING AMOUNT	31.12.2010 FAIR VALUE
Derivatives	12	12	5	5
Commodity contracts	2 017	2 017	2 590	2 590
Miscellaneous other non-current assets	229	229	260	260
Other non-current assets	**2 258**	**2 258**	**2 856**	**2 856**
Accounts receivable	2 373	2 373	2 241	2 241
Other receivables	241	241	159	159
Prepaid VAT	117	117	85	85
Receivables	**2 732**	**2 732**	**2 485**	**2 485**
Cash and cash equivalents	1 200	1 200	4 440	4 440
Derivatives	18	18	279	279
Commodity contracts	309	309	626	626
Current investments	45	45	45	45
Non-financial current assets	0	0	139	139
Other current assets	**372**	**372**	**1 089**	**1 089**
Interest-bearing non-current liabilities [1]	8 407	5 473	11 717	10 152
Interest-bearing current liabilities [2]	931	931	1 954	1 960
Total interest-bearing liabilities	**9 338**	**6 403**	**13 671**	**12 112**
Derivatives	0	0	35	35
Commodity contracts	190	190	155	155
Non-financial non-current liabilities	546	546	487	487
Other non-current liabilities	**736**	**736**	**676**	**676**
Derivatives	0	0	0	0
Accounts payable	1 189	1 189	1 271	1 271
Other accounts payable	1 648	1 648	1 574	1 574
Trade and other payables	**2 837**	**2 837**	**2 845**	**2 845**
Derivatives	201	201	174	174
Commodity contracts	119	119	31	31
Non-financial current liabilities	237	237	204	204
Other current liabilities	**557**	**557**	**409**	**409**

1) The fair value of non-current bank loan debt is based on cash flows discounted using the 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 quotes from Bloomberg, when these are available. In other instances, published assessment values at 1 January 2012 are used.

2) The fair value of current borrowings equals their carrying amount, as the impact of discounting is not considered 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.

8. FINANCIAL RISK AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

Norske Skog is exposed to various financial risk factors through the group's operating activities, including market risk (interest rate risk, currency risk and commodity 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 currency 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 have been no breaches of these policies during 2011 or 2010.

Market Risk
a) Interest rate risk
The goal of interest rate risk management is to secure the lowest possible interest rate payments over time within acceptable risk limits. In the current challenging 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.

INTEREST-BEARING ASSETS AND LIABILITIES WITH CORRESPONDING HEDGES

	31.12.2011			31.12.2010		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	1 564	7 481	9 045	4 479	8 901	13 381
Interest-bearing assets	-1 200	0	-1 200	-4 440	0	-4 440
Net exposure before hedging	**364**	**7 481**	**7 845**	**39**	**8 901**	**8 941**
Fair value hedge	195	-195	0	195	-195	0
Net exposure after hedging	**559**	**7 286**	**7 845**	**234**	**8 706**	**8 941**

All amounts presented in the table are notional amounts. Total interest-bearing liabilities will therefore differ from booked total amounts due to bond discounts/premiums, hedge reserve, and unrealised effects from fair value hedging (see Note 11 Interest-bearing liabilities). Floating rate exposure is calculated without accounting for potential future refinancing.

Interest rate risk - fair value hedge
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 within interest-bearing debt as adjustments of amortised cost, until the underlying hedged item is realised.

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

	2011	2010
Changes in fair value of interest rate swaps	3	4
Changes in fair value of underlying debt (hedged item)	-4	-6
Ineffectiveness recognised in the income statement [1]	1	1

[1] Ineffectiveness is presented in the income statement line Financial items.

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 costs and interest income, 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 costs 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 recognised 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 as 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 tax rate of 28 per cent.

The interest rate sensitivity analysis is based on a parallel shift in the yield curve for each relevant currency to which Norske Skog is exposed. Following a 50 basis point 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 2 million higher/lower at 31 December 2011 (NOK 2 million lower/higher at 31 December 2010). 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 or loss accounts for NOK -1 million. Floating rate debt has decreased in 2011 due to repayments.

b) Currency risk

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 arises because the group has a different currency split on income and expenses. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. The result of the hedging is included in Financial items in the income statement. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a loss of NOK 13 million in 2011 (gain of NOK 58 million in 2010). Over time, currency losses or earnings are expected to offset increased or reduced future gross operating earnings.

Translation risk - net investment hedge

The presentational currency of the Norske Skog group is NOK. Currency translation risk arises when the financial statements of subsidiaries, presented in local currencies, are translated into NOK. In order to reduce translation risk, assets and liabilities are allocated to the same currency. In addition to traditional debt instruments, all combined currency and interest rate 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. 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. There was no ineffectiveness related to net investment hedge in 2011 and 2010. The effective portion recognised in equity was a gain of NOK 19 million in 2011 (gain of NOK 162 million in 2010). The portion of the debt portfolio to which hedge accounting does not apply, was somewhat smaller in 2011 than in 2010. The foreign exchange gains and losses from such liabilities are recognised in the income statement under Financial items. During 2011, cumulative currency translation differences of NOK 12 million were reclassified to the income statement as a result of the sale of the sales office Norske Skog (USA) Inc.

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

	2011	2010
Changes in spot value of financial instruments [1)]	-91	281
The effective portion recognised in equity	19	162
Portion without hedge accounting recognised in the income statement	-110	119

[1)] Includes the change in the value of FX forward contracts, cross-currency swap contracts and bonds.

Foreign exchange - sensitivity analysis on financial instruments

The following foreign exchange sensitivity analysis calculates the sensitivity of derivatives and non-derivative financial instruments on net profit and equity, based on a defined appreciation/depreciation of 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. Furthermore, 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 recognised at fair value through profit and loss will affect the income statement. These effects come 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 2011, if NOK had appreciated ten per cent against all currencies to which the group has significant exposure, net profit after tax from financial instruments would have been NOK 464 million higher (NOK 259 million higher at 31 December 2010). If NOK had depreciated by ten per cent at 31 December 2011 against all currencies to which the group has significant exposure, net profit after tax from financial instruments would have been NOK 503 million lower (NOK 361 million lower at 31 December 2010). Net profit after tax is affected in a non-linear manner due to changes in the fair value of options. The effect of the sensitivity analysis on the income statement is mainly caused by changes in fair value of derivatives designated as rolling 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 the fact that the portion of debt has increased in relation to the portion of cash, the effect on the income statement is larger in 2011 compared to 2010.

Given a ten per cent appreciation/depreciation of NOK, equity would have been NOK 378 million higher/lower (NOK 560 million higher/lower at 31 December 2010) 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 sensitivity on the income statement, calculated above.

c) Commodity risk
A major part of Norske Skog's global commodity demand is secured through long-term contracts. Norske Skog only uses financial instruments to a limited extent to hedge these contracts. 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 defined as financial instruments, or contain embedded derivatives, which fall within the scope of IAS 39. These financial instruments and embedded 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 reflect unrealised gains or losses and are calculated as the difference between market price and contract price, discounted to present value. Some commodity contracts are bilateral contracts or embedded derivatives in bilateral contracts, for which there exists 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. Fair value of commodity contracts is therefore especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts depends on currency and price index fluctuations.

In May 2011, Norske Skog sold the energy company Enerpar-Energias do Paraná Ltda. in Brazil for NOK 410 million and in June 2010 Norske Skog sold excess electricity in Southern Norway from its long-term Norwegian electricity contract for NOK 800 million.

Sensitivity analysis for commodity contracts
Trading and hedging mandates have been established for energy activity. Most financial trading and hedging activities are carried out at Nasdaq OMX Commodities (formerly Nord Pool), while some financial hedging is carried out bilaterally with banks and trading companies. The trading portfolio for energy in Norway was terminated in 2011.

When calculating fair value of future and forward contracts, cash flows are by principle assumed to occur in the middle of the period. Currency effects arise when contract values nominated in foreign currencies are translated into the reporting currency. Net profit after tax is affected in a non-linear manner due to changes in the fair value of options.

COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39

		FAIR VALUE 31.12.2011	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25%	2 021	-1 497	1 495
Currency	change 10%	2 021	-56	56

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. Some embedded derivatives have option features. The analysis below combines all indices into one price index. Currency effects will arise when contract values nominated in foreign currencies are translated to NOK.

EMBEDDED DERIVATIVES

		FAIR VALUE 31.12.2011	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10%	-5	179	-179
Price index	change 2.5%	-5	8	-8

Liquidity risk
Norske Skog is exposed to liquidity risk when payments of financial liabilities do not correspond to the group's cash flow from operating activities. In order to effectively mitigate liquidity risk, Norske Skog's liquidity risk management strategy focuses on maintaining sufficient cash, as well as securing available financing through committed credit facilities. Managing liquidity risk is centralised on a group level, except for countries that have imposed restrictions on cross-border capital flow, where 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 1 200 million at 31 December 2011 (NOK 4 440 million at 31 December 2010) and an undrawn credit facility of NOK 1 086 million at 31 December 2011 (fully drawn credit facilities of NOK 3 125 million at 31 December 2010). See Note 11 for more information regarding the 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 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 calculated 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 2011.

MATURITY OF FINANCIAL LIABILITIES AND FINANCIAL INSTRUMENTS

31.12.2011	0 - 6 MONTHS	6 - 12 MONTHS	2013-2014	2015-2016	> 2016
Non-derivative financial instruments					
Principal payment on interest-bearing debt	-764	-167	-1 008	-2 176	-4 930
Projected interest payment on interest-bearing debt	-414	-253	-1 276	-926	-1 710
Trade payables	-2 837	0	0	0	0
Total	**-4 015**	**-420**	**-2 284**	**-3 102**	**-6 640**
Net settled derivative financial instruments					
Interest rate swaps - net cash flows	-14	4	-2	-5	1
Forward rate agreements	0	0	0	0	0
Commodity contracts	0	0	0	0	0
Total	**-14**	**4**	**-2**	**-5**	**1**
Gross settled derivative financial instruments					
Foreign exchange contracts - outflows	-3 617	-267	0	0	0
Foreign exchange contracts - inflows	3 483	266	0	0	0
Cross-currency swaps - outflows	-542	-6	-271	0	0
Cross-currency swaps - inflows	449	5	213	0	0
Total	**-241**	**2**	**-60**	**-5**	**1**
Total 2011	**-4 270**	**-414**	**-2 346**	**-3 112**	**-6 638**

31.12.2010	0 - 6 MONTHS	6 - 12 MONTHS	2012-2013	2014-2015	> 2015
Non-derivative financial instruments					
Principal payment on interest-bearing debt	-122	-1 838	-3 873	-1 995	-5 318
Projected interest payment on interest-bearing debt	-578	-243	-1 117	-966	-2 062
Trade payables	-3 040	0	0	0	0
Total	**-3 740**	**-2 081**	**-4 991**	**-2 960**	**-7 380**
Net settled derivative financial instruments					
Interest rate swaps - net cash flows	17	22	-13	-3	1
Forward rate agreements	1	-4	0	0	0
Commodity contracts	-4	3	3	0	0
Total	**14**	**21**	**-10**	**-3**	**1**
Gross settled derivative financial instruments					
Foreign exchange contracts - outflows	-3 706	-1 422	-48	0	0
Foreign exchange contracts - inflows	3 776	1 465	45	0	0
Cross-currency swaps - outflows	-1 042	-25	-556	-258	0
Cross-currency swaps - inflows	984	14	463	209	0
Total	**26**	**53**	**-105**	**-52**	**1**
Total 2010	**-3 700**	**-2 007**	**-5 106**	**-3 015**	**-7 378**

Credit risk
Norske Skog makes a credit evaluation of all financial trading counterparties. The credit risk evaluation is based on credit rating and CDS (Credit Default Swap). Based on the evaluation, a limit on credit exposure is established for each counterparty. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. The maximum credit risk arising from financial instruments is represented by the carrying amount of financial assets in the balance sheet. This includes derivatives with positive market value except for embedded derivatives. Embedded derivatives are not subjected to credit risk, as there are no future cash flows associated with such derivatives.

Norske Skog's routines for credit management of trade receivables and the authority to grant credit to customers are decentralised to the sales function. An integrated credit-assessment application is used to continuously monitor the development of overdue amounts.

9. DERIVATIVES

Fair value of derivatives

The table below classifies financial instruments measured in the balance sheet at fair value, by valuation method. The different valuation methods are described as levels and are defined as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability are not based on observable market data (i.e. unobservable inputs).

31.12.2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss				
Trading derivatives	0	23	0	23
Derivatives used for hedging	0	8	0	8
Commodity contracts	0	7	2 317	2 324
Total	**0**	**38**	**2 317**	**2 355**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-177	0	-177
Derivatives used for hedging	0	-21	0	-21
Commodity contracts	0	0	-309	-309
Total	**0**	**-198**	**-309**	**-507**

31.12.2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss				
Trading derivatives	5	178	0	183
Derivatives used for hedging	0	106	0	106
Commodity contracts	0	12	3 202	3 214
Total	**5**	**296**	**3 202**	**3 503**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-59	0	-59
Derivatives used for hedging	0	-149	0	-149
Commodity contracts	0	-8	-179	-187
Total	**0**	**-216**	**-179**	**-395**

The following table shows the changes in level 3 instruments at 31 December 2011.

	ASSETS	LIABILITIES
Opening balance	3 202	-179
Investments in the period	0	0
Compensation from sales in the period [1]	-453	53
Transfers into level 3	0	0
Transfers out of level 3	0	0
Gains and losses recognised in profit or loss	-432	-183
Closing balance	**2 317**	**-309**

[1] Sales in the period include the contracts that were included in the sale of the energy company Enerpar-Energias do Paraná Ltda. in Brazil. Gains and losses related to the realised volume from contracts in level 3 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. The exchange rates used are the quoted closing rates at 31 December.

The fair value of commodity contracts recognised in the balance sheet is calculated by using quotes from actively 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 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 following table is presented in accordance with IFRS 7.27, showing the fair value of commodity contracts in level 3 given a change in assumptions to a reasonably possible alternative.

FAIR VALUE OF DERIVATIVES IN LEVEL 3 GIVEN A REASONABLY POSSIBLE ALTERNATIVE	31.12.2011	31.12.2010
Assets		
Commodity contracts	2 220	3 218
Liabilities		
Commodity contracts	-314	-174

The electricity prices for long-term electricity contracts in Norway and New Zealand are not directly observable in the market for the whole contract length. A change in the forecast to a reasonably possible alternative would change the fair value. For the energy contracts in Norway, a reasonably possible alternative at 31 December 2011 would be a parallel shift downwards of the forward curve by three per cent. In New Zealand, a reasonably possible alternative would be a parallel shift upwards of the long end of the forward curve by two per cent.

	31.12.2011		31.12.2010	
DERIVATIVES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Net investment hedge				
Forward contracts	0	-18	2	-27
Cross-currency contracts	0	-3	0	-5
Total	**0**	**-21**	**2**	**-32**
Fair value hedge [1]				
Interest rate swaps	8	0	5	0
Total	**8**	**0**	**5**	**0**
Other derivatives [2]				
Interest rate swaps	0	-19	73	-64
Forward rate contracts	3	-3	10	-13
Currency options	12	-21	30	-54
Forward contracts	8	-134	167	-43
Commodity contracts	2 201	-182	3 202	-120
Embedded derivatives	123	-127	14	-67
Total	**2 347**	**-486**	**3 496**	**-361**
Total derivatives				
Interest rate swaps	8	-19	78	-64
Forward rate contracts	3	-3	10	-13
Currency options	12	-21	30	-54
Forward contracts	8	-152	169	-70
Cross-currency contracts	0	-3	0	-5
Commodity contracts	2 201	-182	3 202	-120
Embedded derivatives	123	-127	14	-67
Total	**2 355**	**-507**	**3 503**	**-395**

The table above 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 195 million at 31 December 2011 (NOK 195 million at 31 December 2010).

[2] Includes the active mandate portfolio, embedded derivatives in physical contracts, commodity hedging contracts and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through profit or loss.

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	NOTE	31.12.2011	31.12.2010
Receivables			
Accounts receivable		2 373	2 241
Provision for bad debt		-98	-111
Other receivables		267	182
VAT receivables		117	85
Prepaid expenses		73	88
Total		**2 732**	**2 485**
Other non-current assets			
Loans to employees		12	15
Long-term shareholdings	24	117	69
Miscellaneous non-current receivables		27	88
Derivatives	7	12	5
Commodity contracts	7	2 017	2 590
Pension plan assets	13	73	89
Total		**2 258**	**2 856**

The group's credit policy for sales is centralised. 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 THE GROUP'S CURRENT RECEIVABLES	31.12.2011	31.12.2010
Not due	2 416	2 186
0 to 3 months	327	302
3 to 6 months	10	10
Over 6 months	77	98
Total [1]	**2 830**	**2 596**

[1] Does not include provision for bad debt.

The maximum credit risk exposure at the year-end is the fair value of each class of receivable mentioned above.

11. INTEREST-BEARING LIABILITIES

	31.12.2011	31.12.2010
Bonds	8 616	9 806
Debt to financial institutions	722	3 865
Total	**9 338**	**13 671**

INTEREST-BEARING DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2011	NOK 31.12.2011	NOK 31.12.2010
USD	407	2 442	4 108
EUR	603	4 678	7 174
NZD	7	30	62
AUD	52	319	392
THB	450	85	86
Total interest-bearing debt in foreign currencies		**7 554**	**11 822**
Interest-bearing debt in NOK		1 784	1 849
Total interest-bearing debt		**9 338**	**13 671**

The average interest rate at 31 December 2011 was 6.6% (5.9% at 31 December 2010).

DEBT REPAYMENT

MATURITY OF THE GROUP'S TOTAL DEBT AT 31.12.2011	DEBT BANKS	BONDS	TOTAL
2012	276	655	931
2013	58	0	58
2014	52	898	950
2015	41	1 027	1 068
2016	38	1 070	1 108
2017	35	3 483	3 518
2018	35	0	35
2019	66	0	66
2020-2033	112	1 199	1 311
Total	**714**	**8 330**	**9 045**

MATURITY OF THE GROUP'S TOTAL DEBT AT 31.12.2010	DEBT BANKS	BONDS	TOTAL
2011	281	1 673	1 954
2012	3 185	655	3 840
2013	34	0	34
2014	34	924	958
2015	34	1 003	1 037
2016	33	0	33
2017	33	3 853	3 886
2018	33	0	33
2019	94	0	94
2020-2033	101	1 171	1 272
Total	**3 862**	**9 279**	**13 141**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, hedge reserves and fair value hedging. At 31 December 2011, the accounts included a discount of NOK 91 million (discount of 51 million at 31 December 2010). Premiums or discounts on issued bonds are amortised in the income statement over the lifetime of the issued bonds. See Note 6 for loans secured by mortgage.

As a result of the termination of a large part of the fair value hedge portfolio in the beginning of 2009, an amount was reclassified in the balance sheet. A hedge reserve (deferred income) amounting to NOK 270 million is included in interest-bearing debt as at 31 December 2011 (NOK 338 million at 31 December 2010). The hedge reserve does not constitute any payment obligation for the group, but will be amortised in the income statement over the term of the debt that has been hedged.

Total interest-bearing debt is affected by unrealised currency effects on forward contracts and on cross-currency swap contracts. This will also differ from booked debt. At 31 December 2011, this effect decreased debt by NOK 84 million (increased debt by NOK 236 million at 31 December 2010).

At 31 December 2011, the group's holding of its own bonds amounted to NOK 361 million of Norwegian bonds (NOK 334 million at 31 December 2010). The group's holding of own bonds in foreign currency amounted to USD 29 million and EUR 63 million, respectively (USD 125 million and EUR 7 million at 31 December 2010). This is deducted from interest-bearing debt in NOK.

LOAN COVENANTS

In the second quarter of 2011, the credit facility of EUR 400 million was repaid. In the same quarter, Norske Skog signed a new three-year credit facility of EUR 140 million and a Euro-denominated bond loan of EUR 150 million with a maturity of five years. The loan terms were later rengotiated.

The loan covenants in the group's credit facility of EUR 140 million are linked, among other things, to the interest coverage ratio (EBITDA / net interest expense) and the debt ratio (net interest-bearing debt / EBITDA). According to the agreement, all key figures are calculated using a 12-month average exchange rate. The group's bond loan does not include financial covenants.

31.12.2011	REPORTED KEY FIGURES	KEY FIGURES ACCORDING TO LOAN AGREEMENT [1]
Interest-bearing non-current liabilities	8 407	8 263
Interest-bearing current liabilities	931	929
- Hedge reserve	270	256
- Fair value hedge	5	5
- Cash and cash equivalents	1 200	1 130
Net interest-bearing debt	**7 863**	**7 801**
Adjusted net interest-bearing debt [2]		7 887

[1] Calculated using the average exchange rate per month for the last 12-month period.
[2] Adjusted net interest-bearing debt according to definition in loan agreement.

31.12.2011	REPORTED KEY FIGURES	LOAN COVENANTS [2]
EBITDA (last 12 months)	1 515	
Adjusted EBITDA [1] (last 12 months)	1 518	
Net interest expense (last 12 months)	674	
Adjusted net interest-bearing debt / Adjusted EBITDA	5.20	<6.00
EBITDA / Net interest expense	2.25	>1.75

[1] Adjusted EBITDA consists of gross operating earnings for the group, excluding units that have been sold during the last 12 months.
[2] The loan covenants presented in the table are as at 31 December 2011.

LOAN COVENANTS 2012	31.03.2012	30.06.2012	30.09.2012	31.12.2012
Adjusted net interest-bearing debt / Adjusted EBITDA	<6.00	<5.50	<5.00	<4.75
EBITDA / Net interest expense	>1.75	>2.00	>2.25	>2.25

LOAN COVENANTS 2013	31.03.2013	30.06.2013	30.09.2013	31.12.2013
Adjusted net interest-bearing debt / Adjusted EBITDA	<4.25	<4.00	<3.75	<3.50
EBITDA / Net interest expense	>2.50	>2.50	>2.75	>2.75

LOAN COVENANTS 2014	31.03.2014
Adjusted net interest-bearing debt / Adjusted EBITDA	<3.50
EBITDA / Net interest expense	>2.75

12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2011	2010
Salaries including holiday pay		2 199	2 115
Social security contributions		249	299
Pension costs	13	66	-17
Other employee benefit expenses		279	312
Total		**2 793**	**2 709**

NUMBER OF EMPLOYEES BY REGION	31.12.2011	31.12.2010
Europe	3 352	3 407
South America	533	587
Australasia	854	892
Asia	238	244
Corporate functions (head office)	98	127
Total	**5 075**	**5 257**

The base salary for the president and chief executive officer (CEO) Sven Ombudstvedt at 31 December 2011 was NOK 4 000 000. Total salary and other benefits received by Ombudstvedt in 2011 amounted to NOK 5 354 385.

The CEO's retirement age is 64. Early retirement benefits and salary over 12 G (base amount in the Norwegian national insurance scheme) are covered by a supplementary agreement for corporate management. The CEO entered the company's defined contribution pension plan from 1 January 2011.

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 issues a guarantee equivalent to payment of base salary for 18 months after the end of the notice period.

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

Remuneration to members of the corporate assembly and the board amounted to NOK 523 100 and NOK 3 405 250 respectively in 2011.

Please see Note 10 in the parent company financial statements for further information on remuneration to executive employees.

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

In accordance with the code of conduct for corporate governance recommended by the Oslo Stock Exchange, salary, payments in kind and bonus for members of corporate management are specified below.

	BASE SALARY PER 31.12.2011	PAYMENTS IN KIND ETC. FOR 2011 1)	BONUS 2011 2)
Sven Ombudstvedt	4 000	1 238	850
Gaute Hjelmbrekke Andreassen	2 340	679	458
Rune Gjessing	2 130	689	475
Jan-Hinrich Clasen	2 180	764	513
Audun Røneid	2 360	1 116	553
Terry Hamilton	2 180	715	426

1) Includes car allowance, provision in connection with the book reserve pension scheme, salary compensation for the transition to defined contribution pension, free telephone, etc.
2) Based on results achieved in 2010, paid in 2011.

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 corporate management is related 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 corporate management, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50% of the allocation (after tax) 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. This scheme involves no dilution effect.

The programme was continued for 2008 and 2009. It was also continued for 2010 with some changes: the maximum annual bonus from the programme was set to NOK 4 million for the 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 purchase 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, including Norske Skog, was reduced to 12. The programme was continued for 2011 and it is proposed to continue with the programme for 2012.

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		537	25
Gisèle Marchand		386	90
Helge Evju		295	6
Aleksandra Bech Gjørv		295	59
Finn Johnsson		150	
Paul Kristiansen	490	295	84
Åse Aulie Michelet		150	6
Inge Myrlund	633	295	
Svein Erik Veie	458	295	
Halvor Bjørken [1]		145	18
Einar Jørgen Greve [1]		108	
Ingrid Wiik [1]		145	18

[1] Previous members who left the board during 2011.

AUDITORS FEES
(in NOK 1 000, excluding VAT)

	PARENT COMPANY	NORWEGIAN SUBSIDIARIES AUDITED BY THE PARENT COMPANY AUDITOR	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	1 867	615	4 991	442	7 915
Audit-related assistance [1]	2 885	0	103	0	2 988
Tax assistance	0	0	133	33	166
Other fees	752	0	2 268	0	3 020
Total	**5 504**	**615**	**7 495**	**475**	**14 089**

[1] Audit-related assistance includes services which only auditors can provide, such as the limited review of interim financial statements, agreed control procedures etc.


NR B 957

13. PENSION COSTS AND PENSION OBLIGATIONS

Norske Skog has various pension schemes in accordance with local conditions and practices in the countries in which the group operates. A total of 4 168 current and former employees are covered by such schemes. Of these, 1 618 people are covered by defined benefit plans and 2 550 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

The key terms in Norske Skog's major defined benefit plans are shown in the table below.

	BENEFIT IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65	30	67	62	55
Norske Skog Follum AS	65	30	67	62	142
Norske Skog Saugbrugs AS	65	30	67	62	292
Norske Skog Skogn AS	65	30	67	62	215
Norske Skog Parenco B.V.	70	40/37	65/62	60	259
Norske Skog Walsum GmbH	50-70	40	65-67	63	592

Plan assets of the pension schemes in Norske Skogindustrier ASA, Norske Skog Follum AS, Norske Skog Saugbrugs AS and Norske Skog Skogn AS are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. With effect from the beginning of 2011, a new defined contribution scheme has been introduced in Norway, with a contribution of 4% for earnings between 1 and 6 G and 8% between 6 and 12 G. The previous defined benefit plan has been closed and covers employees born before 1 January 1959 who were employed before the closure. When changing a company pension plan, the provisions in the Company Pension Act open up for the possibility to opt out existing old-age-, dependent- and disability pensioners from the collective pension scheme and to ensure the same pension benefits by creating individual paid-up policies.

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.

When 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 insurance company.

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

When measuring incurred obligations, the estimated obligation at 31 December is used. This estimated obligation is corrected every year in accordance with the figures for 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 obligations include estimated future obligations relating to the former Norwegian early retirement scheme, pensions 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, there are also various defined contribution plans.

ASSUMPTIONS MADE WHEN CALCULATING FUTURE BENEFIT OBLIGATIONS	2011	2010
Discount rate	2.6%	3.7%
Expected return on plan assets	4.1%	5.1%
Salary adjustment	3.0%	3.5%
Social security increase/inflation rate	3.0%	3.8%
Pension increase	0.1%	1.0%

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

NET PERIODIC PENSION COST IN THE GROUP FINANCIAL STATEMENTS	2011	2010
Current service cost	71	105
Interest cost	60	88
Pension cost defined contribution schemes	31	8
Expected return on plan assets	-45	-75
Accrual national insurance contributions	3	14
Expensed portion of changes in early retirement plan	-115	8
Recognised curtailment and settlement	38	-176
Actuarial gains and losses	22	11
Net periodic pension cost	**66**	**-17**

Estimated payments to the group pension schemes in 2012 amount to NOK 50 million.

RECONCILIATION OF THE PENSION PLANS' FINANCIAL STATUS WITH THE GROUP BALANCE SHEET

PARTLY OR FULLY FUNDED PENSION PLANS	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Projected benefit obligations	-1 060	-1 543	-1 921	-2 319	-2 186
Plan assets at fair value	962	1 475	1 692	2 122	2 347
Plan assets in excess of/less than obligations (-)	**-97**	**-68**	**-229**	**-197**	**161**
Differences in estimates not taken to income statement	147	90	370	250	-159
Net plan assets/pension obligations (-)	**49**	**22**	**141**	**53**	**2**
Accrued national insurance contributions	-9	-17	-54	-24	-36
Net plan assets/pension obligations in the balance sheet	**40**	**5**	**87**	**29**	**-34**

UNFUNDED PENSION PLANS	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Projected benefit obligations	-527	-504	-635	-452	-370
Plan assets in excess of/less than obligations (-)	**-527**	**-504**	**-635**	**-452**	**-370**
Differences in estimates not taken to income statement	27	35	0	-58	-25
Net plan assets/pension obligations (-)	**-500**	**-469**	**-635**	**-510**	**-395**
Accrued national insurance contributions	-9	-6	0	-22	0
Net plan assets/pension obligations in the balance sheet	**-509**	**-475**	**-635**	**-532**	**-395**

RECONCILIATION OF THE PENSION PLANS WITH THE GROUP BALANCE SHEET	NOTE	31.12.2011	31.12.2010
Pension assets in the balance sheet	10	73	89
Pension liabilities in the balance sheet		-542	-559
Net pension obligations		**-469**	**-470**
Net unfunded pension plans		-509	-475
Net partly or fully funded pension plans		40	5

CHANGES IN PENSION LIABILITIES FOR PARTLY OR FULLY FUNDED PENSION PLANS	2011	2010
Balance 1 January	1 543	1 921
Current year's service cost	39	66
Current year's interest cost	39	66
Pension paid	-27	-66
Actuarial gains and losses	17	-32
Curtailments/settlements	-571	-284
Other changes	22	-96
Currency translation differences	-2	-32
Balance 31 December	**1 060**	**1 543**

A return on plan assets of NOK 45 million is estimated for 2011. The actual return on the plan assets in 2010 was NOK 60 million, compared with an estimated return of NOK 75 million. The difference between the actual return and the estimated return is treated as an estimate difference.

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2011	2010
Balance 1 January	1 475	1 692
Return on plan assets	45	75
Actuarial gains and losses	-35	-107
Contribution to the plan assets	0	28
Curtailments/settlements	-522	-202
Currency translation differences	-1	-11
Balance 31 December	**962**	**1 475**

Actuarial gains and losses are adjusted in previous years.

CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS	2011	2010
Balance 1 January	-475	-635
Current year's service cost	-32	-39
Current year's interest cost	-21	-22
Actuarial gains and losses	1	125
Contributions to the plan assets	6	16
Curtailments/settlements	14	103
Other changes	-4	-46
Currency translation differences	2	23
Balance 31 December	**-509**	**-475**

	31.12.2011		31.12.2010	
INVESTMENT PROFILE FOR PENSION FUNDS	Funds	Distribution	Funds	Distribution
Shares	196	20%	280	19%
Bonds	165	17%	283	19%
Bonds held to maturity	145	15%	258	18%
Properties and real estate	295	31%	371	25%
Money market	54	6%	119	8%
Other	107	11%	164	11%
Total	**962**		**1 475**	

14. OTHER OPERATING EXPENSES

	2011	2010
Maintenance materials and services	-719	-751
Marketing expenses	-20	-24
Administration costs, insurance, travel expenses etc.	-351	-395
Losses on accounts receivable	-20	-24
Operating leases	-93	-102
Research and development	-9	-10
Changes in environmental provisions	-23	107
Miscellaneous expenses	-216	-239
Total	**-1 450**	**-1 438**
Specification of losses on accounts receivable		
Receivables written off during the period	-3	-17
Payments received on items previously written off	0	0
Change in provision for bad debt	-18	-7
Total	**-20**	**-24**

15. LEASES

Operating leases
The group recognised costs of NOK 93 million in relation to operating leases in 2011. The equivalent cost in 2010 was NOK 102 million.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2011	31.12.2010
Not later than one year	42	45
Later than one year and not later than five years	55	97
Later than five years	1	4
Total	**98**	**146**

Finance leases
Leases of property, plant and equipment 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.

MINIMUM LEASE PAYMENTS RELATING TO FINANCE LEASES	31.12.2011	31.12.2010
Not later than one year	29	24
Later than one year and not later than five years	98	81
Later than five years	165	154
Total	**292**	**259**
Future finance charges on finance leases	-131	-124
Present value of minimum lease payments	**161**	**135**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2011	31.12.2010
Not later than one year	27	10
Later than one year and not later than five years	72	30
Later than five years	62	95
Total	**161**	**135**
Capitalised value of the property, plant and equipment (machinery and equipment)	**146**	**126**

16. RESTRUCTURING EXPENSES

Restructuring expenses of NOK 387 million in 2011 consisted mainly of NOK 287 million relating to the decision to shut down the paper production at Norske Skog Follum. The provision for severance pay and other payroll-related costs was NOK 115 million, of which NOK -16 million was related to the reversal of pension liabilities. The provision for other direct closure costs was NOK 172 million, of which NOK 71 million was related to the write-down of inventories (raw materials, consumables, spare parts, etc.).

Restructuring expenses of NOK 59 million were recognised in relation to provisions for severance pay in connection with a cost reduction programme at Norske Skog Walsum. The new operating model in Norske Skog, implemented in May 2011, resulted in restructuring expenses of NOK 26 million, and consisted of severance pay and other costs of NOK 13 million at Norske Skog Logistics in Antwerp, NOK 3 million at Norske Skog Focus and NOK 10 million at the head office at Oxenøen. There were also some smaller adjustments to restructuring provisions made in earlier periods.

The restructuring expenses in 2010 of NOK 57 million consisted mainly of NOK 29 million incurred as a consequence of the reorganisation of the group's European sales organisation, and non-recurring expenses of NOK 32 million in relation to outsourcing of certain administrative functions.

17. OTHER GAINS AND LOSSES

	2011	2010
Gains and losses from divestments of business activities, property, plant and equipment	354	147
Changes in value – commodity contracts [1)]	-652	-1 171
Changes in value – embedded derivatives	50	-28
Changes in value – biological assets	35	-40
Other realised gains and losses	12	-486
Total	**-201**	**-1 578**

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

The gain on divestments of business activities, property, plant and equipment in 2011 of NOK 354 million related primarily to the sale of Norske Skog Florestal Ltda. and Enerpar-Energias do Paraná Ltda. in Brazil (in total NOK 139 million) and property damage insurance compensation in connection with the fire at Norske Skog Saugbrugs (NOK 83 million). The remaining portion of the gain related primarily to the sale of non-production related property.

The gain on divestments of business activities, property, plant and equipment in 2010 of NOK 147 million was primarily related to the sale of non-production related property and the insurance claim for property damage after the earthquake that hit Chile and Norske Skog Bio Bio in the first quarter of 2010.

Other realised gains and losses of NOK 12 million in 2011 consisted mainly of gains from the sale of emission allowances.

Other realised gains and losses of NOK -486 million in 2010 were primarily related to sale of 1 500 GWh of excess energy in Southern Norway. The sale generated a loss of NOK 382 million.

18. INCOME TAXES

TAX EXPENSE	2011	2010
Current tax expense	-195	-123
Change in deferred tax	783	974
Total	**588**	**851**

RECONCILIATION OF THE GROUP TAX EXPENSE	2011	2010
Profit/loss before income taxes	-3 132	-3 320
Computed tax at nominal tax rate of 28%	877	930
Differences due to different tax rates	-26	90
Result from associated companies	50	-2
Exempted income/non-deductible expenses	11	-3
Change in tax legislation and tax rates	-4	-5
Divestment of subsidiaries [1)]	-74	0
Adjustment previous years and recognition of deferred tax assets	122	7
Tax losses not recognised	-379	-118
Other items	11	-47
Total tax expense	**588**	**851**

[1)] In 2011 the amount is related to tax on divestment of subsidiaries in Brazil (Enerpar-Energias do Paraná Ltda. and Norske Skog Florestal Ltda.).

CURRENT TAX LIABILITY	31.12.2011	31.12.2010
Norway	0	0
Rest of Europe	29	15
Outside Europe	2	17
Total	**31**	**32**

DEFERRED TAX - MOVEMENTS	31.12.2011	31.12.2010
Net deferred tax liability 1 January	786	1 708
Deferred tax charged in the income statement	-783	-974
Divestment of subsidiaries	-166	0
Tax expense on other comprehensive income	336	57
Currency translation differences	-25	-5
Net deferred tax liability 31 December	**148**	**786**

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY	31.12.2011	31.12.2010
Norway	-26	0
Rest of Europe	0	-8
Outside Europe	-326	-129
Deferred tax asset	**-352**	**-137**
Norway	0	346
Rest of Europe	204	220
Outside Europe	296	356
Deferred tax liability	**500**	**923**
Deferred tax liability - net	**148**	**786**

DEFERRED TAX DETAILS	31.12.2011	31.12.2010
Fixed assets, excess values and depreciation	401	1 161
Pensions	-49	-50
Provisions and other liabilities	241	179
Currency translation differences and financial instruments	512	1 062
Deferred tax current items	-113	-15
Tax losses and tax credit to carry forward	-2 043	- 2 416
Tax losses and deferred tax asset not recognised [2)]	1 198	866
Net deferred tax liability	**148**	**786**

[2)] Deferred tax asset not recognised amounted to NOK 1 198 million at 31 December 2011. NOK 937 million was related to tax losses carried forward, and NOK 261 million was related to other tax deductible temporary differences.

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2011	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2012	0	231	0	231
2013	0	103	0	103
2014	0	90	0	90
2015	0	19	0	19
2016	0	0	0	0
2017 and later	0	776	0	776
Indefinite expiry	2 138	2 515	916	5 569
Tax losses to carry forward	**2 138**	**3 734**	**916**	**6 788**
Tax losses not recognised	0	-3 177	0	-3 177
Total tax losses to carry forward – recognised	**2 138**	**557**	**916**	**3 611**
Deferred tax asset	**598**	**187**	**265**	**1 050**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2010	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2011	0	216	0	216
2012	0	233	0	233
2013	0	104	0	104
2014	0	91	0	91
2015	0	19	0	19
2016 and later	0	637	0	637
Indefinite expiry	3 171	2 389	1 259	6 820
Tax losses to carry forward	**3 171**	**3 689**	**1 259**	**8 120**
Tax losses not recognised	0	-2 988	0	-2 988
Total tax losses to carry forward – recognised	**3 171**	**701**	**1 259**	**5 131**
Deferred tax asset	**888**	**281**	**324**	**1 493**

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 summarises from which 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 asset was NOK 217 million at 31 December 2011. The corresponding amount at 31 December 2010 was an unrealised tax liability of NOK 72 million.

19. SPECIFICATION OF BALANCE SHEET ITEMS

	NOTE	31.12.2011	31.12.2010
Inventories			
Raw materials and other production input		1 010	1 038
Semi-manufactured materials		15	20
Finished goods		842	955
Total	3	**1 867**	**2 013**
Other current assets			
Assets held for sale	4	0	139
Derivatives	7	18	279
Commodity contracts	7	309	626
Current investments	7	45	45
Total		**372**	**1 089**
Trade and other payables			
Accounts payable		1 189	1 271
Accrued labour costs and taxes		670	663
Accrued expenses		574	718
Restructuring provision	21	363	90
Other interest-free liabilities		41	103
Total		**2 837**	**2 845**
Other current liabilities			
Derivatives	7	201	174
Commodity contracts	7	119	31
Accrued emission rights		37	46
Accrued financial costs		200	158
Total		**557**	**409**
Other non-current liabilities			
Derivatives	7	0	35
Commodity contracts	7	190	155
Dismantling provision	21	102	92
Environmental provision	21	283	254
Deferred recognition of government grants		82	96
Other non interest-bearing debt		79	44
Total		**736**	**676**

20. INVESTMENTS IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2011	CARRYING VALUE 31.12.2011	SHARE OF PROFIT/LOSS 2011	CURRENCY TRANSLATION DIFFERENCES AND DIVESTED ENTITIES	REVERSED IMPAIRMENTS	CARRYING VALUE 31.12.2010
Malaysian Newsprint Industries Sdn. Bhd.	33.7%	394	6	6	204	178
Other associated companies		28	-12	9	0	31
Total		**422**	**-6**	**15**	**204**	**209**

Investments in associated companies are consolidated in the group financial statements 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 value at group level allocated to the investment at the time of acquisition.

Malaysian Newsprint Industries Sdn. Bhd. (MNI)
The company is incorporated in Kuala Lumpur, Malaysia, and is a producer of newsprint. The possibility to reverse previously recognised impairments in associated companies was assessed at 31 December 2011. The impairment assessment for MNI concluded that there was basis for reversal of impairments recognised previously, amounting to NOK 204 million. The carrying value of Norske Skog's investment in MNI was NOK 394 million as at 31 December 2011, which is equivalent to Norske Skog's share (33.7%) of the equity in MNI's company financial statements. Based on the company's financial statements, operating revenue in 2011 was NOK 1 015 million (NOK 949 million in 2010) and net profit was NOK 16 million (NOK -14 million in 2010). Total assets amounted to NOK 2 314 million at 31 December 2011 (NOK 2 399 million at 31 December 2010) and total liabilities were NOK 1 143 million (NOK 1 240 million at 31 December 2010).

21. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2010	**339**	**250**	**286**
Changes and new provisions	57	-177	-70
Utilised during the year	-338	0	-11
Periodic unwinding of discount	0	13	17
Divestment of subsidiaries	0	0	0
Currency translation differences	32	7	32
Balance 31 December 2010	**90**	**92**	**254**
Changes and new provisions	350	3	28
Utilised during the year	-91	0	-12
Periodic unwinding of discount	0	5	12
Divestment of subsidiaries	0	0	-6
Currency translation differences	14	2	7
Balance 31 December 2011	**363**	**102**	**283**

Restructuring provision
The restructuring provision of NOK 363 million at 31 December 2011 is classified in the balance sheet as current liabilities. In the fourth quarter of 2011, it was decided to shut down the paper production at Norske Skog Follum. Total provisions related to the closure were NOK 248 million at 31 December 2011, of which NOK 131 million related to severance payments and NOK 117 million was other expected costs related to the shut down of the operations and clearing of the site. Another material item was a provision of NOK 59 million related to a cost reduction programme at Norske Skog Walsum. For further information see Note 16 Restructuring expenses.

Dismantling provision
Provisions related to future dismantling costs arising from a future closing down of production facilities amounted to NOK 102 million at 31 December 2011, compared to NOK 92 million at 31 December 2010. The total amount is classified as non-current and will only be realised at the time of a future closing down 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 under Financial items. The opposite entry for dismantling provision and change in provision estimates is Property, plant and equipment.

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 percent point would increase the provision by approximately NOK 10 million, with a corresponding increase in future depreciation on property, plant and equipment.

Environmental provision
The group's provision for environmental obligations is presented in the balance sheet as Other non-current liabilities. 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 upon a potential shut down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local governments may also lead to realisation of this provision at an earlier point in time.

Provisions for future environmental obligations amounted to NOK 283 million as at 31 December 2011 compared to NOK 254 as at 31 December 2010. The movement is mainly a result of significantly lower discount rates.

The carrying value of the provision is the best estimate made by measuring the expected value of the specific obligations, discounted to present value 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 percentage point would increase the provision by approximately NOK 27 million. Changes in accounting estimates not related to assets are classified as operating items in the income statement, and the periodic unwinding of the discount is recognised within Financial items.

22. MINORITY INTERESTS

	2011	2010
Minority interests at 1 January	22	28
Net profit/loss for the year attributable to minority interests	-8	-6
Changes in minority interests	0	-2
Dividend paid to minority interests	0	0
Currency translation differences	-1	2
Minority interests at 31 December	**13**	**22**

23. EARNINGS AND DIVIDEND PER SHARE

	2011	2010
Majority share of net profit/loss for the year in NOK million	-2 536	-2 462
Weighted average number of shares in 1 000	189 903	189 830
Basic and diluted earnings/loss per share in NOK [1)]	-13.36	-12.97

[1)] There were no dilution effects in 2011 or 2010.

No dividends were paid for the financial year 2010. The board of directors recommends that no dividend should be disbursed for the financial year 2011. The dividend decision will be made by the annual general meeting on 25 April 2012.

24. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Shares owned by the parent company				
Miscellaneous shares, each with book value below NOK 1 million	NOK			1 104
Shares owned by other group companies				
Exeltium SAS, Paris, France	EUR	174 504	4.78	64 678
Exeltium 2 SAS, Paris, France	EUR	3 440	5	1 275
Licella Fibre Fuels Pty Ltd., Sydney, Australia	AUD	2 857	12.5	15 236
Pavatex Holding AG, Cham, Switzerland	CHF	92 698	5	31 664
Pan Innovasjon AS, Hønefoss, Norway	NOK	720	27.8	1 000
Other shares, each with book value below NOK 1 million	NOK			1 869
Total				**115 722**
Total shares included as financial assets				**116 826**

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Shares in Norwegian subsidiaries owned by the parent company				
Follum Industripark AS, Hønefoss	NOK	1 100	100	14 020
Lysaker Invest AS, Lysaker	NOK	1 504 371	100	2 004 371
Nornews AS, Lysaker	NOK	100	100	100
Norske Skog Eiendom AS, Lysaker	NOK	1 500	100	190 681
Norske Skog Follum AS, Hønefoss	NOK	20 100	100	120
Norske Skog Holding AS, Lysaker	NOK	5 000	100	8 554
Norske Skog Kraft AS, Lysaker	NOK	100	100	0
Norske Skog Nordic & Export Sales AS, Lysaker	NOK	1 100	100	324
Norske Skog Saugbrugs AS, Halden	NOK	50 100	100	1 073 120
Norske Skog Shared Services AS, Lysaker	NOK	840	100	1 072
Norske Skog Skogn AS, Levanger	NOK	50 100	100	808 779
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100	12 264 196
nsiFocus AS, Lysaker	NOK	100	100	100
Reparco Global Holding AS, Lysaker	NOK	200	100	1 520
Wood and Logistics AS, Lysaker	NOK	3 000	100	3 093
Total				**16 370 051**

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Shares in foreign subsidiaries owned by the parent company				
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	50	100	193
Norske Skog Czech & Slovak Republic spol. s.r.o., Prague, Czech Republic	CZK	400	100	112
Norske Skog Denmark ApS, Værløse, Denmark	DKK	200	100	25
NSI Insurance A/S, Hvidovre, Denmark	DKK	500	100	14 391
Norske Skog Adria d.o.o., Trzin, Slovenia	EUR	21	100	164
Norske Skog Belgium N.V., Antwerp, Belgium	EUR	480	100	3 235
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	99.9	165 918
Norske Skog Deutschland GmbH, Augsburg, Germany	EUR	520	100	10 063
Norske Skog Espana S.A., Madrid, Spain	EUR	90	100	10 944
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	99.9	493
Norske Skog France sarl., Paris, France	EUR	235	100	7 939
Norske Skog Golbey SA, Golbey, France	EUR	137 388	100	1 153 153
Norske Skog Holdings B.V., Amsterdam, The Netherlands	EUR	170 100	100	323
Norske Skog Ireland Ltd., Clonmel, Ireland	EUR	3	100	22
Norske Skog Italia SrL, Milan, Italy	EUR	10	95	84
Norske Skog Logistics N.V., Antwerp, Belgium	EUR	62	100	540
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100	102
Norske Skog Walsum GmbH, Duisberg, Germany	EUR	150 025	100	1 011 997
Norske Skog Österreich GmbH, Graz, Austria	EUR	35	100	360
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100	2
Norske Skog Hungary Kft., Budapest, Hungary	HUF	3 000	100	110
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5 009	100	394 154
Norske Skog Polska Sp. z.o.o., Warsaw, Poland	PLN	50	100	110
Norske Skog Jämtland AB, Trångsviken, Sweden	SEK	200	100	780
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	USD	95 912	99.9	513 441
Papeles Norske Skog Bio Bio S.A., Concepción, Chile	USD	66 682	0.1	614
Norske Skog Pan Asia Co. Pte. Ltd., Singapore	USD	723 322	100	0
Total				**3 289 269**
Total shares in subsidiaries owned by the parent company				**19 659 320**

SHARES IN OTHER COMPANIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Norske Skog (Australasia) Pty Ltd., Sydney, Australia	AUD	21 000	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
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	1 294 385	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	229 525	100
Tasman Equipment Ltd., Vancouver, Canada	CAD	1	100
Norske Skog CI Ltd., Georgetown, Cayman Islands	CHF	13	100
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 PanAsia (Shanghai) Commercial Consulting Co. Ltd., Shanghai, China	CNY	1 126	67
Reparco Trading (Tianjin) Co., Ltd., Tianjin, China	CNY	2 051	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	0.1
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	0.1
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	45	100
Norske Skog Italia SrL, Milan, Italy	EUR	10	5
Norske Skog Parenco B.V., Renkum, The Netherlands	EUR	75 456	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 UK Ltd., Bolton, United Kingdom	GBP	5	100
Eidsverket AS, Lysaker, Norway	NOK	620	100
Klosterøya AS, Lysaker, Norway	NOK	10 100	100
Norske Skog Canada Holding AS, Lysaker, Norway	NOK	200	100
Oxenøen Eiendom AS, Lysaker, Norway	NOK	1 120	100
Norske Skog Capital (New Zealand) Ltd., Auckland, New Zealand	NZD	1	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 Tasman Ltd., Auckland, New Zealand	NZD	600 000	100
Norske Skog (Thailand) Company Ltd., Bangkok, Thailand	THB	1 083 750	94
Nórdica Energia Ltda., Curitiba, Brazil	USD	616	100
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	USD	95 912	0.1
Norske Skog US Recovered Paper Inc., Pasadena, USA	USD	250	100
Pan Asia Paper Trading Co. Pty. Ltd., Sydney, Australia	USD	5 000	100
Papeles Norske Skog Bio Bio S.A., Concepción, Chile	USD	66 682	99.9

25. CAPITAL RISK MANAGEMENT

Norske Skog's objective when managing capital is to maximise return on equity within the limits set by the group's external debt financing.

In order to improve the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors its capital structure on the basis of interest coverage ratio (EBITDA / net interest expense) and the debt ratio (net interest-bearing debt / EBITDA). The group was within the limits for the key figures as at 31 December 2011. For more information see Note 11.

The strategy for managing capital was changed in 2011, as a result of new loan covenants. Previously, the capital management was monitored on the basis of gearing, which was calculated as net interest-bearing debt divided by equity.

26. CONTINGENT LIABILITIES

Norske Skog is an international company that, through its ongoing business operations, will be exposed to litigation and claims from public authorities and contracting parties. At the end of 2011, the group is in dialogues with tax authorities in Norway and Australia regarding previously completed transactions. The ongoing simplification of the group's corporate structure, and changes individual countries' tax laws, could increase the group's tax exposure. The group's assessment is that sufficient provisions have been made for the aforementioned conditions.

27. RELATED PARTIES

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

Some of Norske Skogindustrier ASA's shareholders are forest owners delivering forestry products to the group's production units in Norway. A former board member, Halvor Bjørken, is a forest owner who supplies wood to the group on normal standardised terms. Bjørken left the board of directors during 2011. All contracts for supply of wood are entered into through forest owner associations or companies.

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 2011 amounted to NOK 5 million (NOK 20 million in 2010), and total amounts payable to the Norske Skog group amounted to NOK 0 million as at 31 December 2011 (NOK 3 million as at 31 December 2010).

One of the board members, Alexandra Bech Gjørv, became a partner in the law firm Hjort DA in 2010. Norske Skogindustrier ASA purchased services amounting to NOK 345 000 from this firm during 2011 (NOK 148 000 during 2010).

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

28. EVENTS AFTER THE BALANCE SHEET DATE

New long-term energy contract at Skogn
On 12 January 2012, Norske Skog signed a long-term energy contract with Nord-Trøndelag Elektrisitetsverk (NTE) for the supply of electricity for the paper mill at Skogn. The agreement ensures supply of 400 GWh per year until the end of 2018.

Sale of excess energy
In February 2012, Norske Skog signed an agreement for the sale of part of an energy contract in Southern Norway. The sold portion of the contract had an annual supply of 680 GWh through to the end of 2020.

ANNUAL FINANCIAL STATEMENTS

NORSKE SKOGINDUSTRIER ASA

NORSKE SKOGINDUSTRIER ASA

INCOME STATEMENT

NOK MILLION	NOTE	2011	2010
Operating revenue	3	**3 605**	**6 089**
Distribution costs		-210	-615
Cost of materials		-2 612	-3 717
Change in inventories		-21	-58
Employee benefit expenses	9	-486	-874
Other operating expenses		-345	-615
Gross operating earnings		**-69**	**211**
Depreciation	4	-197	-346
Gross operating earnings after depreciation		**-266**	**-135**
Restructuring expenses		-10	-6
Other gains and losses	12	-673	-809
Impairments	4	-53	1 254
Operating earnings		**-1 002**	**304**
Financial items	6	-2 354	-846
Profit/loss before income taxes		**-3 356**	**-542**
Income taxes	13	366	114
Net profit/loss for the year		**-2 989**	**-429**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2011	2010
Net profit/loss for the year	**-2 989**	**-429**
Other items	1	1
Other comprehensive income	**1**	**1**
Comprehensive income	**-2 989**	**-428**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2011	31.12.2010
Assets			
Deferred tax asset	13	116	92
Other intangible assets	4	61	49
Property, plant and equipment	4	2	3 553
Investments in subsidiaries	5	19 659	22 740
Other non-current assets	15	6 981	6 811
Total non-current assets		**26 820**	**33 245**
Inventories	14	0	704
Receivables	15	486	1 217
Cash and cash equivalents		931	3 847
Other current assets	16	167	877
Total current assets		**1 584**	**6 644**
Total assets		**28 403**	**39 889**
Shareholders' equity and liabilities			
Paid-in equity		7 201	10 189
Retained earnings		0	0
Total equity	17	**7 201**	**10 189**
Pension obligations	9	42	186
Deferred tax liability	13	241	477
Interest-bearing non-current liabilities	8, 15	15 994	22 443
Other non-current liabilities		56	80
Total non-current liabilities		**16 333**	**23 185**
Interest-bearing current liabilities	8, 15	1 013	1 871
Trade and other payables		3 248	4 076
Tax payable	13	2	0
Other current liabilities		607	568
Total current liabilities		**4 870**	**6 515**
Total liabilities		**21 203**	**29 700**
Total equity and liabilities		**28 403**	**39 889**

OXENØEN BRUG, 29 FEBRUARY 2012
THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Finn Johnsson
Board member

Paul Kristiansen
Board member

Åse Aulie Michelet
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2011	2010
Cash flow from operating activities			
Cash generated from operations		3 608	5 930
Cash used in operations		-3 793	-6 134
Cash from currency hedges and financial items		225	256
Interest payments received		25	29
Interest payments made		-793	-817
Taxes paid		-28	-3
Net cash flow from operating activities		**-741**	**-739**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets		-70	-130
Sales of property, plant and equipment and intangible assets		0	22
Change in intercompany balance with subsidiaries		2 049	836
Acquisition of shares in companies and other financial payments made		-1	-47
Sales of shares in companies and other financial payments received		4	766
Net cash flow from investing activities		**1 984**	**1 447**
Cash flow from financing activities			
New loans raised		1 125	1
Repayments of loans		-5 293	-330
Purchase/sale of treasury shares		0	1
Net cash flow from financing activities		**-4 168**	**-328**
Foreign currency effects on cash and cash equivalents		10	-223
Total change in cash and cash equivalents		**-2 916**	**157**
Cash and cash equivalents 1 January		3 847	3 690
Cash and cash equivalents 31 December		931	3 847
Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		-3 356	-542
Depreciation/impairments	4	250	-908
Gains and losses on disposal of property, plant and equipment	12	-39	-19
Taxes paid		-28	-3
Change in receivables		3	-160
Change in inventories		-48	56
Change in trade and other payables		-27	-113
Financial items with no cash impact		1 826	314
Gains and losses on commodity contracts and embedded derivatives	12	710	720
Adjustments for items with no cash impact		-32	-84
Net cash flow from operating activities		**-741**	**-739**

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	Share capital	Treasury shares	Share premium reserve	Other paid-in equity	Total paid-in equity	Retained earnings	Total equity
Equity 1 January 2010	17	**1 899**	**0**	**3 355**	**5 364**	**10 616**	**0**	**10 616**
Comprehensive income		0	0	0	0	0	-428	-428
Change in holding of treasury shares		0	2	0	-2	0	2	2
Uncovered loss allocated other paid-in equity		0	0	0	-426	-426	426	0
Equity 31 December 2010	17	**1 899**	**0**	**3 355**	**4 936**	**10 189**	**0**	**10 189**
Comprehensive income		0	0	0	0	0	-2 989	-2 989
Change in holding of treasury shares		0	0	0	0	0	0	0
Uncovered loss allocated other paid-in equity		0	0	0	-2 989	-2 989	2 989	0
Equity 31 December 2011	17	**1 899**	**0**	**3 355**	**1 947**	**7 201**	**0**	**7 201**


VALMET

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

LEGAL RESTRUCTURING OF OPERATIONS IN NORWAY

On 1 June 2011, the mill operations in Norway (Norske Skog Follum, Norske Skog Saugbrugs and Norske Skog Skogn) were transferred to new operational subsidiaries. Similarly, the activities of the company's shared service function at Skogn and the Nordic region sales function were transferred to separate subsidiaries. The new subsidiaries were financed with equity and intercompany debt from Norske Skogindustrier ASA. The reorganisation was accounted for with continuation of book values in the company financial statements of Norske Skogindustrier ASA. The sales prices for Norske Skog Follum and Norske Skog Saugbrugs were equivalent to the book value for accounting purposes (NOK 310 million and NOK 2 221 million, respectively). The sales prices for Norske Skog Skogn (NOK 2 159 million), the shared service function at Skogn (NOK 1 million) and the Nordic region sales function (NOK 3 million) were higher than book value. These continuity differences were accounted for in the company financial statements for Norske Skogindustrier ASA as a reduction of investment in subsidiaries. The transfers were organised as taxable asset sales for Norske Skogindustrier ASA.

After the reorganisation, the activities of Norske Skogindustrier ASA consist primarily of corporate functions and purchase and resale of wood, recovered paper and energy to the mills in Norway.

RECLASSIFICATION IN THE BALANCE SHEET

A review of the balance sheet was carried out during 2011. This resulted in reclassification of certain current asset and liability items. The modified classification has been applied retrospectively, and comparative figures in the balance sheet have been restated. Prepayments to suppliers have been moved from Other current assets to Receivables. The change has an effect of NOK 1 million as at 31 December 2011 and NOK 5 million as at 31 December 2010. Accrued financial costs and short-term obligations related to financial instruments are moved from Trade and other payables to Other current liabilities. The change has an effect of NOK 302 million as at 31 December 2011 and NOK 567 million as at 31 December 2010. Accrued expenses and provisions for goods received but not invoiced are reclassified from Other current liabilities to Trade and other payables. The change has an effect of NOK 1 million as at 31 December 2011 and NOK 8 million as at 31 December 2010.

2. ACCOUNTING PRINCIPLES

The company financial statements 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 financial statements are prepared in accordance with Norwegian Generally Accepted Accounting Principles (N GAAP) and the Norwegian Accounting Act (IFRS light).

Requirements related to recognition and measurement applied to the company financial statements of Norske Skogindustrier ASA are identical to the ones described in Note 2 in the group financial statements, with the exception of shares in subsidiaries which are recognised at cost in the company financial statements, as well as fair value hedge and net investment hedge which are only recognised at group level.

The financial statements were authorised for issue by the board of directors on 29 February 2012.

3. OPERATING REVENUE BY GEOGRAPHICAL MARKET

Norske Skogindustrier ASA's activities encompass sales to the geographical regions Europe, North America, South America, Australasia, Asia and Africa.

	2011	2010
Norway	1 569	1 577
Europe excluding Norway	1 610	3 636
North America	292	701
South America	50	24
Australasia	5	34
Asia	38	69
Africa	41	49
Total	**3 605**	**6 089**

Operating revenue from the sale of goods and services to other entities in the group amounted to NOK 966 million in 2011, of which wood amounted to NOK 222 million, energy NOK 532 million, internal services NOK 202 million and finished goods NOK 10 million. The corresponding figures for 2010 were NOK 258 million for internal services and NOK 42 million for finished goods. All transactions with other entities in the group are conducted in accordance with the arm's length principle.

4. OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

OTHER INTANGIBLE ASSETS	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2010	28	105	133
Additions	0	8	8
Disposals	0	-12	-12
Acquisition cost 31 December 2010	**28**	**101**	**129**
Accumulated depreciation and impairments 1 January 2010	26	39	65
Depreciation	1	14	15
Impairments	0	0	0
Disposals	0	0	0
Accumulated depreciation and impairments 31 December 2010	**27**	**53**	**80**
Carrying value 31 December 2010	**1**	**48**	**49**
Acquisition cost 1 January 2011	28	101	129
Additions	0	36	36
Disposals	0	0	0
Acquisition cost 31 December 2011	**28**	**137**	**165**
Accumulated depreciation and impairments 1 January 2011	27	53	80
Depreciation	1	14	15
Impairments	0	0	0
Amortisation of credit facility	0	9	9
Disposals	0	0	0
Accumulated depreciation and impairments 31 December 2011	**28**	**76**	**104**
Carrying value 31 December 2011	**0**	**61**	**61**

Licenses, patents and other intangible assets are depreciated on a straight-line basis over a period from three to 20 years.
Other intangible assets consist mainly of capitalised development costs relating to customising of software.

PROPERTY, PLANT AND EQUIPMENT	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2010	11 378	3 218	273	27	14 896
Additions	89	31	0	78	198
Disposals	-86	-18	-18	0	-122
Dismantling provision	0	-48	0	0	-48
Reclassification	140	-140	0	0	0
Reclassified from plant under construction	26	12	4	-42	0
Acquisition cost 31 December 2010	**11 547**	**3 055**	**259**	**63**	**14 924**
Accumulated depreciation and impairments 1 January 2010	9 931	2 221	261	0	12 413
Depreciation	264	62	5	0	331
Impairments	0	0	0	0	0
Reversal of impairments	-974	-280	0	0	-1 254
Disposals	-83	-18	-18	0	-119
Accumulated depreciation and impairments 31 December 2010	**9 138**	**1 985**	**248**	**0**	**11 371**
Carrying value 31 December 2010	**2 409**	**1 070**	**11**	**63**	**3 553**
Acquisition cost 1 January 2011	11 547	3 055	259	63	14 924
Additions	5	0	0	65	70
Disposals	-11 558	-3 048	-88	-126	-14 820
Dismantling provision	0	0	0	0	0
Reclassification	5	-5	0	0	0
Reclassified from plant under construction	1	0	1	-2	0
Acquisition cost 31 December 2011	**0**	**2**	**172**	**0**	**174**
Accumulated depreciation and impairments 1 January 2011	9 138	1 985	248	0	11 371
Depreciation	144	36	2	0	182
Impairments	7	2	0	44	53
Reversal of impairments	0	0	0	0	0
Disposals	-9 289	-2 023	-78	-44	-11 434
Accumulated depreciation and impairments 31 December 2011	**0**	**0**	**172**	**0**	**172**
Carrying value 31 December 2011	**0**	**2**	**0**	**0**	**2**

Machinery and equipment are depreciated on a linear basis over a period from ten to 25 years. Buildings and other property are depreciated on a linear basis over a period from ten to 40 years. Fixtures and fittings are depreciated on a linear basis over a period from three to ten years. Land and plant under construction are not depreciated.

The difference between total additions and purchases of property, plant and equipment and intangible assets in the cash flow statement is due to capitalised allocated emission allowances, finance leases and accruals for payments. In 2010, NOK 140 million relating to a prior year reversal of dismantling provision was moved from land and buildings to machinery and equipment.

Impairment losses recognised in 2011 related primarily to plant under construction, in relation to production equipment that was intended for use in an investment project at Norske Skog Skogn. During 2011, it was decided that the project would not be carried out. Impairment of machinery, equipment and buildings was recognised as a result of the fire at Norske Skog Saugbrugs in the first quarter of 2011.

ASSUMPTIONS APPLIED WHEN CALCULATING THE RECOVERABLE AMOUNT

Property, plant and equipment and intangible non-current assets are written down to their recoverable amount when this is lower than the carrying value of the asset. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows expected to arise from an asset or cash-generating unit. From the third quarter of 2011, Norske Skog started to use an adjusted present value model (APV) for calculating the present value of future cash flows. The reason for this is that the present value model (NPV) used previously is not very well suited to assess the value of assets in companies with poorer credit rating than BBB+ or A-3.

Nominal cash flow is estimated in the currency in which it will be generated. In the adjusted present value model, the value is calculated by discounting based on a required rate of return on equity that is relevant for the cash-generating unit or the individual asset. The rate of return is based on the interest rate on ten year government bonds in the currency of the cash flow estimate. This is adjusted for a specific operational risk relevant to Norske Skog, uncertainty in the estimated cash flow and, in certain instances, a country-specific risk premium relevant to the cash-generating unit or individual asset.

See Note 4 in the group financial statements for further information regarding the assumptions in the calculation of recoverable amount.

5. IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES

	2011	2010
Norske Treindustrier AS	-100	-800
Norske Skog Follum AS	-424	0
Norske Skog Holdings B.V. [1]	-932	-130
Norske Skog Pisa Ltda.	-374	-300
Norske Skog Walsum GmbH	-430	-170
Norske Skog Pan Asia Co. Pte. Ltd.	-109	640
Norske Skog Papers (Malaysia) Sdn. Bhd.	276	0
Total	**-2 093**	**-760**

Impairment or reversals of previous years' impairments of investments in subsidiaries are based on an assessment of the carrying amount and underlying values of assets and debt. The impairments and reversals are included in the income statement under Financial items.

See Note 24 in the group financial statements for specification of shares in subsidiaries and other shares.

[1] Impairments in 2010 and 2011 related to Norske Skog Holdings B.V. in the Netherlands are due to the write-down of intercompany loans.

6. FINANCIAL ITEMS

	NOTE	2011	2010
Dividends received from group companies		229	824
External interest income		35	44
Interest income from group companies [1]		389	57
External interest expense		-744	-803
Interest expense from group companies [1]		-498	-377
Exchange rate gains and losses		151	202
Impairment of investments in subsidiaries	5	-2 093	-760
Other financial items		177	-33
Total		**-2 354**	**-846**

[1] Intercompany interest is calculated based on a standard margin, adjusted where necessary to reflect local market conditions and transfer pricing principles.


TS

7. DERIVATIVES

	31.12.2011		31.12.2010	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Net investment hedge				
Forward contracts	0	-18	2	-27
Cross-currency contracts	0	-139	0	-127
Total	**0**	**-157**	**2**	**-154**
Fair value hedge [1]				
Interest rate swaps	8	0	5	0
Total	**8**	**0**	**5**	**0**
Other derivatives [2]				
Interest rate swaps	0	-19	73	-64
Forward rate agreements	3	-3	10	-13
Currency options	12	-21	30	-54
Forward contracts	8	-134	161	-43
Commodity contracts	1 322	-104	2 374	0
Embedded derivatives	0	0	0	0
Total	**1 345**	**-281**	**2 648**	**-174**
Total derivatives				
Interest rate swaps	8	-19	78	-64
Forward rate agreements	3	-3	10	-13
Currency options	12	-21	30	-54
Forward contracts	8	-152	163	-70
Cross-currency contracts	0	-139	0	-127
Commodity contracts	1 322	-104	2 374	0
Embedded derivatives	0	0	0	0
Total	**1 353**	**-438**	**2 655**	**-328**

[1] Included in the line Other non-current assets. The notional principal amount of the underlying debt in the fair value hedge was NOK 195 million at 31 December 2011 (NOK 195 million at 31 December 2010).

[2] 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 profit or loss.

Financial risk is managed at group level (see Note 8 in the group financial statements). The fair value of derivatives is discussed further in Note 2 and Note 9 in the group financial statements.

Currency and interest rate hedges are entered into by the parent company and the effects stay there. Energy and commodity contracts, on the other hand, are entered into by the subsidiaries and the effects stay at that level. Financial hedging of energy exposure is done at group level and the effects are transferred to the respective subsidiaries.

8. MATURITY OF INTEREST-BEARING LIABILITIES

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31.12.2011	DEBT BANKS	BONDS	TOTAL
2012	25	655	680
2013	25	0	25
2014	25	898	923
2015	25	1 027	1 052
2016	25	1 070	1 095
2017	25	3 483	3 508
2018	25	0	25
2019	25	0	25
2020-2033	38	1 199	1 236
Total	**238**	**8 330**	**8 568**

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31.12.2010	DEBT BANKS	BONDS	TOTAL
2011	13	1 673	1 686
2012	3 150	655	3 805
2013	25	0	25
2014	25	924	949
2015	25	1 003	1 028
2016	25	0	25
2017	25	3 853	3 878
2018	25	0	25
2019	25	0	25
2020-2033	38	1 171	1 209
Total	**3 376**	**9 279**	**12 655**

Foreign currency debt is presented at the current rate of exchange in the instalment profile. Debt used as an instrument for hedging net investments in foreign currencies is presented at historical cost in the balance sheet. For more information, see Note 11 Interest-bearing liabilities in the group financial statements.

9. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2011	2010
Salaries including holiday pay	373	753
Social security contributions	62	122
Pension costs	-31	-57
Other employee benefit expenses	82	56
Total	**486**	**874**

The company is required by law to have a pension scheme for all employees. The company's pension plan is compliant with the requirements in the Norwegian Act relating to mandatory occupational pension. Detailed information on salary and other compensation for senior employees as well as information regarding audit fees can be found in Note 12 in the group financial statements.

	31.12.2011	31.12.2010
Loans to employees	8 249	13 186
Man-labour years	98	1 590

With effect from 1 June 2011, the defined contribution and defined benefit pension plans in the Norwegian mills are organised as separate agreements for Norske Skog Skogn AS, Norske Skog Saugbrugs AS and Norske Skog Follum AS.

NET PERIODIC PENSION COST	2011	2010
Current service cost	14	50
Interest cost	9	54
Pension cost defined contribution schemes	3	0
Expected return on plan assets	-11	-51
Accrued national insurance contributions	2	7
Expensed portion of changes in early retirement plan	0	-2
Expensed portion of divestments	38	0
Recognised curtailment and settlement	-94	-122
Actuarial gains and losses	8	7
Net periodic pension cost	**-31**	**-57**

RECONCILIATION OF THE PENSION PLANS' FINANCIAL STATUS WITH THE BALANCE SHEET AMOUNT	31.12.2011	31.12.2010
Projected benefit obligations	-140	-1 044
Plan assets at fair value	89	908
Plan assets in excess of/less than obligations (-)	**-51**	**-136**
Differences in estimates not taken to income statement	18	-26
Net plan assets/pension obligations (-)	**-33**	**-162**
Accrued national insurance contributions	-4	-24
Pension liabilities in the balance sheet	**-37**	**-186**
Pension assets in the balance sheet	**5**	**0**

See Note 13 in the group financial statements for assumptions and further information.

10. SALARY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

According to the provision in section 6-16a of the Norwegian Public Limited Companies Act (cf. section 5-6, third subsection), the annual general meeting (AGM) shall 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 Skogindustrier ASA has had a remuneration committee since 2000, which considers issues relating to the compensation of the president and chief executive officer (CEO) and other members of corporate management. When the methods for assessing salary 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 financial year. See also Note 12 in the group financial statements.

VARIABLE ELEMENTS

In addition to fixed salary, the company has a bonus and incentive programme designed to help harmonise the priorities of 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' salary. The performance figures are based on financial, operational and individual criteria.

Long-term incentive programme

The purpose of the company's long-term incentive 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 corporate management 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 corporate management, 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. It was also continued for 2010 with some changes: the maximum annual bonus from the programme was 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 was reduced to 12, including Norske Skog. The programme was continued for 2011 and it is proposed to continue with the programme for 2012.

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

Norske Skogindustrier ASA introduced a new defined contribution plan with effect from 1 January 2011, with a contribution of 4% for earnings between 1 and 6 G (base amount in the Norwegian national insurance scheme) and 8% between 6 and 12 G. The previous scheme with pensionable age of 67 and providing a pension of approximately 65% of ordinary salary at retirement, and 60% from the age of 77 including national insurance, was closed from 31 December 2010, and now only covers employees who were born prior to 1 January 1959 and who were employed in the company before the closure. The company has a supplementary scheme for the part of salary exceeding 12 G. For corporate management, there were separate early retirement pension schemes from 64 to 67 years, previously referred to as insured supplementary plans. 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, a disability insurance and a group life insurance (annual base salary) replacing dependents' pensions. Corporate management is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80 G. Old age pension for the part of salary exceeding 12 G has also been changed to a defined contribution plan from 1 January 2011. At the time of the change, employees who were born before 1 January 1959 were given the opportunity to continue with the defined benefit plan. Norske Skog provides salary compensation for employees who are at a financial disadvantage because of the change from a defined benefit to a defined contribution plan, both in the main plan and in the plan for salary above 12 G. Salary compensation is based on certain assumptions about the future at the time of the change, including return on assets, salary adjustment, change in the base amount (G) and inflation. The compensation will not be changed even if these factors should turn out to be different from the assumptions.

The defined benefit plan for the part of salary exceeding 12 G was closed from 1 January 2011, and no new members will enter the scheme. The same applies for the early retirement scheme for corporate management.

TERMINATION PAYMENT AGREEMENTS

The mutual period of notice agreed with the CEO and other members of corporate management is six months. In the event that the employer gives notice or mutual agreement on departure is reached, the company issues a guarantee equivalent to payment of base salary for 18 months after the end of the notice period.

11. LOSSES ON ACCOUNTS RECEIVABLE

	2011	2010
Receivables written off during the period	1	3
Payments received on items previously written off	0	0
Change in provision for bad debt	5	1
Total	**6**	**4**

12. OTHER GAINS AND LOSSES

	2011	2010
Gains and losses on disposal of property, plant and equipment	39	19
Changes in value on commodity contracts [1]	-710	-342
Other realised gains and losses	-2	-486
Total	**-673**	**-809**

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

The gain on disposal of property, plant and equipment of NOK 39 million relates to property damage insurance compensation after the fire at Norske Skog Saugbrugs.

The transfers of paper production activities to the separate legal subsidiaries Norske Skog Saugbrugs AS, Norske Skog Follum AS and Norske Skog Skogn AS, were accounted for with continuation of book values. Consequently there were no gains or losses from these transactions.

13. TAX

TAX EXPENSE	2011	2010
Current tax expense	-33	3
Change in deferred tax	399	-116
Total	**366**	**-114**

INCOME TAX RECONCILIATION	2011	2010
Profit/loss before income taxes	-3 356	-542
Computed tax at nominal tax rate of 28%	940	152
Exempted income/non-deductible expenses	-35	136
Impairment of shares in subsidiaries	-577	-222
Adjustment previous years	-4	1
Other items	43	46
Total tax expense	**366**	**114**

DEFERRED TAX	2011	2010
Net deferred tax liability 1 January	384	501
Deferred tax charged in the income statement	-399	-116
Restructuring of operations [1]	107	0
Reclassification of group tax items	33	0
Net deferred tax liability/asset (-) 31 December	**125**	**384**

DEFERRED TAX – DETAILS	31.12.2011	31.12.2010
Fixed assets, excess values and depreciation	-19	239
Pensions	-10	-52
Provisions and other liabilities	252	35
Currency translation differences and financial instruments	408	1 066
Deferred tax current items	-26	-40
Tax losses and tax credit to carry forward	-479	-862
Net deferred tax liability/asset (-)	**125**	**384**

LOSSES TO CARRY FORWARD AND TAX CREDITS	31.12.2011	31.12.2010
Losses to carry forward	1 432	2 817
Tax credits	202	202
Total losses to carry forward and tax credits	**1 634**	**3 019**
Deferred tax asset	**479**	**862**

[1] In 2011 the paper production activities at Skogn, Saugbrugs and Follum were transferred to separate legal subsidiaries owned by Norske Skogindustrier ASA. The transactions were organised as taxable asset sales, but accounted for with continuation of book values in the financial statements of Norske Skogindustrier ASA. As a consequence of the sales, deferred tax liability increased.

14. INVENTORIES

	31.12.2011	31.12.2010
Raw materials and other production input	0	342
Finished goods	0	362
Total	**0**	**704**

15. INTERCOMPANY RECEIVABLES/LIABILITIES

	31.12.2011	31.12.2010
Intercompany receivables		
Norske Skog Skogn AS	1 283	0
Norske Skog Saugbrugs AS	1 320	0
Crown Forest Industries Ltd.	251	251
Norske Skog Industries Australia Ltd.	2 438	3 368
Norske Skog Holdings B.V.	0	780
Norske Skog Walsum GmbH	485	497
Other intercompany receivables	28	34
Total	**5 805**	**4 930**
Current intercompany receivables		
Norske Skog Skogn AS	30	0
Norske Skog Saugbrugs AS	23	0
Norske Skog Follum AS	15	0
Norske Skog Bruck GmbH	3	66
Klosterøya AS	91	103
Nornews AS	14	13
Norske Skog Golbey SA	31	0
Norske Skog Holdings B.V.	186	361
Norske Skog US Recovered Paper Inc.	8	6
Norske Skog Pisa Ltda.	18	34
Other current intercompany receivables	19	14
Total	**438**	**597**
Non-current intercompany liabilities		
Lysaker Invest AS	60	58
Nornews AS	57	55
Norske Skog Golbey SA	309	75
Norske Skog Holding AS	42	41
Norske Treindustrier AS	7 468	7 355
Norske Skog (Thailand) Company Ltd.	0	3 524
Total	**7 936**	**11 109**

All non-current 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.

	31.12.2011	31.12.2010
Current intercompany liabilities		
Norske Skog Skogn AS	29	0
Norske Skog Saugbrugs AS	84	0
Norske Skog Follum AS	37	0
Lysaker Invest AS	851	57
Norske Skog Deutschland GmbH	35	42
Norske Skog Eiendom AS	138	75
Norske Skog Golbey SA	127	187
Norske Skog Holding AS	12	9
Norske Skog Holland B.V.	14	13
Norske Skog Industries Australia Ltd.	175	888
Norske Skog Pan Asia Co. Pte. Ltd.	0	225
Norske Skog Tasman Ltd.	328	181
Norske Skog UK Ltd.	23	28
Norske Skog Walsum GmbH	89	101
Norske Treindustrier AS	1 031	1 357
NSI Insurance A/S	23	0
Oxenøen Eiendom AS	138	196
Wood and Logistics AS	26	91
Other current intercompany liabilities	105	131
Total	**3 265**	**3 581**

16. OTHER CURRENT ASSETS

	31.12.2011	31.12.2010
Derivatives	121	832
Current investments	45	45
Total	**167**	**877**

17. EQUITY

The share capital of the company as at 31 December 2011 was NOK 1 899 456 260 and consisted of 189 945 626 shares, each with a nominal value of NOK 10. The number of treasury shares at 31 December 2011 was 41 862. The company has not purchased or sold treasury shares during the year.

The general assembly resolved on 12 April 2007 to transfer NOK 7 000 million from share premium reserve to other paid-in equity. The variances between other paid-in equity and distributable equity are specified below:

SPECIFICATION OF DISTRIBUTABLE EQUITY	31.12.2011
Other paid-in equity	7 000
Uncovered loss allocated to other paid-in equity	-5 101
Gain/loss on treasury shares	48
Other paid-in equity	**1 947**
Revaluation reserve	-802
Deferred tax asset	-116
Research and development	-61
Distributable equity	**968**

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
Viken Skog	5.74
Folketrygdfondet	4.17
AT Skog	3.51
Skagen Fondene	3.30
Allskog	2.77
Acadian Asset Management	2.71
Astrup Fearnley AS	2.42
Dimensional Fund Advisors	2.36
Uthalden AS	1.96
Awilco Invest AS	1.79
Aviva Investors	1.63
Fiducia AS	1.48
Nordea Bank PLC Finland	1.37
Bank of New York stocklending collateral account	1.37
Nobelsystem Scandinavia AS	1.32
Havlide AS	1.21
AS Herdebred	1.11
Danske Bank, Copenhagen (PB)	1.07
Mjøsen Skog	1.04

The shareholder list is provided by RD:IR and VPS, through the Nominee ID service. The information is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Norske Skogindustrier ASA share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis.

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the shareholders	
Tom Ruud, Oslo (chair)	410
Tom Rathke, Bergen (deputy chair)	5 843
Emil Aubert, Porsgrunn	815 711
Ragnhild Borchgrevink, Bærum	711
Jens Nicolai Jenssen, Hommelvik	745
Even Mengshoel, Lillehammer	860
Elected by the employees	
Kjetil Bakkan, Norske Skog Skogn	10 585
Harald Bjerge, Norske Skog Saugbrugs	21 306
Trond Bjørken, Norske Skog Skogn	2 056
Jan Magnar Hansen, Norske Skog Saugbrugs	130
Observers elected by the employees	
Jon Ove Almaas, Norske Skog Skogn	20

SHAREHOLDERS ON THE BOARD OF DIRECTORS	NUMBER OF SHARES
Elected by the shareholders	
Eivind Reiten, Oslo (chair of the board) (0), Mocca Holding AS (37 914)	37 914
Gisèle Marchand, Oslo (deputy chair of the board)	838
Helge Evju, Skollenborg	195
Alexandra Bech Gjørv, Oslo	6 000
Elected by the employees	
Paul Kristiansen, Norske Skog Saugbrugs	6 200
Svein Erik Veie, Norske Skog Skogn	501
Inge Myrlund, Norske Skog Follum	3 535

SHAREHOLDERS AMONG CORPORATE MANAGEMENT	NUMBER OF SHARES
Sven Ombudstvedt (1 805), Elle Holding AS (1 000 000)	1 001 805
Gaute Hjelmbrekke Andreassen	89 300
Audun Røneid	6 914
Rune Gjessing	9 057
Jan-Hinrich Clasen	8 972
Terry Hamilton	5 996

18. GUARANTEES

The company has not guaranteed any debt on behalf of its subsidiaries as at 31 December 2011 (no guaranteed debt as at 31 December 2010). Parent company guarantees amounted to NOK 319 million at 31 December 2011 (NOK 322 million at 31 December 2010).

19. EVENTS AFTER THE BALANCE SHEET DATE

A description of events after the balance sheet date is given in Note 28 in the group financial statements.

pwc

To the Annual Shareholders' Meeting of Norske Skogindustrier ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Norske Skogindustrier ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2011, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet as at 31 December 2011, income statement, statement of comprehensive income, changes in equity, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by EU and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

pwc

Opinion on the financial statements of the parent company

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Norske Skogindustrier ASA as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act.

Opinion on the financial statements of the group

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of the group Norske Skogindustrier ASA as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and statement of corporate governance principles and practices

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and statement of corporate governance principles and practices concerning the financial statements and the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 29 February 2012
PricewaterhouseCoopers AS

Fredrik Melle
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

DECLARATION FORM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the financial statements for the period 1 January to 31 December 2011 have been prepared in accordance with prevailing accounting practices, and that the information in the financial statements gives a true and fair view of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the report of the board of directors 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 face.

OXENØEN BRUG, 29 FEBRUARY 2012
THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Finn Johnsson
Board member

Paul Kristiansen
Board member

Åse Aulie Michelet
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

STATEMENT FORM THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

The corporate assembly recommends that the general meeting approves the board's proposal for the income statement and balance sheet for 2011 for Norske Skogindustrier ASA and the group, and endorses the board's proposal for the coverage of the loss.

The corporate assembly took the board's statement concerning salary and renumeration for senior executives under advisement.

OXENØEN BRUG, 8 MARCH 2012 – THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

Tom Ruud
Chair

CORPORATE GOVERNANCE IN NORSKE SKOG

BASIC PRINCIPLES

Norske Skog's goal is to create competitive shareholder values in the paper industry. The company has established clear strategies and management systems to achieve this goal. The overall strategic guidelines involve producing at the lowest possible cost, seeking out growth that strengthens profit and focusing on core activities. Good principles for corporate governance and a clearly defined allocation of roles and responsibilities between the company's governing bodies have been adopted by the board. These are based on the Norwegian recommendation for corporate governance of 21 October 2011, which can found at www.nues.no.

Norske Skog's business and strategic choices are based on the core values transparency, honesty and cooperation. The company´s Steering Documents have been approved by the board and form the basis for ethical, legal and sustainable behavior in Norske Skog. The documents also clarify how Norske Skog's values will have practical value in daily operations, and how we exercise our corporate responsibility. In addition, the Steering Documents make reference to the company's management principles and Power of Attorney structure as framework conditions for decisions and activities.

ACTIVITIES

The company's objective is defined in its articles of association: To operate wood processing industry and associated activities. Furthermore, the company can participate through share contributions or in some other manner in other business activities.

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.

SHARE CAPITAL AND DIVIDEND

Norske Skog's equity is adapted to the company's goals, strategies and risk profile. The board regularly considers the company dividend profile. The 2011 general meeting issued an authorisation valid for one year to increase the share capital by up to NOK 189 945 526, which is 10 per cent of the share capital. The authorisation may be utilized several times within the resolved frame. Further, the general meeting issued an authorisation to the board valid for one year to issue a convertible bond loan up to NOK 800 million with a increase up to 10 per cent of the share capital in case of a subsequent conversion. The board has not effected any of these authorities. However, the board has adopted and conducted a EUR 150 million bond issue in connection with the refinancing of the company.

In addition, a credit facility of EUR 400 million was repaid and replaced by a new EUR 140 million maturing in 2014. The covenant of the EUR 140 million loan facility signed in May 2011 limits the company's right to pay dividends. Dividend assumes either that the ratio of net debt to EBITDA is less than three or that the banking syndicate has consented to the dividend. The credit facility has maturity on 31 May 2014.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSELY RELATED PARTIES

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

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, in accordance with the articles of association. Notice is issued within the deadlines and guidelines of the Public Limited Liability Companies Act. The recommendations of the election committee are enclosed with the notice. The notice, documentation and proxy form will be made available at the same time at www.norskeskog.com.

Maximum participation is facilitated for the company's general meeting. According to the articles of association, the right to participate and vote in the general meeting can only be exercised when the acquisition of the shares is registered in the shareholder register on the fifth business day before the general meeting. In 2011, 42 per cent of the share capital was represented through personal participation or through proxy. Representation through proxy gives the right to vote on each individual matter to be discussed and candidates to be elected. Proxies may have an open, as well as a limited mandate. Any shareholder may put matters before the general meeting for decision and voting through written and explained notice to the board at least seven days prior to the deadline for issuing a notice of a general meeting. At the 2011 ordinary general meeting, two members of the board and two members of the election committee had lawful absence, whereas the rest of the board, the company's auditor and the rest of the election committee members were present.

THE ELECTION COMMITTEE

Norske Skog's articles of association stipulate an election committee consisting of four members, including the chair, elected by the general meeting for a term of one year.

The election committee nominates candidates to the company's governing bodies, and remuneration for these duties. The committee should be composed with a view towards safeguarding the interests of the shareholders as a whole in the best possible manner. The board of directors annually evaluates its work and competencies. The outcome of this evaluation is presented to the election committee as part of the basis for its work, and the committee presents its reasoned recommendation following a thorough analysis of the company's needs and considering the broadest possible expertise and capacity in the board.

THE CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

Norske Skog has a corporate assembly, consisting of 12 members elected by the general meeting for a term of one year and six members elected by and among the employees general meeting. In addition, the employees have three observers. The corporate assembly elects its own chair and deputy chair for a year at a time.

The Norwegian forest owner federations have traditionally been among the company's major shareholders and have in 2011 had four representatives in the corporate assembly. Of the remaining eight shareholder elected members of the corporate assembly, four remain independent from the company's management and significant business partners, as well as the company's major shareholders, whereas two represent the financial sector and two represent major shareholders.

The board currently has nine members, and has been composed to ensure competence, diversity and teamwork. The board are elected for one year at a time in accordance with article 5 in the articles of association. Norske Skog satisfies the requirement for gender representation among shareholder-elected board members. Employees' board members are elected by and among Norske Skog's employees of the Norwegian units. They are exempted from the legal gender representation requirement.

The forest owners are represented by one member of the board. The remaining members of the board are independent from the company's management, important business relations as well as major shareholders. The board shall act independently and in a manner that ensures that no-one achieves unreasonable advantages. Board members are encouraged to own shares in the company. The CEO's authorisations entail that the board normally only gets involved in the most significant contracts entered into by the company. The company's rules of procedure for the board stipulate that members must inform the board of any personal and/or significant business relations which could give rise to questions concerning their independence and objectivity. Norske Skog's Steering Documents instruct all employees to seek to avoid conflicts of interest, and encourage openness regarding any conflicts of interest.

The company's rules of procedure for the board ensure a clear distribution of roles and responsibilities between the administration and the board. The board works independently of the company management, but the CEO and CFO attend the board meetings. Other members of the corporate management attend as required.

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 2011, the board's main focus was on the company's strategic development, financing, divestment of assets, profitability improvement and reduction of the company's net debt.

The board has an audit committee and a compensation committee. The attendance at board meetings in 2011 was 94 per cent.

The board is continually informed regarding all important aspects of the company's activities, including challenges related to health, safety and environment (HSE) as well as corporate responsibility. The board is regularly briefed on the company's activities to promote compliance with relevant regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

Norske Skog applies a group-wide risk management system, based on COSO's Enterprise Risk Management framework to identify, evaluate, handle and report risk.

The system is based on the management teams in each business unit and in selected corporate functions annually considering potential risk factors and preparing a risk report with proposed risk mitigating actions. An overall risk report is discussed by corporate management, and thereafter presented to the board.

Norske Skog's systems for internal control of financial reporting are founded on the criteria in COSO's Internal Control – Integrated Framework. Routines for internal control over financial reporting are defined in Norske Skog's internal control documentation (Financial Closing Manual and Financial Closing Checklist). This entails that all critical processes in the closing of the financial accounts are described in detail, and responsibilities are clearly defined, in terms of execution, documentation and control.

The group also has paramount documents such as Steering Documents, reporting procedures, mandate to internal audit, board's rules of procedure and power of attorney structure.

The follow-up of the company's internal control routines takes place through the management's and the business units´daily activities. In addition, the system is safeguarded through regular monitoring and testing carried out by the company's internal audit department. In 2011, the board has continued its focus on internal control and follow-up of the company's ethical guidelines. Group procedures govern handling of misconduct and possible notice to the CEO and/or chair of the board.

BOARD REMUNERATION – MAIN PRINCIPLES

The remuneration to members of the board is stipulated by the corporate assembly, and reflects responsibility, expertise and time spent. The remuneration is not linked to results, and share options are not issued to board members. See below for an overwiev of board remuneration.

REMUNERATION TO EXECUTIVE EMPLOYEES – MAIN PRINCIPLES

The board stipulates salaries and other remuneration to the CEO as well as remuneration to other executive employees following input from the remuneration committee. Compensation to and remuneration of executive employees shall contribute to long-term creation of value for all company shareholders. Guidelines and principles for stipulating the salaries of executive employees and performance-related incentive schemes, as well as an account of the executive salary policy for the previous fiscal year, is subject to special consideration by the general meeting.

INFORMATION AND COMMUNICATION

The company's Steering Documents require that communication concerning the company's activities and financial matters is open and correct, and ensures equal treatment of shareholders and other financial players. A calendar overview of important financial events can be found on the group's website (www.norskeskog.com). Outside of the general meeting, contact with the shareholders is handled by the company's administration, which aims at maintaining an active dialogue with the investor market and other relevant interested parties.

TAKE-OVER OF THE COMPANY

The board has specified principles for its behaviour in a potential take-over situation, in accordance with applicable recommendations for corporate governance. The principles stipulate that the board will not, without just cause, attempt to prevent or hinder someone in making an offer for the company's assets or shares.

AUDITOR

PricewaterhouseCoopers is the company's external auditor, and is 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 the audit committee.

The external auditor's fee is approved by the general meeting.

REMUNERATION TO CORPORATE MANAGEMENT AND ELECTED POSITIONS IN NORSKE SKOG

THE CORPORATE ASSEMBLY

The remuneration is stipulated annually by the general meeting. The remuneration for the chair of the corporate assembly is NOK 165 000 per year. Other members receive a remuneration of NOK 6 400 per meeting. Committee meetings are remunerated with NOK 6 400 per meeting. The total disbursement to the members of the corporate assembly including committee work was NOK 531 100 in 2011.

THE BOARD

Remuneration is stipulated annually by the corporate assembly. The annual remuneration for the chair of the board is NOK 545 000, the deputy chair receives NOK 392 000, and the other board members NOK 300 000. Committee meetings are remunerated with NOK 6 400 per meeting. The total disbursement to the board, including NOK 12 400 per meeting for attending deputy board members, was NOK 3 265 250 in 2011.

CEO AND CORPORATE MANAGEMENT

Salary and other terms for the CEO are negotiated by the remuneration committee and stipulated by the board with involvement from the company's general meeting in accordance with applicable rules. Salary and other remuneration for the CEO (including share options, bonuses and loans) and other information relating to pensions and pay after termination of employment are detailed in Note 13 in the group accounts and elsewhere in the annual report.

The remuneration committee reviews the principles for remuneration, and other terms for the other members of corporate management. This is discussed further elsewhere in the annual report.

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 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 100 000 per year. The other members of the audit committee receive a remuneration of NOK 65 000.

THE OWNERSHIP OF NORSKE SKOG SHARES AMONG ELECTED OFFICIALS AND THE GROUP MANAGEMENT

At year-end 2011, the members of the corporate assembly held a total of 858 257 shares in Norske Skog. Correspondingly, the members of the board held 55 183 shares. In total, the corporate management members held 1 122 044 shares.

SHARES AND SHARE CAPITAL

NORSKE SKOG'S SHAREHOLDER POLICY

The shareholder policy is as follows:

- Norske Skog's goal is to provide competitive 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 PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend be paid for the accounting year 2011.

LONG-TERM INCENTIVE PROGRAMME

Since 2007, Norske Skog has operated a long-term incentive programme for corporate management, based on relative return on shares. The programme is described in detail in the notes to the financial statements for the Norske Skog group and Norske Skogindustrier ASA.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2011, a total of 617.4 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 444.1 million in 2010. On average, each share was traded 3.3 times in 2011.

Norske Skog shares are also traded on other markets, such as Chi-X, Nasdaq OMX and BATS. In 2011, a total of 61 million Norske Skog shares were traded on these alternate platforms combined. Chi-X was the largest with 29.1 million shares traded, followed by Nasdaq OMX with 16.9 million and BATS with 14.6 million shares.

The Norske Skog share price was NOK 4.52 30 December 2011, compared with NOK 14.60 on 3 January 2011. The highest price in 2011, based on close-of-trading prices, was NOK 22.50 on 27 January, and the lowest price was NOK 2.58 on 26 October.

On 31 December 2011, the share capital in Norske Skog was NOK 1 889 456 260, consisting of 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 2011, and there are no authorisations for the board to increase the share capital.

At the beginning of 2011, Norske Skog owned 41 962 treasury shares, and this number has remained unchanged during the year. Norske Skog's holding of treasury shares was 41 862 shares on 31 December 2011.

On 31 December 2011, the largest individual Norwegian shareholder was Viken Skog, with an ownership interest of 5.7 per cent. In total, the Norwegian forest owner federations owned 13.3 per cent of Norske Skog. On 31 December 2011, foreign ownership was 23 per cent, compared with 36 per cent on 31 December 2010. The foreign shareholders are to a large extent registered through investment banks, and based on the gathered information, none of them own more than five per cent.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 23 955 shareholders in total on 31 December 2011, of which 1 228 resided outside of Norway.

FINANCIAL CALENDAR FOR 2012:

- 23 January: Silent period begins
- 8 February: Interim financial statements, fourth quarter 2011
- 16 April: Silent period begins
- 25 April: General meeting
- 3 May: Interim financial statements, first quarter 2012
- 16 July: Silent period begins
- 2 August: Interim financial statements, second quarter 2012
- 15 October: Silent period begins
- 1 November: Interim financial statements, third quarter 2012

KEY FIGURES RELATED TO SHARES

DEFINITIONS		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Nominal value (NOK/share)		10	10	10	10	10	10	10	10	10	10
Average number of shares excluding shares held in treasury (1 000)		189 904	189 904	189 663	189 501	189 412	189 258	142 878	132 430	132 415	132 194
Net earnings per share after tax (NOK)	1	-13.36	-12.97	-6.36	-14.33	-3.26	-14.84	-5.98	4.95	3.04	8.79
Cash flow per share after tax (NOK)	2	2.40	2.09	8.95	10.43	11.43	14.60	21.42	22.04	22.45	27.89
Dividend per share (NOK)		0.00	0.00	0.00	0.00	0.00	5.50	5.50	6.00	6.00	6.00
Price/earnings ratio	3	-	-	-	-	-	-	-	26.50	41.80	11.10
Price/cash flow ratio	4	1.88	6.62	1.07	1.29	3.95	7.35	5.01	5.90	5.70	3.50
Payout ratio (%)		-	-	-	-	-	-	-	121.2	197.4	68.3
Number of shares 31 December (1 000)		189 946	189 946	189 946	189 946	189 946	189 946	189 946	133 137	133 137	133 137
Share prices high		22.50	14.35	17.60	45.85	118.50	114.00	124.86	146.50	139.00	175.50
Share prices low		2.58	6.82	7.93	13.15	30.75	83.00	86.50	110.00	86.50	82.50
Share prices 31 December		4.52	13.85	9.55	13.50	45.20	107.50	107.25	131.00	127.00	98.00
Trading volume (Oslo Stock Exchange) 1 000 shares		617 404	444 134	527 525	786 990	659 648	230 507	186 297	157 839	119 400	107 649
Number of shareholders 31 December		23 955	24 779	26 936	26 812	23 871	22 967	23 646	23 851	23 212	21 083
Number of foreign shareholders 31 December		1 228	1 291	1 320	1 355	1 400	1 361	1 355	1 271	1 222	1 210
Foreign shareholding 31 December		23.1%	35.9%	25.1%	40.5%	48.9%	67.0%	56.9%	38.2%	37.6%	43.1%
Market value (NOK million)		859	2 630	1 812	2 564	8 586	20 419	20 372	17 441	16 908	13 047

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

MEMBERS OF CORPORATE BODIES

AS OF DECEMBER 2011

CORPORATE ASSEMBLY

Members elected by the shareholders:	Number of shares
Tom Ruud, Oslo (chair)	410
Tom Rathke, Bergen (deputy chair)	5 843
Emil Aubert, Porsgrunn	10 465
- Holta & Co AS	369 183
- Aubert Invest	161 042
- H. H. Holtas Familielegat	130 185
- A/S Timber Co.	128 144
- Sonja og Emil Auberts legat	16 572
Ragnhild Borchgrevink, Bærum	711
Maalfrid Brath, Bærum	0
Ann Kristin Brautaset, Oslo	0
Helge Leiro Baastad, Asker	0
Maria Moræus Hanssen, Oslo	0
Jens Nicolai Jenssen, Hommelvik	745
Even Mengshoel, Lillehammer	860
Karen Helene Ulltveit-Moe, Bærum	0
Olav Veum, Fyresdal	0

Employee-elected members:

Kjetil Bakkan, Skogn	10 585
Harald Bjerge, Saugbrugs	21 306
Trond Bjørken, Skogn	2 056
Jan Magnar Hansen, Saugbrugs	130
Geir Morten Knutsen, Follum	0
Freddy Sollibråten, Follum	0

Employee-elected observers:

Jon Ove Almaas, Skogn	20
Øystein Bruce, Saugbrugs	0
Marianne Grønvold, Follum	0

Shareholder elected alternate members:

Aud Lysenstøen, Oslo	0
Knut Aas, Vegårshei	94
Henrik A. Christensen, Oslo	0
- August AS	1 000 000

Employee-elected alternate members:

Trond A. Andersen, Saugbrugs	0
Rino Didriksen, Saugbrugs	0
Kjell R. Evju, Follum	1 304
Thor Granaune, Skogn	3 029
Lars Holan, Skogn	0
Erik Josephson, Follum	0
Knut Erik Norøy, Skogn	120
Erik Solberg, Saugbrugs	0
Jørn Steen, Follum	0
Stig A. Stene, Skogn	1 099

BOARD OF DIRECTORS

Eivind Reiten, Oslo (chair)	0
- Mocca Holding AS	37 914
Gisèle Marchand, Oslo (deputy chair)	838
Helge Evju, Skollenborg	195
Alexandra Bech Gjørv, Oslo	6 000
Finn Johnsson, Lysekil, Sweden	0
Paul Kristiansen, Halden	6 200
Åse Aulie Michelet, Oslo	0
Inge Myrlund, Jevnaker	3 535
Svein Erik Veie, Levanger	501

Employee-elected alternate board members (personal):

Stein-Roar Eriksen (for Inge Myrlund), Hønefoss	0
Magne Johansen (for Svein Erik Veie), Levanger	0
Carl Fredrik Nilsen (for Paul Kristiansen), Halden	0

CORPORATE MANAGEMENT

CEO Sven Ombudstvedt	1 805
- Elle Holding AS	1 000 000
Senior vice president Gaute H. Andreassen	89 300
Senior vice president Jan Hinrich Clasen	8 972
Senior vice president Rune Gjessing	9 057
Senior vice president Terry Hamilton	5 996
Senior vice president Audun Røneid	6 914
Senior vice president Trond Stangeby	0
Senior vice president Robert A. Wood	0

AUDITOR

PricewaterhouseCoopers	0

PRINCIPAL SHAREHOLDERS

PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2011	NUMBER OF SHARES	OWNERSHIP %
Viken Skog	10 897 825	5.74
Folketrygdfondet	7 924 431	4.17
AT Skog	6 671 000	3.51
SKAGEN Fondene	6 275 100	3.30
Allskog	5 261 414	2.77
Acadian Asset Management	5 142 679	2.71
Astrup Fearnley AS	4 596 219	2.42
Dimensional Fund Advisors	4 487 692	2.36
Uthalden AS	3 720 000	1.96
Awilco Invest AS	3 400 000	1.79
Aviva Investors	3 095 523	1.63
Fiducia AS	2 806 644	1.48
Nordea Bank PLC Finland	2 599 100	1.37
Bank of New York stocklending collateral account	2 597 371	1.37
Nobelsystem Scandinavia AS	2 500 000	1.32
Havlide AS	2 296 466	1.21
AS Herdebred	2 112 005	1.11
Danske Bank Copenhagen (PB)	2 030 049	1.07
Mjøsen Skog	1 970 560	1.04
Alfaplan AS	1 620 100	0.85
Skiens Aktiemølle ASA	1 552 361	0.82
BNP Paribas as principal	1 535 000	0.81
Myra Matsenter AS	1 517 870	0.80
Avanza Bank as principal	1 214 399	0.64
UB Securities Helsinki (PB)	1 179 249	0.62
JPMorgan Asset Management	1 167 913	0.61
AQR Capital Management	1 158 166	0.61
KLP	1 156 020	0.61
Bogle Investment Management	1 087 218	0.57
Holmen Fund Management	1 050 000	0.55
LGT Bank Vaduz (PB)	1 025 102	0.54
August AS	1 000 000	0.53
Mork Invest AS	980 000	0.52
Number of shares < 0 5 %	92 318 150	48.60
Total	**189 945 626**	**100.00**

The data is provided by RD:IR and VPS, through the Nominee ID service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Norske Skogindustrier ASA share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis.

ARTICLES OF ASSOCIATION FOR NORSKE SKOGINDUSTRIER ASA

LAST AMENDED IN GENERAL ASSEMBLY 22 APRIL 2010, UNCHANGED IN GENERAL ASSEMBLY 14 APRIL 2011

ARTICLE 1 THE COMPANY FORM AND NAME
The company is a public limited liability company.
The company's name is Norske Skogindustrier ASA.

ARTICLE 2 OBJECTIVE
The objective of the company is to operate wood processing activities and associated activities. The company may 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 corporate management and registered office in Bærum municipality.

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 shall 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 ten directors. Directors are elected by the corporate assembly for a term of one year. No person can be elected to the board after reaching the age of 70.

The corporate assembly elects 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 appoints a chief executive or named 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 a term of one year. Alternate members are elected for a term of one year.

The corporate assembly respectively elects two members to act as chair and deputy chair for a term of one year.

ARTICLE 7 ELECTION COMMITTEE
The company will have an election committee consisting of four members elected by the general meeting for a term of one year. The chair of the election committee is elected by the general meeting.

The remuneration of the members of the election committee will be determined by the general meeting.

The election committee will have the following tasks:
- i) To issue a recommendation to the corporate assembly concerning election of shareholder-elected members.
- ii) To issue a recommendation to the corporate assembly concerning the election of board members.
- iii) To issue a recommendation to the general meeting concerning the remuneration of the members of the corporate assembly.
- iv) To issue a recommendation to the corporate assembly concerning the remuneration of the members of the board.
- v) To issue a recommendation to the general meeting concerning the election of members of the election committee.

The general meeting can stipulate more detailed guidelines for the work of the election committee.

ARTICLE 8 GENERAL MEETING
Notice of the general meeting will be issued within the deadline set by the Public Limited Liability Companies Act in writing to all shareholders with a known address.

The right to participate and vote in the general meeting can only be exercised when the acquisition of shares is registered in the shareholder register on the fifth business day before the general meeting (registration date).The general meeting will be held in the local municipality in which the company has its registered office or in Oslo.

When the documents which apply to matters which are up for discussion and voting at the general meeting in the company have been made available to the shareholders on the company's website, the board can decide to not send the documents to the shareholders. A shareholder can, however, demand to have documents pertaining to matters on the agenda of the general meeting sent to him or her. The company cannot request any compensation for sending documents to the shareholders.

The annual general meeting will:
1. Approve 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. Discuss and vote over the board's declaration on determination of salary and other remuneration for senior employees.
4. Approve the auditor's fee.
5. Elect the shareholders' representatives and alternate representatives in the corporate assembly.
6. Elect four members of the election committee.
7. Deal with any other business stated in the notice of the meeting.

Matters which a shareholder wants to put before the general meeting for discussion and voting must be communicated in writing to the board at least seven days prior to the deadline for issuing a notice of a general meeting enclosing a proposed motion or reason for putting the matter on the agenda. 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.

Shareholders can vote in writing in advance in matters up for discussion and voting at the company's general meetings. Such votes can also be cast through electronic communication. The option of voting in advance is contingent upon the existence of a satisfactory method for verifying the identity of the voter. The board of directors will determine if such a method exists prior to each individual general meeting. The board of directors can stipulate more detailed guidelines for written advance votes. It must emerge from the notice of the general meeting whether voting in advance is allowed and which guidelines have been stipulated for any such voting in advance.

NORSKE SKOGINDUSTRIER ASA

Oksenøyenveien 80
P.O. Box 329, 1326 Lysaker
Norway

Telephone: +47 67 59 90 00
Fax: +47 67 59 91 81

www.norskeskog.com

Norske Skog

DesignContainer.no