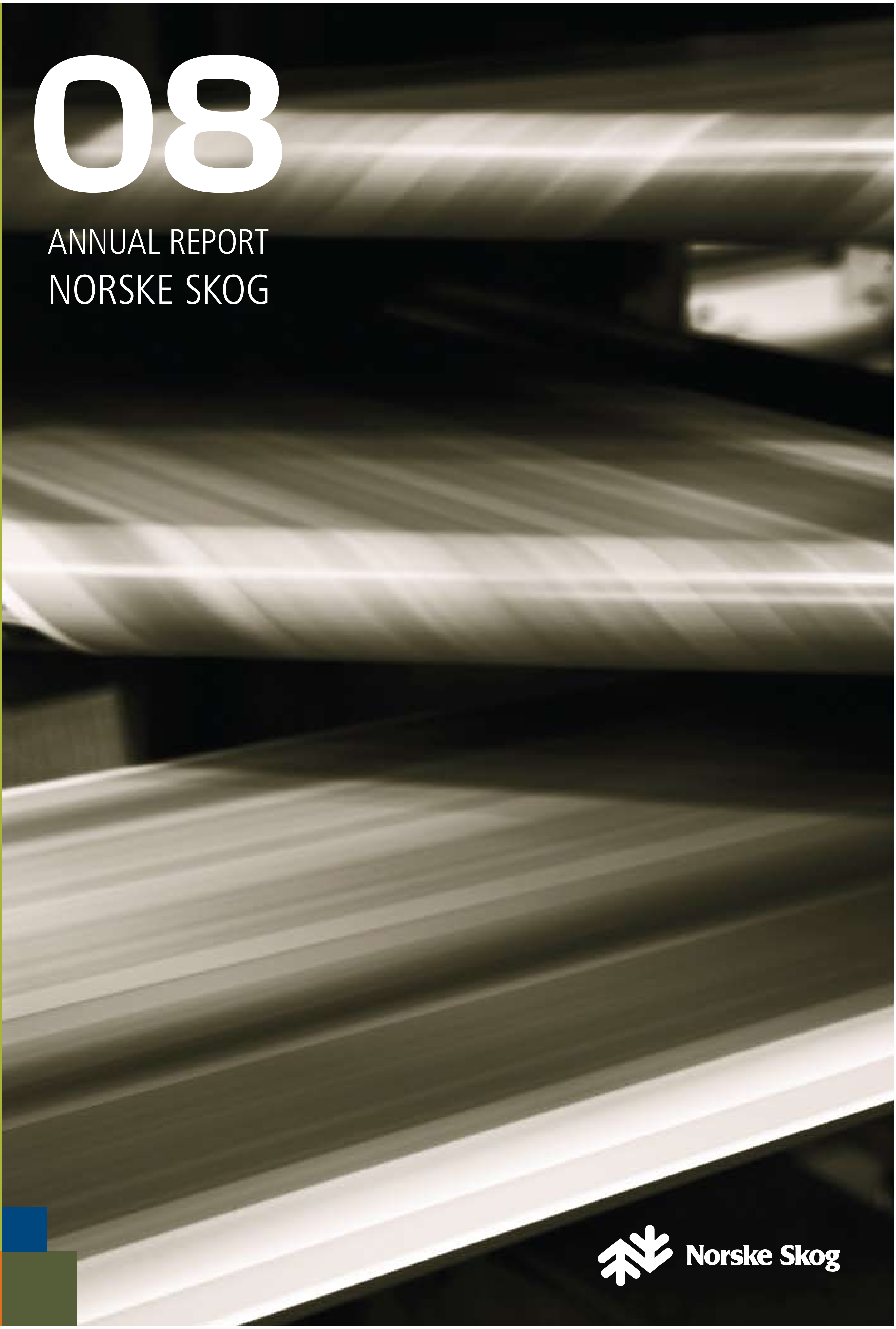
08

ANNUAL REPORT
NORSKE SKOG



Norske Skog

KEY FINANCIAL FIGURES

	DEFINITIONS	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Income statement (NOK million)											
Operating revenue		26 468	27 118	28 812	25 726	25 302	24 068	23 471	30 354	26 635	18 054
Gross operating earnings	1	2 723	3 932	4 704	3 957	4 353	4 686	5 198	8 419	6 599	3 818
Operating earnings		-1 407	677	-2 527	630	757	1 536	1 306	5 096	4 211	2 129
Earnings before financial expenses	2	-1 242	785	-2 275	-51	868	1 383	1 833	5 581	4 575	2 252
Profit/loss before income taxes		-2 779	235	-3 480	-1 004	210	770	806	3 894	3 021	1 825
Net profit/loss for the year		-2 765	-683	-3 017	-848	629	406	1 168	2 660	2 184	1 326
Balance sheet (NOK million)											
Non-current assets		26 980	29 307	37 577	43 740	36 861	39 219	38 197	45 417	43 717	18 828
Current assets		18 211	13 953	7 653	8 293	7 238	7 119	6 769	10 855	17 510	6 086
Total assets		45 191	43 260	45 230	52 033	44 099	46 338	44 966	56 272	61 227	24 914
Total equity		13 632	15 957	18 550	22 679	18 894	19 416	17 921	19 526	22 351	11 727
Non-current liabilities		23 277	21 533	18 802	21 700	20 052	21 402	18 814	30 858	31 906	9 021
Current liabilities		8 282	5 770	7 878	7 654	5 153	5 520	6 210	5 888	6 970	4 166
Total equity and liabilities		45 191	43 260	45 230	52 033	44 099	46 338	42 945	56 272	61 227	24 914
Net interest bearing debt		14 047	16 408	17 320	19 063	16 871	17 759	18 204	22 820	20 535	7 618
Profitability											
Gross operating margin %	3	10.3	14.5	16.3	15.4	17.2	19.5	22.1	27.7	24.8	21.1
Net operating margin %	4	(5.30)	2.50	(8.80)	2.40	3.00	6.30	5.60	16.80	15.80	11.80
Net profit margin %	5	(10.30)	(2.30)	(9.70)	(3.30)	2.60	1.70	5.00	8.20	7.40	7.20
Return on assets %	6	(2.80)	1.80	(4.70)	(0.10)	1.90	3.00	3.60	9.50	10.60	9.20
Return on equity %	7	(18.70)	(4.00)	(14.60)	(4.10)	3.3	2.2	6.3	12.7	12.8	12.2
Equity ratio	8	30.20	36.90	41.50	43.60	42.80	41.90	39.90	34.70	36.50	47.10
Net interest bearing debt/equity		1.03	1.03	0.93	0.84	0.89	0.91	1.02	1.17	0.92	0.65
Net earnings per share (NOK)	9	(14.33)	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17	14.01
Net earnings per share fully diluted (NOK)	9	(14.33)	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17	14.01
Cash flow per share (NOK)	10	10.43	11.43	14.60	21.42	22.04	22.45	27.89	58.47	48.18	23.29
Cash flow per share fully diluted (NOK)	10	10.43	11.43	14.60	21.42	22.04	22.45	27.89	23.29	48.18	23.29
Liquidity											
Liquid assets (NOK)	11	6 196	1 886	485	902	889	930	868	4 158	8 629	803
Cash flow (NOK)	12	1 977	2 166	2 763	3 061	2 948	2 973	3 687	7 052	4 922	2 162
Current ratio	13	2.2	2.42	0.97	1.08	1.4	1.29	1.09	1.84	2.51	1.46

Definitions key financial figures:

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses
2. Earnings before financial expenses = Operating earnings + Interest income + Share of profit in affiliated companies
3. Gross operating margin = Gross operating earnings : Operating revenue
4. Net operating margin = Operating earnings : Operating revenue
5. Net profit margin = Net profit/loss for the year : Operating revenue
6. Return on assets = Earnings before financial expenses : Total assets (average)
7. Return on equity = Net profit/loss for the year : Equity (average)
8. Equity ratio = Equity : Total assets
9. Net earnings per share = Net profit/loss for the year : Average number of shares
10. Cash flow per share after tax = Cash flow : Average number of shares
11. Liquid assets = Cash and bank deposits + Short term investments
12. Cash flow = Net cash flow from operating activities (from statement of cash flow)
13. Current ratio = Current assets : Current liabilities

THE WORLD OF NORSKE SKOG

PRODUCTION CAPACITY PER BUSINESS UNIT

		Newsprint (including improved NP)	SC (magazine)	LWC (magazine)	MFC (magazine)	Directory paper	Sum
1	Norske Skog Skogn, Norway	600 000					600 000
2	Norske Skog Saugbrugs, Norway		550 000				550 000
3	Norske Skog Follum, Norway	150 000			140 000		290 000
4	Norske Skog Golbey, France	640 000					640 000
5	Norske Skog Bruck, Austria	128 000		275 000			403 000
6	Norske Skog Walsum, Germany			435 000			435 000
7	Norske Skog Parenco, The Netherlands	470 000					470 000
	Total Europe	**1 988 000**	**550 000**	**710 000**	**140 000**	**0**	**3 388 000**
8	SNP Shanghai, China	145 000					145 000
9	Norske Skog Hebei, China	330 000					330 000
10	Norske Skog Singburi, Thailand	130 000					130 000
	Total Asia	**605 000**	**0**	**0**	**0**	**0**	**605 000**
11	Norske Skog Tasman, New Zealand	320 000					320 000
12	Norske Skog Albury, Australia	265 000					265 000
13	Norske Skog Boyer, Australia	300 000					300 000
	Total Australasia	**885 000**	**0**	**0**	**0**	**0**	**885 000**
14	Norske Skog Pisa, Brazil	185 000					185 000
15	Norske Skog BioBio, Chile	60 000				65 000	125 000
	Total South America	**245 000**	**0**	**0**	**0**	**65 000**	**310 000**
	Total	**3 723 000**	**550 000**	**710 000**	**140 000**	**65 000**	**5 188 000**

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EVENTS//2008

JANUARY

The CEO and the chair of the board held a telephone conference aimed at the financial market. Two main goals for 2008 were presented: Lower debt and better profitability.

Norske Skog held an extraordinary general meeting following demands from Unionen AS. Two new candidates for the company's corporate assembly were proposed. A majority of the attending shareholders voted to maintain the composition of the corporate assembly at the time.

FEBRUARY

Norske Skog introduced a number of measures to improve profitability. Fundamental changes to the management structure were approved, as well as the removal of head office functions. Proposals were made to reduce the production capacity in Europe and South Korea, and several properties were made ready for sale.

MARCH

The construction of paper machine no. 2 (PM2) at Norske Skog Pisa was terminated due to major cost overruns. Senoir vice president for South America and magazine paper, Antonio Dias resigned. A decision was made to permanently shut down the Norske Skog Steti mill in the Czech Republic. A decision was made to shut down one of the paper machines at Norske Skog Follum in Norway indefinitely.

APRIL

Norske Skog held the annual general meeting in Oslo. The general meeting elected members of the corporate assembly. A decision was made to amend the company's articles of association to allow subsequent amendments with a 2/3 majority, instead of a 3/4 majority.

MAY

The corporate assembly elected a new board for Norske Skog. Kim Wahl was re-elected as chair, Øystein Stray Spetalen was elected deputy chair, Wenche Holen and Svein Rennemo were elected as new board members.

Andreas Enger resigned as chief financial officer (CFO).

Norske Skog presented a weak first quarter result. Weak price developments for the company's products and strong cost increases for input factors affected the result negatively.

JUNE

Norske Skog entered into an agreement to sell the wholly owned subsidiary Norske Skog Korea to Morgan Stanley Private Equity Asia and Shinhan Private Equity. The transaction comprised the two newsprint mills Jeonju and Cheongwon, and formed part of the work to reduce Norske Skog's net debt.

Production at Norske Skog Steti and PM2 at Norske Skog Follum was halted.

JULY

Norske Skog entered into an agreement regarding sale of the shut-down mill Steti in the Czech Republic and several minor properties in Norway.

Audun Røneid was appointed new CFO.

AUGUST

Norske Skog presented a second quarter result showing some improvement in the profitability.

The sale of the activities in South Korea was completed, resulting in a net debt reduction of NOK 3.8 billion for Norske Skog.

SEPTEMBER

Terry Hamilton was appointed to the corporate management with responsibility for the activities in Asia and Australasia.

Norske Skog sold the main office property Oxenøen for NOK 429.5 million. The sale of Oxenøen and other properties contributed to reduce the net debt by approximately NOK 500 million.

Norske Skog established a co-operation with German company CHOREN in the field of second-generation bio-diesel.

OCTOBER

In an interview with Bloomberg, Norske Skog stated that it expected price increases for newsprint in Europe in 2009 to cover cost increases and contribute to a more reasonable profitability.

NOVEMBER

Norske Skog presented the third quarter result. The result development remained positive, primarily due to better magazine paper prices, reduced costs and a weaker NOK.

DECEMBER

Norske Skog repurchased bonds at a discount.

The fourth quarter of 2008 ended with continued result improvement.

//Tough measures had to be taken in 2008 for Christian Rynning-Tønnesen and Norske Skog

TOUGH MEASURES

In recent years, Norske Skog has implemented comprehensive structural reductions to adapt to falling markets. We are ready to continue to adapt the company to respond to changes in the market.

2008 was a dramatic year. On Monday, 15 September, US investment bank Lehman Brothers went bankrupt, and the world's financial markets entered a dramatic downward spiral. In the following days and weeks, the value of financial assets changed dramatically.

Four days prior to these events, Norske Skog received the settlement from the sale of our two mills in South Korea, NOK 3.8 billion in total. As we sat back and relaxed on the evening of 11 September, none of us knew how close we were to the outbreak of the financial drama.

The paper industry is no stranger to difficult times. For several years, the severe drop in newsprint consumption in North America has been met with major production capacity curtailments. The sharp increase in the Chinese demand has made Asia the world's largest newsprint region. However, excessive establishment of paper mills has reduced profitability in the Asian region as well to an unacceptably low level.

Norske Skog shut down five paper machines in Norway, New Zealand and South Korea in 2006. In 2008, we shut down another two, one at Follum in Norway and one at Steti in the Czech Republic.

In 2008, we reversed a long-term falling trend for Norske Skog's quarterly gross operating earnings. The first quarter of 2008 was the worst result in the group's modern history. Product prices under pressure and strong increase in raw materials prices was a combination which had to be met with reduced costs. In total, 260 000 tonnes of production capacity was shut down. In addition, decisions were made to implement substantial cost reductions in administrative functions. Since the end of 2005, we have reduced the number of employees in Norske Skog by 3 500. Of these, 1 300 are from divested activities, 1 000 are due to shut-down of production and 1 200 positions have gone as a result of efficiency measures. One of the most burdensome tasks of a CEO is reducing the workforce and shutting down mills. However, we must do everything in our power to ensure sustainable profitability.

At the end of 2008, we had almost achieved the cost improvement target introduced in 2006 of NOK 3 billion. Operating earnings have been improved by NOK 2.95 billion annually as a result of cost cuts, productivity improvements, changes to the production mix and other measures. The administration is now working to identify new measures which can yield further significant result improvements.

The sale of the mills in South Korea, the main office property and other properties freed up NOK 4.4 billion in 2008. Combined with a good cash flow from operations of NOK 2 billion, we significantly improved the net debt situation in the past year.

Although the development shows a substantial improvement through the year, the financial result for 2008 was weak. Gross operating earnings of NOK 2.7 billion are too low to yield a satisfactory return on capital employed.

Due to the improved balance between demand and production capacity in the European newsprint market, there will be price increases in 2009. However, the international financial crisis will result in lower paper consumption. The financial crisis has already turned into an economic crisis. Falling share prices are not the only factor attracting attention. This attention is also directed towards rising unemployment and the dramatic changes which have occured for a significant number of companies worldwide. Lower demand reduces activity, also for the paper industry. We are ready to act on changes in the market. So far, we have decided to curtail the capacity in Europe temporarily by 275 000 tonnes in 2009.

Although these are demanding times, we will work to ensure a positive development. Norske Skog continues to support the global Young Reader project, where we are involved in work to develop the reading and writing skills of children and young people in several parts of the world. Even though we are among the world's best companies as regards health and safety, we must set even higher targets. We have started exploring green biofuel based on wood as a potential new business area. The environmental results are good, but we will continue to improve, and our energy consumption will be further reduced.

The coming years will be demanding, but the future is also full of opportunities. I want to thank all of Norske Skog's employees, customers, suppliers and owners for their commitment, effort and cooperation, and I look forward to continue working for a stronger Norske Skog.

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
CEO

WORLD CONSUMPTION OF PUBLICATION PAPER SLIGHTLY DOWN FROM 2007

The world's total consumption of publication paper in 2008 was estimated at 69 million tonnes, down 2.4 per cent from the record year 2007. The consumption of uncoated (SC) magazine paper increased, while consumption of coated magazine paper and standard and improved newsprint fell. There were substantial differences in market developments between various geographical regions. During the course of the year, most regions in the world were affected by a falling advertising market as a result of the international financial crisis.

For newsprint, there was growth in consumption in Asia and South America, while consumption in Europe and Australasia fell. The strong decline in North America continued, and it is estimated that global consumption fell by approximately 2.5 per cent.

In spite of weaker demand both in North America and Europe, the market balance was maintained or improved as a result of comprehensive capacity reductions. This resulted in the implementation of several price increases in North America, also directly and indirectly affecting price levels in both Asia and South America. The price level in Europe was stable, while prices in Asia fell towards the end of the year due to surplus capacity and lower growth in consumption.

Demand for the two main types of magazine paper developed differently in 2008, with significantly reduced demand for coated magazine paper (LWC) and continued growth for the uncoated paper. Capacity for both paper types was shut down, enabling the implementation of price increases.

NEWSPRINT

EUROPE: Demand for standard newsprint in 2008 was around four per cent lower than in 2007, with the greatest reduction in demand in the UK and Spain. The housing market in both of these countries fell during the course of 2008, a factor which affects paper advertising to a large extent.

Based on the one-year contracts entered into for 2008, the price level in Europe, measured in local currency, was stable. Converted into EUR as a reference currency, the price level in the UK became much lower as a result of a weaker GBP. At the end of the year, prices both in the UK and continental Europe were significantly lower than in North America, measured in comparable currencies. This is due to both price increases in North America and the fact that the USD has strengthened compared with most other currencies through the year. Imports from Canada to Europe were approximately 15 per cent lower in 2008 than in 2007.

In the first half of 2008, Norske Skog shut down two paper machines in Europe with capacity totalling 260 000 tonnes. Combined with other permanent shut-downs, this resulted in an estimated reduction in European production capacity of seven per cent through the year. This has improved market balance, enabling the implementation of price increases in all European markets in 2009. In North America, the production capacity for newsprint was reduced by 11 per cent in 2008.

On the background of the international financial crisis, Norske Skog expects newsprint demand to fall somewhere between five and ten per cent in 2009 in Europe and other mature markets. Norske Skog is meeting this situation with a production curtailment of 200 000 tonnes. In total, Norske Skog has newsprint production capacity of approximately 1.95 million tonnes in Europe, corresponding to 38 per cent of the company's overall production capacity.

ASIA: Asia is the world's largest newsprint market. The demand increased by approximately 2.5 per cent in 2008 when excluding the mature Japanese market. In several Asian countries, in particular in China, the market became weaker in the second half of 2008.

At present, there are no new newsprint machines under construction in China, but due to the great increase in capacity in the years 2005 – 2007, local surplus capacity remains, which resulted in a price drop in the second half of 2008. Norske Skog implemented a comprehensive production curtailment at the mill in Hebei, China, towards the close of the year.

There is great uncertainty concerning the demand development in Asia in 2009. In a more long-term perspective, there are good prospects for continued high growth in many of the countries.

In 2008, Norske Skog sold two newsprint mills in South Korea. After this divestment, Asia contributes 13 per cent of Norske Skog's overall production capacity.

AUSTRALASIA: Based on delivery statistics, demand for newsprint in Australia and New Zealand fell by six per cent in 2008. The underlying consumption also fell, but to a smaller extent due to reduced customer inventories. As a result of long-term price agreement clauses, prices were reduced by seven per cent in Australia with effect from 1 July 2008.

Somewhat lower volumes are expected in Australasia in 2009. A price increase for newsprint was implemented in New Zealand from 1 January 2009, and there are also good prospects for price increases in Australia from 1 July 2009.

Norske Skog is the only newsprint producer in Australasia, and 16 per cent of the company's overall production capacity is located in this region.

SOUTH AMERICA: The South American newsprint market grew by approximately nine per cent in 2008. Most of the growth took place in Brazil. The demand fell off somewhat towards the close of the year.

To a large degree, prices in South America follow the prices in North America, so that the price level became gradually higher through 2008.

Norske Skog has six per cent of the overall production capacity in South America.

MAGAZINE PAPER: Demand for magazine paper in Europe was one per cent lower in 2008 compared with 2007. Uncoated (SC) magazine paper, which amounts to 35 per cent of the total market, saw an increase in demand of approximately six per cent, while demand for coated (LWC) magazine paper fell by four per cent. LWC is 65 per cent of the total market for magazine paper in Europe. The development in the magazine paper market in North America is mostly the same, as this market sees substantial imports from Europe.

Due to extensive shut-down of capacity, price increases were carried out both for SC and LWC in Europe in 2008.

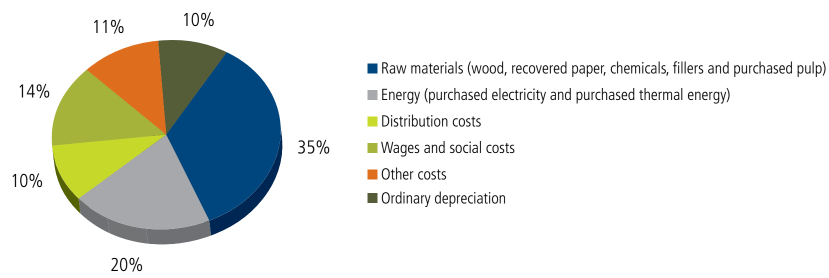
For 2009 as a whole, demand for magazine paper is expected to drop, but the outlook is better for SC than for LWC. Norske Skog has announced temporary production curtailments of 75,000 tonnes of magazine paper.

Norske Skog's production capacity for magazine paper is 1.4 million tonnes, corresponding to 27 per cent of the company's overall production capacity.

THE PRICE INCREASE ON INPUT FACTORS LEVELLED OUT IN 2008

After several years where the prices of most input factors have increased, at times dramatically, the development became more positive for Norske Skog towards the end of 2008. However, the accounting effect is limited.

Distribution of costs*



RAW MATERIALS

The two most important raw materials for Norske Skog are wood and recovered paper, each contributing approximately ten per cent of total costs, or approximately 65 per cent of total raw material costs in 2008. Wood in the form of logs or chips is the only raw material in South America and the dominant raw material in Australasia and Norway. There is also some consumption of wood in continental Europe. Europe saw a minor price increase at the start of 2008 and relatively stable prices for the rest of the year. In Norway, contracts are long-term with a price clause for major parts of the volume. In South America and Australasia, most of the wood is purchased under long-term contracts. Total wood consumption in 2008 was 6.3 million m^3.

Recovered paper is the only raw material in Asia, the dominant raw material for newsprint mills in continental Europe and there is also some consumption in Australasia and Norway. Recovered paper prices have risen for several years, mainly due to strong increase in the demand from Asia. This changed in the autumn of 2008, with sharply falling prices in the spot markets. The largest fluctuations have taken place in China, where spot prices have fallen from a peak of approximately USD 300 down to USD 100. The price drop has had limited effect on the 2008 result. Norske Skog's overall consumption of recovered paper in 2008 was 2.8 million tonnes, of which 0.5 million tonnes were consumed by the mills in South Korea in the first half of the year.

Purchased chemical wood pulp is used to strengthen the fibres in magazine paper. This raw material has become cheaper in 2008. The same applies to some extent for oil-based chemicals.

ENERGY

Energy is the most important individual cost item for Norske Skog. Measured in volume, the energy consumption in 2008 was 20,000 GWh (20 billion kWh), of which approximately half was electricity and the rest heat energy. Purchased electricity made up approximately 75 per cent of the total cost measured in NOK.

For some time, Norske Skog has worked to secure a major part of the electricity need in long-term contracts. At the end of 2008, approximately 75 per cent of the need in a normal year was secured in such contracts, which the group has entered into in Norway, South America, Australia and New Zealand. As a result of the high share of the electricity purchased under these contracts and, in addition, the use of various hedging instruments, the group has a limited exposure to the spot prices in the energy market.

The energy prices in Europe in 2008 developed mostly in line with price trends for fuels (oil, coal, gas and CO^2). At their highest level, the prices were twice the average price in 2007. On average in 2008, energy prices in Germany were approximately 70 per cent higher than the 2007 average. In Norway, prices were approximately 60 per cent higher, but this did not affect Norske Skog significantly due to long-term contracts. At the beginning of 2009, energy prices, both in the spot and forward markets, are substantially lower.

NORSKE SKOG PRODUCTS

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

NORCOTE

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

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

DIRECTORY PAPER

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

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

NORSC

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

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

NORBRIGHT, NORSTAR AND NORX

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

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

NORSET

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

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

NORNEWS

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

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

AFFECTED BY THE FINANCIAL CRISIS

The financial crisis which started in the latter half of 2007 has escalated severely throughout 2008 and developed into a global economic crisis.

The economic situation is characterised by great uncertainty, failing credit markets and substantial volatility. This also influences Norske Skog in various ways. Failing liquidity in international credit markets influences access to and the price of loan financing. The currency and interest markets show great volatility, resulting in major effects in the group's financial items and other financial framework conditions. Furthermore, the economic crisis will probably affect prices and demand for publication paper and Norske Skog's input factors. Norske Skog is attempting to manage and reduce this risk through a number of different measures.

Due to surplus capacity, price pressure and cost pressure in the paper industry, Norske Skog experienced in many ways the financial crisis before the rest of the market. The corporate management has therefore focused on improving the group's financial position for some time and has implemented a number of measures. Among these were the shut-down of paper machines in order to reduce surplus newsprint capacity in Europe, a comprehensive cost reduction programme and the sale of assets. In 2008, the group finalised an extensive improvement program where the result came close to the original objective of NOK 3 billion compared with the base year 2005, adjusted for market price changes for energy and other raw materials which are stipulated in an international market and which the company does not influence.

In order to reduce the debt, the group's activities in South Korea were sold in 2008. Norske Skog also sold its main office property and other properties which were not directly related to the operations. These transactions have improved Norske Skog's financial position significantly, and reduced the debt by more than NOK 4 billion.

Norske Skog needed the consent of the lenders of an unused EUR 400 million credit facility to sell the activities in South Korea. The lenders consented to the sale, but also placed some restrictions on Norske Skog. This entails that Norske Skog cannot disburse dividend or in any other way distribute funds to the shareholders, that investments must be kept within NOK 1.65 billion in 2008 and thereafter NOK 1.5 billion, and that the minimum cash reserve must amount to NOK 2.5 billion. These conditions are no longer valid when the loan of EUR 500 million is repaid in March, 2009.

In some of Norske Skog´s loan agreements, the following two financial requirements exists:

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

As of 31 December 2008, Norske Skog met all of these requirements.

Norske Skog has a credit rating from Moody's and Standard & Poor's, two of the world's leading rating agencies. At the end of last year, the Moody's credit rating was B1, with a negative outlook. Over the course of 2008, the Moody's rating has been downgraded from Ba2. Standard & Poor's rating is BB-, with a negative outlook. The rating has been downgraded from BB+ over the course of 2008. In February 2009, Moody's rating was changed to B2 with a stable outlook.

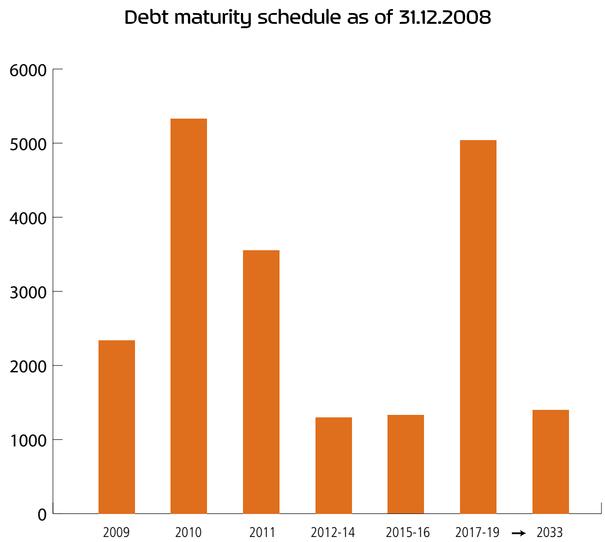
LIQUIDITY AND INTEREST RISK MANAGEMENT

Norske Skog attempts to ensure a prudent liquidity position, as well as a relatively steady and long-term maturity profile for the lending portfolio.

The liquidity reserve consists primarily of bank deposits and undrawn credit facilities with a maturity of more than one year. At the end of last year, the liquidity reserve amounted to NOK 9.9 billion, comprised of NOK 6 billion in bank deposits and NOK 3.9 billion in the form of an undrawn syndicated bank credit facility falling due in 2012.

The average term to maturity for the loan portfolio was 5.2 years as of 31 December 2008. The bar chart shows the instalment structure for the group's loans as of 31 December 2008.

The objective of interest risk management is to secure low and predictable interest costs over time. An interest policy based on floating interest rates has traditionally been practical for Norske Skog, as there is a historic connection between interest rate levels and the economic cycle. Interest rates are often lowered during economic downturns, providing a natural hedging mechanism. Predictable interest costs will, however, always be important in a situation where there is a risk of the group's cash flow being weakened due to sector-specific market conditions. At the beginning of 2009, Norske Skog has a mixture of fixed interest rates and floating interest rates to ensure a certain stability and predictability in the interest costs, while at the same time benefitting from falling interest rates.



CURRENCY HEDGING OF CASH-FLOW AND BALANCE SHEET

Norske Skog has income and costs distributed over various currencies. Exchange rate changes can have major effects on the group's results. The effects of currency changes are reduced by Norske Skog hedging 0 – 100 per cent of the net cash flow from the next 12 months per currency. Norske Skog stands to gain financially from a weaker NOK, as the group, through its mills in Norway, has a relatively large NOK cost base, while the income is in other currencies. A weak NOK therefore gives the Norwegian mills a relatively good cost position. At the end of 2008, the NOK was at a historically weak level compared with the euro. On this background, Norske Skog has expanded cash flow hedging against the euro beyond the normal 12-month hedging horizon, in order to hedge some of the cash flow in 2010 and 2011.

The balance sheet is also affected by currency changes. The main part of Norske Skog's assets and liabilities is recorded in other currencies than NOK. When converting to NOK, this can affect both the size of the debt and the debt/equity ratio. Norske Skog primarily seeks to identify the debt/equity ratio through the group recording liabilities and assets in the same currencies. In addition, the group seeks to distribute the debt among the currencies where the company has a positive cash flow. Norske Skog primarily has debt in euros, US dollars and Australian dollars, all currencies where the group has a positive underlying cash flow. An increase in the debt as measured in NOK is therefore offset by the cash flow to a large extent being in the same currencies.

CHANGES IN THE LOAN PORTFOLIO IN MARCH 2009

In March 2009, Norske Skog chose to draw the full amount under of the syndicated credit facility of EUR 400 million (about NOK 3.6 billion) which expires in February 2012. Along with EUR 100 million from the group's cash reserve, the amount will be used to repay a bank loan of EUR 500 million which falls due in January 2010.

The transaction will not influence Norske Skog’s net interest-bearing debt or gearing.

NORSKE SKOG'S SHAREHOLDER POLICY

The shareholder policy was adopted in 2005 and is as follows:

- Norske Skog's goal is to provide the best return for shareholders in the paper industry.
- 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 executive management shall be based on the principle of equal treatment of all the company's shareholders.

DIVIDEND

The dividend policy was adopted in 2005 and is as follows:

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

2008 DIVIDEND PROPOSAL

On the basis of Norske Skog's financial position, the board recommends that no dividend should be disbursed for the accounting year 2008.

THE SHARE SAVINGS SCHEME

Through the annual sale of shares, the entire organisation focuses on the owners' role in Norske Skog, and gains insight in the share markets. The shares are sold at a discount compared with market value. The scheme was introduced for the group's employees in Norway in 1996 and was later expanded to currently include employees in all units worldwide where Norske Skog has an ownership interest of more than 90 per cent. The mills in China are not included in the scheme, both because the ownership interest is less than 90 per cent and for legal reasons. The upper limit for share purchases is 3/5 G (the National Insurance basic amount) for each individual. Shareholder-elected members of the board and corporate assembly are also included in the scheme. The shares sold are taken from Norske Skog's own holdings.

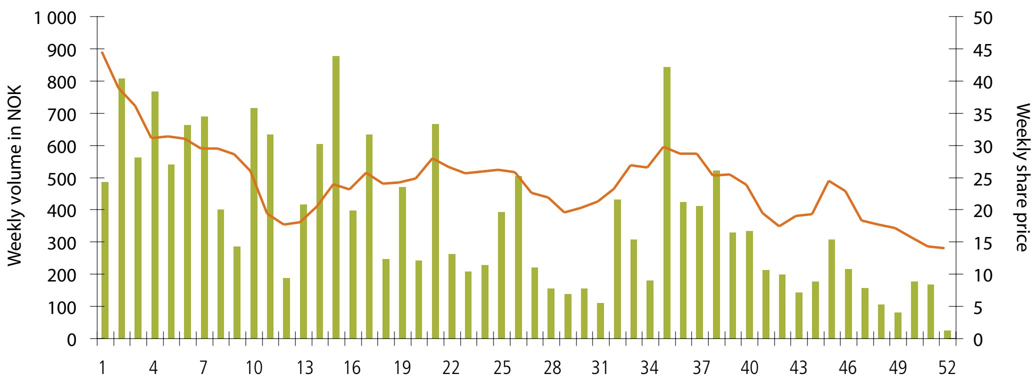
During the sale of shares in the winter of 2008, 544 employees participated, buying 812 210 shares in total.

LONG-TERM INCENTIVE PROGRAM

Norske Skog has a long-term incentive program for the corporate management, based on a relative share return. The disbursements under this program depend on the return (dividend + share price development) from Norske Skog's shares being among the eight best within a defined group of 16 listed paper industry companies, including Norske Skog. The scheme will yield a profit if Norske Skog is among the companies in the upper half of this reference group. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The

Ownership by non-Norwegians

Weekly volume and share price 2008



potential profit increases in stages from 30 per cent and reaches 100 per cent if Norske Skog is among the companies in the top quartile. The development is measured in three-year periods, and a new period starts every year. The first period started in the first quarter of 2007, with potential disbursement in 2010, and the next period started in the first quarter of 2008, with potential disbursement in 2011.

The maximum annual allocation will amount to the value of 35 000 shares before tax for the CEO and 17 500 shares before tax for other members of the corporate management. The allocation in a given year can at most correspond to 1.25 times the annual wage. A minimum of 50 per cent of the allocation from this program must be used to acquire shares, which are retained until total share ownership amounts to one gross annual wage.

Previously, Norske Skog had an incentive programme in the form of synthetic options for the corporate management. Options were last awarded under this program in July 2006. As of 31 December 2008, there are 150 000 synthetic options outstanding, of which 60 000 are for the CEO. These options can be exercised from 1 January – 30 June 2009, and the strike price is NOK 87.50.

The new long-term incentive program has no dilution effect. This was also the case for the former synthetic options scheme.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2008, a total of 787 million Norske Skog shares were traded on the Oslo Stock Exchange, an increase of 19 per cent compared with 2007. On average, each share was traded 4.1 times in 2008.

Oslo Stock Exchange and most other stock exchanges in the world had a weak development in 2008 due to the crisis in the financial markets. The all-share index on the Oslo Stock Exchange was more than halved during the course of the year, and Norske Skog's shares fell by 70 per cent, from NOK 45.85 on 2 January 2008, also the year's highest price, to NOK 13.50 on 30 December 2008. The lowest share price of the year was NOK 13.15 on 17 December 2008. Most other companies in the paper industry also saw their share prices drop significantly in 2008.

As of 31 December 2008, the share capital in Norske Skog was NOK 1 899 456 260, divided among 189 945 626 shares at a nominal value of NOK 10. All shares have equal rights. There were no changes in the company's share capital in 2008, and there are no authorisations for the board to expand the share capital.

At the beginning of 2008, Norske Skog owned 600 000 of its own shares. In February, 650 000 shares were bought, and 955 910 shares were later sold to employees, mainly in connection with the annual share sale program. Norske Skog's holding of own shares is 294 090 shares as of 31 December 2008.

The board has been authorised to buy back up to 10 per cent of the outstanding shares, but in connection with the approval from the banks for the sale of mills in South Korea, Norske Skog pledged not to buy back own shares before a loan which falls due in January 2010 has been repaid or refinanced. However, this is not an obstacle for Norske Skog buying back a sufficient number of shares in connection with the share sale to employees in the spring of 2009.

As of 31 December 2008, foreign ownership was 40 per cent, compared with 49 per cent on 31 December 2007. As of 31 December 2008, the largest individual Norwegian shareholder was Unionen AS, with an ownership interest of 5.9 per cent. On the same date, Viken Skog owned 5.7 per cent and the Norwegian forest owner federations owned 15 per cent in total.

With the exception of employees in Norske Skog's companies outside of Norway, the foreign shareholders are to a large degree registered through investment banks. The US investment bank Third Avenue owned between five and ten per cent at the end of last year.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 26 812 shareholders in total as of 31 December 2008, of which 1 355 resided outside Norway.

INFORMATION TO THE FINANCIAL MARKET

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

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

FINANCIAL CALENDAR FOR 2009

- 5 February: The fourth quarter of 2008 and preliminary financial accounts for the entire year
- 23 April: General meeting 2009
- 7 May: First quarter of 2009
- 6 August: Second quarter of 2009
- 5 November: Third quarter of 2009

SHARE PRICE INFORMATION [1]

	NOK/share
Official tax assessment price as of 31 December 2008 [2]	13.98
Share price 30 December 2008	13.50
Share price 28 December 2007	45.20
Average share price 2008	23.51
Average share price 2007	80.57
Highest share price 2008 (2 January)	45.85
Lowest share price 2008 (17 December)	13.15
Highest share price last 5 years (3 September 2003)	125.75
Lowest share price last 5 years (17 December 2008)	13.15

1) With the exception of the tax assessment share price, the share prices are based on the last quoted price on the date in question.

2) For use in wealth assessment for Norwegian shareholders as of 31 December 2008.

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

PRINCIPAL SHAREHOLDERS AT 31 DECEMBER 2008

	Number of shares	%
UNIONEN AS	11 282 200	5.94
VIKEN SKOG BA	10 897 825	5.74
JPMORGAN CHASE BANK, GBR (NOM)	10 115 664	5.33
FOLKETRYGDFONDET	9 254 155	4.87
BEAR STEARNS SECURITIES CORP., USA (NOM)	7 859 426	4.14
AT SKOG BA	6 671 000	3.51
STATE STREET BANK AND TRUST CO., USA (NOM)	6 227 034	3.28
SKAGEN VEKST	5 324 300	2.80
STATE OF NEW JERSEY PENSION FUND, C/O BANK OF NEW YORK, USA	5 000 000	2.63
ALLSKOG BA	3 458 990	1.82
MJØSEN SKOG BA	3 412 270	1.80
BANK OF NEW YORK MELLON, USA (NOM)	2 620 581	1.38
A/S HAVLIDE	2 272 136	1.20
JPMORGAN CHASE BANK, GBR (NOM)	2 162 100	1.14
A/S HERDEBRED	2 036 585	1.07
ALLSKOG HOLDING AS	1 802 424	0.95
STATE STREET BANK & TRUST CO., USA (NOM)	1 775 362	0.93
SKIENS AKTIEMØLLE ASA	1 507 623	0.79
CREDIT SUISSE SECURITIES, GBR (NOM)	1 392 000	0.73
CITIBANK N.A. NEW YORK BRANCH, USA (NOM)	1 379 296	0.73
DNB NOR BANK ASA	1 375 828	0.72
DNB NOR NORGE (IV)	1 311 562	0.69
UBS AG, LONDON BRANCH, GBR (NOM)	1 247 284	0.66
BEAR STEARNS SECURITIES CORP., USA (NOM)	1 234 532	0.65
CLEARSTREAM BANKING S.A., LUX (NOM)	1 211 621	0.64
CITIBANK N.A. NEW YORK BRANCH, USA (NOM)	1 189 782	0.63
MORGAN STANLEY & CO. INC., GBR (NOM)	1 111 079	0.58
JPMORGAN CHASE BANK, GBR (NOM)	1 105 650	0.58
VITAL FORSIKRING ASA	1 098 441	0.58
THE NORTHERN TRUST CO., GBR (NOM)	1 090 268	0.57
THE NORTHERN TRUST CO., GBR (NOM)	1 074 203	0.57
EINAR HANASAND	1 013 000	0.53
BROWN BROTHERS HARRIMAN, USA	978 371	0.52
NO OF SHARES <0,5%	111 492 592	58.70
Total number of shares	**189 945 626**	**100,00**

KEY FIGURES RELATED TO SHARES

	DEFINITIONS	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Nominal value (NOK/share)		10	10	10	10	10	10	10	10	20	20
Average number of shares excluding shares held in treasury (1 000)		189 258	189 258	189 258	142 878	132 430	132 415	132 194	120 604	102 159	92 829
Net earnings per share after tax (NOK)	1	-14.33	-3.26	-14.84	-5.98	4.95	3.04	8.79	20.68	19.17	14.01
Cash flow per share after tax (NOK)	2	10.43	11.43	14.6	21.42	22.04	22.45	27.89	11.00	48.18	23.29
Dividend per share (NOK)		0.00	0.00	5.50	5.50	6.00	6.00	6.00	6.00	6.00	5.50
Price/earnings ratio	3	-	-	-	-	26.5	41.8	11.1	8.2	7.9	12.1
Price/cash flow ratio	4	1.29	3.95	7.35	5.01	5.9	5.7	3.5	15.3	3.1	7.3
Payout ratio (%)		-	-	-	-	121.2	197.4	68.3	29.0	26.9	33.6
Number of shares 31.12. (1 000)	A share	189 946	189 946	189 946	189 946	133 137	133 137	133 137	133 137	67 972	57 592
	B share	-	-	-		-	-	-	-	25 172	25 172
	Total	**189 946**	**189 946**	**189 946**	**189 946**	**133 137**	**133 137**	**133 137**	**133 137**	**93 144**	**82 764**
Share prices high		45.85	118.50	114.00	124.86	146.50	139.00	175.50	168.50	172.10	172.51
Share prices low		13.15	30.75	83.00	86.50	110.00	86.50	82.50	115.00	90.11	82.80
Share prices 31.12.	A share	13.50	45.20	107.50	107.25	131.00	127.00	98.00	168.00	150.59	169.67
	B share	-	-	-	-	-	-	-	-	146.00	168.50
Trading volume (Oslo Stock Exchange) 1 000 shares		786 990	659 648	230 507	186 297	157 839	119 400	107 649	116 458	54 118	46 424
Number of shareholders 31.12.	A share	26 812	23 871	22 967	23 646	23 851	23 212	21 083	22 587	19 431	17 900
	B share				-	-	-	-	-	14 915	14 693
	Total	**26 812**	**23 871**	**22 967**	**23 646**	**23 851**	**23 212**	**21 083**	**22 587**	**21 779**	**19 884**
Number of foreign shareholders 31.12.	A share	1 355	1 400	1 361	1 355	1 271	1 222	1 210	1 092	546	483
	B share				-	-	-	-	-	133	110
	Total	**1 355**	**1 400**	**1 355**	**1 355**	**1 271**	**1 222**	**1 210**	**1 092**	**589**	**518**
Foreign shareholding 31.12.	A share	40.5 %	48.9 %	67.0 %	56.9 %	38.2 %	37.6 %	43.1 %	41.3 %	25.1 %	27.6 %
	B share				-	-	-	-	-	8.3 %	5.6 %
	Total	**40.5 %**	**48.9 %**	**67.0 %**	**56.9 %**	**38.2 %**	**37.6 %**	**43.1 %**	**41.3 %**	**20.5 %**	**20.9 %**
Market value (NOK million)		**2 564**	**8 586**	**20 419**	**20 372**	**17 441**	**16 908**	**13 047**	**22 367**	**16 284**	**16 278**

Definitions

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

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

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

CORPORATE GOVERNANCE IN NORSKE SKOG

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

ACTIVITIES

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

SHARE CAPITAL AND DIVIDEND

Norske Skog's equity is adapted to the company's goals, strategies and risk profile. The board considers the company dividend profile regularly. For more information, see page 14 of the annual report. The 2008 general meeting issued an authorisation valid until the next ordinary general meeting to purchase own shares for up to NOK 185 000 000, maximum 10 per cent of the outstanding shares. The purpose is resale to employees, as well as partial settlement of long-term remuneration programs.

EQUAL TREATMENT OF SHAREHOLDERS

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

The members of the board shall act independently and in a manner ensuring that no-one achieves unreasonable benefits. The company's rules of procedure for the board stipulate that members must inform the board of any personal and/or significant business relationships which could give rise to questions concerning their independence and objectivity. The group CEO's authorisations entail that the board will handle the company's contractual relationships only in exceptional cases.

FREELY NEGOTIABLE

The company's shares are freely negotiable.

THE GENERAL MEETING

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

Maximum participation is facilitated for the company's general meeting. The deadline for registering for participation is three days before the meeting. In 2008, 57.6 per cent of the share capital was represented at the ordinary general meeting in person or by proxy. Proxies with an open or limited mandate can be used. All shareholders can raise issues for the agenda of the general meeting, provided that these are communicated to the board in writing no later than one month before the general meeting is held. Issues which have not been stated in the summons require the consent of all shareholders represented at the general meeting to add them to the agenda.

In 2008, the entire board, with the exception of the resigned board members Øivind Lund and Kari Broberg, was present at the general meeting. The two mentioned board members were unable to attend due to other activities. The company's auditor and all members of the election committee were present, with the exception of Gunn Wærsted, who could not attend.

THE ELECTION COMMITTEE

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

THE CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The corporate assembly and board of directors, composition and independence

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

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

The board currently has ten members (see page 22) and has been composed to ensure competence, diversity and good teamwork. The corporate assembly elects board members for one year at a time, cf. Section 5 of the articles of association.

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

In 2008, Norske Skog met the prevailing requirements for representation of both genders among the members of the board and corporate assembly elected by the shareholders. The majority of the members of the board elected by the shareholders are independent of the company's main shareholders. This applies to the board members Kim Wahl, Wenche Holen, Gisèle Marchand, Svein Rennemo and Ingrid Wiik.

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

THE WORK OF THE BOARD OF DIRECTORS

The board determines the overall objectives for the company's strategic development, and regularly considers the vision, goals and strate-

THE CORPORATE GOVERNANCE IS REGULATED BY:

- Norske Skog's bylaws (cf. page 25)
- The Public Limited Liability Companies Act of 13 June 1997 No. 45
- Instructions for the board of Norske Skog
- Instructions for and authorisations issued to the CEO
- Mandate for the audit committee
- Mandate for the compensation committee
- Corporate governance recommendations (see http://www.oslobors.no/ob/cg)
- Norske Skog's guidelines for ethical business conduct (www.norskeskog.com)
- Norske Skog's core values: transparency, honesty and cooperation

gies. The board prepares an annual plan for its work. In 2008, the board focused intensively on the company's strategic development, sale of asset, profitability improvements and refinancing the company's long-term debt.

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

The board evaluates its work and competence annually, and the election committee is briefed about the conclusion of the evaluation. The board has established an audit committee and a remuneration committee. In cases where the chair cannot or should not lead the board's work, the deputy chair takes over.

IN 2008, THE MEMBERS OF THE ELECTION COMMITTEE WERE:

- **Tom Ruud**
  (chair of the corporate assembly)
  Senior vice president Umoe gruppen/CFO
- **Ole H. Bakke**
  Managing Director of Allskog
- **Henrik A. Christensen**
  Attorney and partner of
  RO Sommernes Advokatfirma DA
- **Otto Søberg**
  CEO Dovre Group AS

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The follow-up of the company's internal control routines takes place through the management's daily activities. In addition, the system is safeguarded through regular monitoring and testing carried out by the company's accounting department and the internal audit department.

BOARD REMUNERATION

Remuneration to members of the board is stipulated by the general meeting, and reflects responsibility, competence and time spent. Remuneration is not linked to results, and share options are not issued to the board members. All remuneration to the members of the board are stated on page 51.

REMUNERATION TO EXECUTIVE EMPLOYEES

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

INFORMATION AND COMMUNICATION

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

TAKE-OVER OF THE COMPANY

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

AUDITOR

PriceWaterhouseCoopers is the company's external auditor, and responsible for financial auditing of the parent company and the group accounts. The auditor attends all meetings where the board processes annual and quarterly accounts. The board and the audit committee regularly discuss matters with the auditor without the administration being present. The auditor annually discusses the company's routines for internal control and management systems with the board and audit committee. The external auditor's fee is approved by the general meeting. For details, see page 51.

REMUNERATION RELATED TO EMPLOYMENT AND ELECTED POSITIONS IN NORSKE SKOG

CORPORATE ASSEMBLY:

The remuneration is stipulated annually by the general meeting. The chair of the corporate assembly receives a remuneration of NOK 155 000 per year. Other members receive a remuneration of NOK 6 000 per meeting. Committee meetings are remunerated with NOK 6 000 per meeting. These amounts are fixed. The total disbursement to the members of the corporate assembly including committee work was NOK 720 000 in 2008.

THE BOARD:

Remuneration is stipulated annually by the corporate assembly. The annual remuneration for the chair of the board is NOK 510 000; the deputy chair receives NOK 365 000, and the other board members NOK 280 000. Committee meetings are remunerated with NOK 5 600 per meeting. These amounts are fixed. The total disbursement to the board, including NOK 5 600 per meeting for attending deputy board members and for committee work, was NOK 2 980 600 in 2008.

THE CEO:

Wages and other terms for the CEO are negotiated by the remuneration committee and stipulated by the board with involvement by the company's general meeting in accordance with applicable provisions. Wages and other remuneration for the CEO and other information relating to pension matters and pay after termination of employment are detailed in Note 4 in the group accounts. Please refer to pages 14 and 15 for an account of long-term incentive and bonus programs for the CEO, and page 82 for information regarding executive wages.

THE CORPORATE MANAGEMENT:

The remuneration committee reviews the principles for wage determination and other terms for the other members of the corporate management as well. Reference is also made to pages 14 and 15 for an account of long-term incentive and bonus programs for senior executive employees, and page 82 for information regarding executive wages.

INTERNAL BOARD REMUNERATION:

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

THE AUDIT COMMITTEE:

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

OTHER CONSIDERATIONS:

Information relating to share options and bonus schemes for executive employees is detailed in Note 4 to the group accounts. Reference is also made to pages 14 and 15, as well as page 82 for information regarding executive wages.

SHARE PURCHASES FOR EMPLOYEES:

All employees in Norske Skogindustrier ASA and in subsidiaries where Norske Skog owns more than 90 per cent receive an offer to purchase shares at a discount every year. The shares are paid through wage deductions over 12 months. In 2008, the offer included all employees worldwide, except for China. The scheme also includes shareholder-elected members of the corporate assembly and the board.

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

At year-end 2008, the members of the corporate assembly held a total of 99 476 shares in Norske Skog. Correspondingly, the members of the board held 211 987 shares. The corporate management held a total of 55 670 shares and 90 000 share options.

// THE MEMBERS OF THE BOARD

KIM WAHL (48)

Chair of the board, elected in 2007. Partner and deputy chair, IK Investment Partners (previously Industri Kapital). MBA from Harvard University, Boston. Deputy chair of the board of Kwintet AB, chair of the board of Stiftelsen Voxtra and board member in the Norwegian-Swedish Chamber of Commerce.

ØYSTEIN STRAY SPETALEN (47)

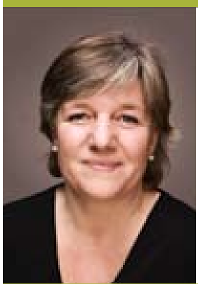
Deputy chair of the board, elected 2008. Chair of the board and owner of Ferncliff. Chartered engineer from the Norwegian University of Science and Technology. Board member Aktiv Kapital ASA, board member Kverneland ASA, board member Salmar ASA, board member Unionen AS, chair of the board Standard Drilling ASA in addition to 17 other directorships.

HALVOR BJØRKEN (54)

Board member since 2000. Forest owner. Chair of the board of TGG, deputy chair of the board of Midtnorsk Tømmerimport, member of the corporate assembly of the insurance company Storebrand and member of the board of the Ministry of Education and Research's development fund.

WENCHE HOLEN (44)

Board member since 2008. Managing director of Eniro AS. Business economist from the Norwegian School of Economics and Business Administration, technical engineer from Gjøvik School of Engineering. Chair of the board Findexia Forlag AS, board member Birdstep ASA, board member the Association for the Promotion of Skiing, board member New Media Network, board member 1880 AS.



GISÈLE MARCHAND (50)

Board member since 2002. CEO of Eksportfinans ASA. Deputy chair of the board of in Scandinavian Property Development ASA, deputy chair of the board of Oslo Børs VPS Holding ASA, board member of GK Kredittforsikring AS and Flyktningehjelpen.

SVEIN RENNEMO (61)

Board member since 2008. Cand. Oceon (social economist) University of Oslo (1971). Chair of the board of StatoilHydro ASA, Pharmaq AS and Integrated Optoelectronics AS.

INGRID WIIK (64)

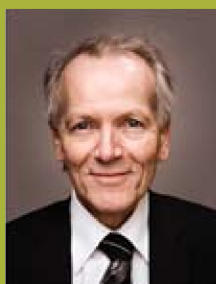
Board member since 2005. CEO of Alpharma Inc. 2000-2006. Board member of the same company 2000-2007. Board member of Coloplast AS (DK) from 2003. Board member of Biotech Pharmacon ASA from 2007, Algeta ASA from 2007 and Human Care AB (S) from 2007.

KÅRE LEIRA (61)

Board Member since 1999, elected by the employees. Group employee representative and chair of Norske Skog's European Works Council since 1997 and chair of the Global Employee Forum. Member of the executive committee of the Norwegian United Federation of Trade Unions.

STEIN-ROAR ERIKSEN (54)

Board Member since 2005, elected by the employees. Member of the executive committee of the Norwegian United Federation of Trade Unions. Member and secretary of the company's European Works Council and member of the Global Works Council. Chair of the Follum Works Council and the Norwegian Works Council.



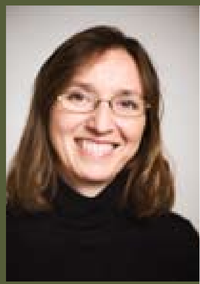
TROND ANDERSEN (61)

Board Member since 2006, elected by the employees. Employee representative at Norske Skog Saugbrugs and member of Norske Skog's corporate assembly for several terms.

CORPORATE MANAGEMENT//

CHRISTIAN RYNNING-TØNNESEN (49)
CEO

Has worked in Norske Skog since 2005. Chartered engineer from the Norwegian University of Science and Technology. Researcher at SINTEF 1984-85. Refinery analyst and product coordinator in Esso Norge 1985-89. Consultant and energy specialist in McKinsey Norge 1989-92. Director of strategic planning, director of supply Northern Europe, market director, executive vice president strategy, and executive vice president economy and finance in Statkraft 1992-2005. Chief Financial Officer Norske Skog 2005-2006. CEO since 6 June 2006.



KRISTIN SLYNGSTAD KLITZING (44)
SENIOR VICE PRESIDENT HR & ORGANIZATION

Senior vice president HR & Organization. Has worked in Norske Skog since 2007. Cand. mag. (organisation and management) from the University of Oslo. International product manager and director of marketing services Europe in Nycomed Amersham (now GE Healthcare) 1988-2004. Senior consultant in Mercuri Urval AS 2004-2006. Senior vice president HR & Organisation since 1 January 2007.

RUNE GJESSING (46)
SENIOR VICE PRESIDENT STRATEGY

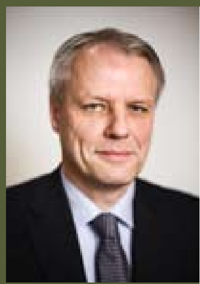
With Norske Skog since 2002, Bachelor of Science (wood science), University of British Columbia, Canada. MBA in finance and marketing, Simon Fraser University, Canada. Chartered Financial Analyst, finance and market analyst in Simons Consulting Group, Vancouver BC, 1992-1999. Share analyst for paper and forest products, National Bank Financial, Vancouver BC, 1999-2002. Director of investor relations & group secretary, Norske Skog, 2002-2006. Director of control functions, Norske Skog, March 2006-August 2006. Director of strategic business analysis, Norske Skog, August 2006-November 2007. Senior vice president strategy, Norske Skog since 2007.

JAN-HINRICH CLASEN (51)
SENIOR VICE PRESIDENT RESPONSIBLE FOR EUROPE

In Norske Skog 1992-1996 and from 1999. Chartered engineer with a Master of Engineering and Doktor-Ing., from the Technical University of Claustral-Zellerfeld, Germany. Sales director magazine 1992-1996 and print-shop manager for magazine print shop in Ahrensburg, Axel Springer Verlag AG, 1996-1998. Senior vice president and Chief Sales Officer Pan Asia Paper, Singapore, 1999 – 2003. Vice president Newsprint Norske Skog Europe 2003. Senior vice president sales and marketing Norske Skog group 2004-2006. Business unit general manager Norske Skog Walsum in Duisburg, Germany, 2006-2008. Senior vice president responsible for Europe since 1 March 2008.

TERRY HAMILTON (46)
SENIOR VICE PRESIDENT RESPONSIBLE FOR ASIA, AUSTRALASIA AND SOUTH AMERICA

In Norske Skog (Fletcher Challenge) since 1987. Bachelor of Science in Mechanical Engineering (1986) and Master of Engineering (1987) from University of BC, Vancouver. MBA from Simon Fraser University in Vancouver 1997. Employee in Fletcher Challenge in Vancouver and Elk Falls, Canada, 1987-1996. Mill manager in Fletcher Challenge in Crofton 1996-2000. Managing director of Malaysian Newsprint Industries 2000-2003. Managing director in PanAsia Paper in Thailand 2003-2005. Vice president operations and strategy in Norske Skog PanAsia in 2006. Vice president NSPS in Norske Skog from 2006. Senior vice president Asia and Australasia in 2008. Senior vice president Asia, Australasia and South America since 1 January 2009.



AUDUN RØNEID (52)
CHIEF FINANCIAL OFFICER (CFO)

In Norske Skog since November 2008. Master in International Business Norwegian School of Management BI 1982. Finance consultant Sørumsand Verksted (Kværner Brug) 1982-1984. Chief accountant, section manager Kværner Rosenberg Verft Stavanger 1984-1989. Controller Mechanical Engineering Division in Kværner 1989-1991. Senior vice president (SVP) Finance in Kværner Eureka 1992-1994. SVP in Kværner Ships Equipment 1994-1998. Executive vice president finance/CFO of Aker Yards 1998-1999. SVP Finance of Kværner Oil & Gas Field Development 1999-2002. CFO of Jotun 2002-2007. CFO of Davie Yards Inc. 2007-2008. Chief financial officer of Norske Skog since 1 November 2008.

MEMBERS OF CORPORATE BODIES

AS OF 31 DECEMBER 2008, NUMBER OF SHARES IN PARENTHESES:

CORPORATE ASSEMBLY

Members elected by the shareholders:

Tom Ruud, Oslo (chair) (410)
Helge Evju, Skollenborg (deputy chair) (195)
Emil Aubert, Porsgrunn (91 956)
Ann Kristin Brautaset, Oslo (0)
Thorleif Enger, Oslo (0)
Ove Gusevik, Oslo (0)
Kirsten C. Idebøen, Bærum (8 100)
Even Mengshoel, Lillehammer (860)
Christian Ramberg, Bø i Telemark (71)
Tom Rathke, Bergen (0)
Otto Søberg, Bærum (0)
Karen Helene Ulltveit-Moe, Bærum (0)

Employee-elected members:

Øystein Bruce, Saugbrugs (2 767)
Roy Helgerud, Follum (0)
Bjørn Inge Hoem, Follum (0)
Paul Kristiansen, Saugbrugs (2 857)
Randi Nessemo, Skogn (0)
Stig A. Stene, Skogn (360)

Employee-elected observers:

Thor Granaune, Skogn (1 551)
Inge Myrlund, Follum (0)
Martin M. Petersen, Saugbrugs (0)

Shareholder elected alternate members:

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

Employee-elected alternate members:

Geir Ove Brenne, Skogn (0)
Terje A. Bråten, Follum (25)
Christer Clausen, Saugbrugs (0)
Jan Magnar Hansen, Saugbrugs (130)
Marit Holmen, Saugbrugs (0)
Jan O. Johnsen, Skogn (1 149)
Jørn Kristensen, Follum (0)
Tor Salater, Skogn (700)
Jørn Steen, Follum (367)

BOARD OF DIRECTORS

Kim Wahl, Bærum (chair) (200 000)
Øystein Stray Spetalen, Oslo (deputy chair) (492)
Halvor Bjørken, Verdal (4 001)
Wenche Holen, Oslo (0)
Gisèle Marchand, Oslo (838)
Svein Rennemo, Oslo (0)
Ingrid Wiik, Bærum (2 160)
Trond Andersen, Halden (0)
Stein-Roar Eriksen, Hønefoss (0)
Kåre Leira, Skogn (4 496)

Employee-elected alternate board members (personal):

Kjetil Bakkan (for Kåre Leira) (585)
Kjell R. Evju (for Stein Roar Eriksen) (151)
Hilde Redi (for Trond Andersen) (0)

THE CORPORATE MANAGEMENT

CEO Christian Rynning-Tønnesen (33 120)
Senior vice president Jan-Hinrich Clasen (4 283)
Senior vice president Rune Gjessing (5 019)
Senior vice president Terry Hamilton (410)
Senior vice president Kristin Slyngstad Klitzing (11 767)
Senior vice president Audun Røneid (1 071)

AUDITOR

PricewaterhouseCoopers (0)

ARTICLES OF ASSOCIATION FOR NORSKE SKOGINDUSTRIER ASA

(LAST AMENDED IN GENERAL ASSEMBLY 24 APRIL 2008)

ARTICLE 1
THE COMPANY'S FORM AND NAME

The company is a public limited company.

The company's name is Norske Skogindustrier ASA.

ARTICLE 2
OBJECTS

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

ARTICLE 3
REGISTERED OFFICE

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

ARTICLE 4
SHARE CAPITAL AND SHARES

The company's share capital amounts to NOK 1.899.456.260, divided into 189.945.626 shares each with a nominal value of NOK 10.

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

ARTICLE 5
BOARD OF DIRECTORS

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

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

ARTICLE 6
CORPORATE ASSEMBLY

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

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

ARTICLE 7
ELECTION COMMITTEE

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

ARTICLE 8
GENERAL MEETING

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

The annual general meeting will:

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

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

NORSKE SKOG IN 2008

The annual report for 2007 stated that debt reduction, permanent cost reduction and improved market balance measures would be Norske Skog's main focus. These measures have to a large extent been successful, and in 2008 the company has become much better equipped to meet future challenges. However, profitability continues to be low while the international financial crisis has lead to reduced demand for the company's products.

The improvement program initiated in 2006 ended in 2008, with a result close to the original target of NOK 3 billion. The result of the program has been of substantial importance in countering the cost increases and low prices for the company's products. Two mills were sold in South Korea, which, combined with the sale of several properties, has improved the financial situation considerably. In Europe, two paper machines were shut down in order to adapt the production capacity to the demand. The work on reducing the debt will continue over the next few years, as will the effort to reduce costs and adapt the production capacity while creating a platform for a strong future industrial solution for Norske Skog.

The newsprint markets in Asia and South America showed continued growth in 2008, whilst demand in Europe and Australasia dropped. Demand in North America, where Norske Skog has no production, also fell significantly. However, extensive capacity shutdowns both in Europe and North America maintained the market balance and to some degree improved it. Standard newsprint demand globally fell by about 2.5 in 2008 compared with 2007, and at the beginning of 2009, global demand is still falling as a result of the financial crisis. The overall demand for magazine paper in Europe fell slightly, while demand for uncoated magazine paper rose and the demand for coated fell. On a comparable basis, there were no significant changes in Norske Skog's sales and production volumes from 2007 to 2008.

Measured in local currency, the average price level for newsprint in Europe and Australasia was lower, while it was higher for both magazine paper and newsprint in Asia and South America.

The cost level remained high for most of 2008, but recovered paper prices plunged at the end of the year and other cost elements such a wood and energy levelled off. However, the accounting effects of these developments were still minor. The year was also characterised by major currency fluctuations. The weaker NOK had a significant positive effect on the earnings of the Norwegian mills, which mostly export their products.

The sale of activities and properties, combined with a positive cash flow from operations, reduced net interest-bearing debt significantly in 2008.

COMMENTS ON THE ACCOUNTS

COMPARABILITY

When comparing 2008 and 2007, account must be taken of the fact that Norske Skog Steti in the Czech Republic and PM 2 at Norske Skog Follum were shut down in the second quarter of 2008, and that Norske Skog Jeonju and Norske Skog Cheongwon in South Korea were sold with accounting effect from the third quarter of 2008. It is mainly the sale of the two South Korean mills which affect the comparison between the two years. These two mills had an operating income of NOK 3 814 million in 2007 and NOK 1 649 million in the first half of 2008, and gross operating earnings of NOK 719 million in 2007 and NOK 188 million in the first half of 2008.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating income in 2008 was NOK 26.5 billion (NOK 27.1 billion in 2007). The reduction is to a large degree a result of lower prices in some markets, in addition to the sale of two mills and the shut-down of two paper machines. For the year as a whole, the operating income was not significantly influenced by currency effects, compared with 2007. Gross operating earnings before depreciation and all special items were NOK 2 723 million in 2008 (NOK 3 932 million). If the earnings from the sold activities in South Korea are excluded, gross operating earnings were NOK 2 536 million (NOK 3 213 million). The reduction is mainly due to on average higher prices for several of the most important input factors in 2008 than in 2007. Depreciation in 2008 was NOK 2 623 million (NOK 2 878 million) and the reduction is mainly related to the sold activities.

Special items included in operating earnings totalled minus NOK 1 508 million in 2008 (minus NOK 377 million). The main elements in 2008 were reorganisation costs of NOK 221 million (zero in 2007); other gains and losses of NOK 502 million (income of NOK 4 463 million) and write-downs of NOK 785 million (NOK 4 840 million). The reorganisation costs in 2008 are mainly in connection with allocations to severance pay etc. at shut-down units. Other gains and losses of NOK 502 million consist of a gain from the sale of properties and mills of NOK 502 million, with accumulated negative conversion differences relating to sold facilities in South Korea of NOK 783 million, termination costs for the Pisa PM 2 project of NOK 148 million and various other items totalling NOK 73 million. "Other gains and losses" in the 2007 accounts, with an income of NOK 4 463 million, mainly arose in connection with the recognition of the Norwegian energy contracts in the balance sheet. Write-downs amounted to a total of NOK 785 million in 2008, and consist of write-downs on facilities for which a shut-down decision was made, in addition to write-downs for facilities in China and a reversal of write-downs made in the 2007 accounts. The reversal concerns Norske Skog Saugbrugs and has been made as a result of lower future energy prices and changed currency assumptions. The 2007 accounts contained write-downs of mills and goodwill totalling NOK 4 840 million. Norske Skog has now no significant goodwill items in the group balance sheet.

Net financial items in 2008 amounted to minus NOK 1 402 million (minus NOK 479 million). Net interest costs including interest instruments amounted to minus NOK 1 285 million in 2008 (minus NOK 1 026 million). Total currency items, mainly realised and unrealised gains/losses from currency hedging, amounted to minus NOK 258 million in 2008 (income of NOK 668 million). Currency hedging losses in 2008 are mostly due to a weaker NOK in the second half of the year, but this is clearly positive for earnings in a longer perspective. Financial items in 2008 also include a gain from the repurchase of bonds amounting to NOK 359 million in total.

Tax costs in 2008 were positive, amounting to NOK 13 million (minus NOK 918 million).

Net earnings after tax and minority interests were minus NOK 2 715 million (NOK 618 million). The net earnings in 2008 contain NOK 783 million from accumulated negative translation differences on the sold activities in South Korea. This has no cash effect or effect on the equity. Earnings per share in 2008 were minus NOK 14.33 (NOK 3.26).

The cash flow from operations, less financial costs paid and taxes paid, was NOK 1 977 million in 2008 (NOK 2 766 million). The deviation between the net earnings and the cash flow is mainly due to special income statement items mentioned above, which have no cash effect. The reduction of the cash flow from operations by only NOK 189 million from 2007 to 2008, while gross operating earnings were reduced by NOK 1 209 million, is mainly related to the fact that the working capital increased in 2007 and was reduced in 2008.

DIVIDEND PROPOSAL

On the basis of Norske Skog's financial position, the board recommends that no dividend should be disbursed for the accounting year 2008.

BALANCE SHEET

Total assets were NOK 45 191 million as of 31 December 2008, an increase of NOK 1 931 million from 31 December 2007. Currency changes, with a weaker NOK at the end of the year, resulted in increases in both assets and liabilities by about NOK 3.6 billion through the year, while the equity was only marginally influenced by these translation differences.

Fixed assets, for all practical purposes mills, were reduced by NOK 2 327 million. The reduction is due to shut-downs and sale of mills as well as investments being lower than ordinary depreciation. These effects are offset by the mills outside of Norway having increased their balance sheet value as a result of a weaker NOK as of 31 December 2008. Current assets increased by NOK 4 258 million in 2008, and were almost exclusively made up of cash, which amounted to NOK 6 036 million at the end of the year. The increase comes from the sale of mills and properties, as well as a reduction in the working capital in 2008. The balance sheet value of the group's energy contracts are included in the current assets with NOK 4.3 billion, almost unchanged since 31 December 2007.

Net interest-bearing debt was NOK 14 047 million as of 31 December 2008, a decrease of NOK 2 361 million from 31 December 2007. The reduction comes mainly from cash payments for sold assets, with the translation differences mentioned above deducted. There were no significant loan transactions in 2008 other than the repurchase of own bonds with a nominal value of NOK 118 million in Norwegian bond loans and USD 151 million in foreign bond loans.

The available liquidity at the end of 2008 was NOK 9.9 billion, consisting of NOK 6 billion in cash and an undrawn credit facility of EUR 400 million which runs until 2012. The average term to maturity for the interest-bearing debt was 5.2 years as of 31 December 2008. Debt that falls due in 2009 was NOK 2.3 billion as of 31 December 2008, of which a Norwegian bond loan amounted to NOK 722 million.

Norske Skog has credit ratings from Moody's and Standard and Poor's. As of February 2009, the Moody's rating was B2 with a stable outlook, and Standard and Poor's rating was BB-- with a negative outlook.

In connection with the sale of the activities in South Korea, consent from the lenders of the EUR 400 million credit facilities had to be obtained. In this connection, Norske Skog had certain restrictions imposed upon it. These restrictions apply until a loan of EUR 500 million, which falls due in January 2010, is repaid or refinanced. In addition to not disbursing any dividend, the annual investments must be less than NOK 1.5 billion and the minimum cash reserve must be NOK 2.5 billion. These conditions are no longer valid when the loan of EUR 500 million is repaid in March, 2009.

Equity (exclusive of minority interests) was NOK 13 363 million as of 31 December 2008 (NOK 15 592 million as of 31 December 2007). The reduction of NOK 2 229 million is mostly due to a deficit of NOK 2 715 million, of which NOK 783 million is accumulated translation differences for the sold facilities in South Korea. These translation differences have no equity effect. The equity per share was NOK 70.46 and the gearing (net interest-bearing debt/equity) was 1.05 as of 31 December 2008. The gearing has remained unchanged since 31 December 2007.

The board confirms that the annual report and accounts provide a true and correct image of the company's economic position and that the going concern assumption remains in force. The annual accounts have been prepared accordingly.

INVESTMENTS

Capitalised investments in 2008 amounted to NOK 1 283 million (NOK 1 746 million). Most of these were pure maintenance investments. NOK 190 million was capitalised in assets of lasting value for Pisa and other group mills for the cancelled Pisa PM 2 project in Brazil. In addition, about NOK 60 million was capitalised in a project for partial replacement of wood fibres with mineral substances at Norske Skog Skogn and a project for replacing eucalyptus with pine at Norske Skog Boyer.

THE ACTIVITIES IN THE SEGMENTS

Norske Skog's reporting structure was changed with effect from 1 January 2008. The operations were divided into the main segments newsprint, magazine paper and energy. The newsprint segment has four geographical subsegments.

MAIN SEGMENT NEWSPRINT

The segment includes Norske Skog's newsprint production and sales. The total capacity as of 31 December 2008 was 3.8 million tonnes at the mills in Europe, Asia, Australasia and South America. This makes up 73 per cent of the group's total production capacity.

Operating income in 2008 was NOK 17 933 million (NOK 19 793 million in 2007) and gross operating earnings NOK 2 102 million (NOK 3 659 million). The reduction in operating income is due to lower prices in several markets, and 600-700 000 tonnes' lower volumes following the shutdown of two paper machines in Europe and two mills in South Korea. The reduction in gross operating earnings is also connected with the fact that the prices of important input factors were on average higher in 2008 than in 2007. On a comparable basis, Norske Skog's production volumes were two per cent lower in 2008 than in 2007, and all geographical subsegments had lower gross operating earnings.

Globally, newsprint consumption is estimated to have fallen by 2.5 per cent in 2008 compared with 2007. The trend of falling demand is expected to continue in 2009 as well.

NEWSPRINT EUROPE

The region includes the newsprint mills Norske Skog Skogn, Norske Skog Golbey and Norske Skog Parenco, in addition to one of the paper machines at Norske Skog Follum and one at Norske Skog Bruck. Norske Skog Steti and PM 2 at Norske Skog Follum were shut down in the second quarter of 2008. The two paper machines had a total production capacity of 260 000 tonnes, and this must be taken into account when comparing 2008 with 2007. The shut-downs resulted in higher capacity utilisation at other mills and lower fixed costs. At the end of the year, Norske Skog's newsprint capacity in Europe was 1.95 million tonnes, 38 per cent of the company's overall production capacity.

Operating income in 2008 was NOK 8 076 million (NOK 8 689 million) and gross operating earnings were NOK 931 million (NOK 1 638 million). The newsprint price in Europe in 2008 was about five per cent lower than in 2007, measured in local currency. The earnings are also influenced by higher input factor prices in 2008, but the cost growth levelled off towards the end of the year.

The demand for standard newsprint in Europe was four per cent lower in 2008 than in 2007. However, there was a good balance between supply and demand in Europe at the end of 2008 as a result of major capacity shutdowns.

ASIA

In the first half of 2008, the region included Norske Skog Jeonju and Norske Skog Cheongwon in South Korea, Norske Skog Singburi in Thailand and the two mills Heibei and Shanghai in China. The mills in South Korea were sold with accounting effect from the third quarter of 2008, and the production capacity in the second half of the year was therefore 700 000 tonnes. This is 13 per cent of Norske Skog's overall capacity. The sale of the two mills in South Korea is significant for the comparison of 2008 and 2007.

Operating income in 2008 was NOK 3 390 million (NOK 5 460 million) and the gross operating earnings were NOK 272 million (NOK 817 million). Most of the earnings from both years were generated in South Korea, and the comparable gross operating earnings when excluding the mills in South Korea for both years are not materially different.

Most Asia markets saw a significant price increase for newsprint in 2008, but this was offset by substantially higher prices for recovered paper and energy. Recovered paper prices plunged towards the end of 2008, but this has little effect on the result. Newsprint prices in Asia are in a falling trend at the beginning of 2009.

Based on preliminary statistics, newsprint demand increased by 2.5 per cent in 2008 in Asia (excluding Japan). After a very strong first half of 2008, demand in China fell off in the second half, and production curtailments were implemented at the mill in Hebei.

AUSTRALASIA

The region includes the mills Norske Skog Albury and Norske Skog Boyer in Australia, and Norske Skog Tasman in New Zealand. The production capacity is 900 000 tonnes, which is 16 per cent of the group's overall capacity.

Operating income in 2008 was NOK 3 757 million (NOK 3 725 million) and gross operating earnings were NOK 628 million (NOK 928 million). The weaker result is mainly due to price reductions in Australia, implemented on both 1 July 2007 and 1 July 2008, and lower prices in New Zealand from 1 January 2008. A geothermal power plant was put into operation in connection with Norske Skog Tasman in the third quarter of 2008, and this will provide competitive prices for large parts of the mill's electricity consumption.

For 2008 as a whole, the demand in the Australasia region was about 6 per cent lower than in 2007. Some of this reduction is due to reduced customer stocks in the first half of 2008.

SOUTH AMERICA

The region includes the mills Norske Skog Pisa in Brazil and Norske Skog BioBio in Chile, with an overall production capacity of 310 000 tonnes, corresponding to 6 per cent of the group's overall capacity. Norske Skog is the largest producer of newsprint in South America.

Operating income in 2008 was NOK 1 316 million (NOK 1 284 million) and gross operating earnings were NOK 211 million (NOK 257 million). The main reason for the lower earnings was higher wood and energy costs on average in 2008 compared with 2007. At Norske Skog Pisa, energy has been purchased under the terms of a one-year price agreement, which from 2009 has been replaced by a new long-term price agreement which runs until 2025.

Based on preliminary statistics, newsprint demand increased by about nine per cent in 2008, compared with 2007. Developments were particularly positive in Brazil. However, demand fell clearly towards the close of the year.

MAGAZINE PAPER EUROPE

The region includes the mills Norske Skog Saugbrugs and Norske Skog Walsum, in addition to one paper machine at Norske Skog Follum and one at Norske Skog Bruck. The production capacity is 1.4 million tonnes, corresponding to 27 per cent of the group's overall capacity.

Operating income in 2008 was NOK 7 244 million (NOK 6 509 million) and gross operating earnings were NOK 816 million (NOK 521 million). The magazine paper segment was the only segment with an improved result from 2007, and the main reason was a higher price level for finished products.

In 2008, demand for uncoated (SC) magazine paper increased by 6 per cent in Europe, while demand for coated (LWC or CMR) magazine paper fell by 4 per cent. This trend is mostly a result of many customers switching from coated to uncoated paper due to the price difference. The trend of falling demand for coated magazine paper grew stronger towards the end of 2008, and this will continue in 2009. Some price increases were implemented for both magazine paper qualities over the course of 2008, and in general, the market balance for magazine paper was positively influenced by implemented shut-downs.

ENERGY

The energy segment was established in 2008, and the activities are primarily purchase and sale of energy to the Norwegian mills. For accounting purposes, purchase of energy in Norway is recognised as cost of materials in the segment, with resale at contract prices to the Norwegian mills. In addition to sale of surplus energy to external parties, operating income consists of surplus energy following the shut-down of PM 2 at Norske Skog Follum.

Operating earnings under IFRS in the energy segment also includes value changes on energy contracts and built-in derivatives. The contracts are recognised in the balance sheet in accordance with IAS 39, which means that the value is made up of the difference between the expected market price and the contract price over the contract period, discounted to present value. The value may fluctuate substantially from quarter to quarter due to changes in future energy prices, and is also influenced by currency, price indices and discount rates. The main elements in the energy contracts that are presented in the balance sheet apply to Norway, Brazil and New Zealand. The value of a long-term energy agreement in Brazil was recognised in the balance sheet in 2008, but due to loss of value and amortisation of the Norwegian energy agreements, the total balance sheet value changed only marginally over the course of the year.

COST DEVELOPMENT FOR IMPORTANT INPUT FACTORS

WOOD

Wood contributes about ten per cent of the total costs in Norske Skog's present production portfolio, with a total consumption in 2008 of 6.3 million cubic metres. More than 60 per cent of the wood was consumed in Europe, where there was a minor price increase at the beginning of 2008 and relatively stable prices for the rest of the year. In Norway, long-term contracts with price adjustment clauses were entered into towards the end of 2007 for a major part of the volume. The European wood market has long been influenced by the scheduled increased export tax on Russian timber, with a gradual increase to EUR 50 per cubic metre. In the autumn of 2008, it was announced that the increase has been postponed, and this has resulted in falling wood prices in parts of Scandinavia.

In Australasia and South America, Norske Skog buys wood under long-term delivery agreements.

RECOVERED PAPER

Recovered paper amounted to slightly more than ten per cent of Norske Skog's total costs in 2008, and the consumption was 2.8 million tonnes. Of this, 0.5 million tonnes was consumed by the mills in South Korea in the first half of the year. Recovered paper prices continued to increase in the first half of 2008, but levelled out later. Towards the end of the year, prices in the recovered paper spot market plunged without this having any effect on the 2008 income statement.

ENERGY

Energy is the largest individual cost for Norske Skog, and amounts to almost 20 per cent of total costs. The major part of the energy is purchased electricity. At the end of 2008, about 75 per cent of total electricity consumption was purchased under long-term contracts which Norske Skog has entered into in Norway, South America, Australia and New Zealand. As a result of this, the group has a limited exposure against energy market spot prices. The exposure exists mainly in continental Europe.

Throughout most of 2008, energy prices were higher than in 2007, both in the spot and forward markets. Towards the close of the year, energy prices dropped substantially.

HEALTH AND SAFETY

Norske Skog's objective is zero injuries for our employees. Health and safety is the responsibility of the individual business unit, but the results of all units and the health and safety work is followed up by head office. All near-misses and injuries are reported in a global system, and experiences from each individual incident are shared throughout the organisation.

In 2008, Norske Skog had an absence rate due to illness of three per cent. This is unchanged from 2007. The H value (the number of lost-time injuries per million working hours) was 1.4 in 2008. This is a very good result compared with other industry companies. The H value in 2007 was 1.6.

The most common injuries are hand and finger injuries as well as eye injuries.

EFFORTS IN 2008

2008 was another year of reorganisation, cost cuts, capacity curtailments and staff reductions in Norske Skog. This has been extremely important and absolutely necessary in light of market developments and the company's situation. Successful reorganisation requires great efforts from all. The board of directors would like to thank all our employees for their efforts in 2008.

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 to exploit synergy effects and ensure learning across the organisation. The initiatives come from each individual unit.

The priority areas are; improved utilisation of raw materials and energy, general efficiency improvements in production, reduced environmental impact from production and measures to meet quality requirements from customers.

Norske Skog's experts are also involved in a number of projects to improve our customers' printing process.

The research and development network also plays an important role in the build-up of technical expertise in the individual business units.

Norske Skog participates in several research projects where external partners are used, and some projects are partly financed through public schemes.

Research and development costs are not capitalised.

ORGANISATION, MANAGEMENT AND EMPLOYEES

CORPORATE MANAGEMENT

Norske Skog's corporate management consists of Christian Rynning-Tønnesen (CEO), Audun Røneid (CFO), Kristin Slyngstad Klitzing (senior vice president for HR & organisation), Rune Gjessing (senior vice president for strategy), Jan Clasen (senior vice president for Europe) and Terry Hamilton (senior vice president for Asia, Australasia and South America).

Antonio Dias, who was the senior vice president for magazine paper and South America, left corporate management in March 2008 as a result of cost overruns in the Pisa PM 2 project in Brazil (see separate paragraph).

Andreas Enger, who was the CFO, left corporate management in May 2008. Rune Gjessing was the acting CFO until Audun Røneid took over on 1 November 2008.

Vidar Lerstad, who was the senior vice president for South America, retired on 1 January 2009.

EMPLOYEES

Norske Skog had 6 428 employees at the end of 2008. At the end of 2007, the number was 7 512.

GENDER BALANCE AND EQUALITY

The paper industry has traditionally had few female employees. This is still the case, and for Norske Skog, the total share of female employees is about 15 per cent.

Norske Skog's board of directors consists of seven shareholder-elected members, and three members elected by and among the employees. There are three women and four men among the shareholder-elected members. The three employee-elected board representatives are all men. Norske Skog's board of directors thus consists of three women and seven 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 therefore meets the gender balance requirement for the boards of Norwegian public limited companies.

DIVERSITY

As a global company, Norske Skog sees great value in having an internationally diverse administration and management. Three nationalities are represented in the corporate management, and employees from 17 different countries work at the head office in Oslo.

WAGE DETERMINATION AND INCENTIVE PROGRAM FOR LEADING EMPLOYEES

According to the new provisions in Section 6-16 a) of the Public Limited Liability Companies Act, the board's declaration relating to stipulation of wages and other remuneration to the company's leading employees was presented to the general meeting. A complete overview of remuneration to the leading employees has been included in Note 4 in the group accounts.

For example, the corporate management has an incentive programme with disbursements based on the relative performance of the Norske Skog share as compared with a selection of companies in relevant, comparable industries.

This scheme has been described in further detail in the chapter on shares and share capital.

A separate bonus scheme was established for results achieved in connection with the result improvement program. The program's goal was a profit improvement of NOK 3 billion for the group as a whole. The final result was NOK 2.95 billion. The bonus will be disbursed in relation to achieved results. The scheme includes all employees in the company who have been with Norske Skog since before 1 July 2008 and about NOK 195 million plus social costs will be disbursed as a bonus under this scheme in 2009. This cost was provided for in the 2008 accounts.

THE BOARD OF DIRECTORS

The board of directors of Norske Skogindustrier ASA consists of Kim Wahl (chair of the board), Øystein Stray Spetalen (deputy chair), Halvor Bjørken, Wenche Holen, Gisele Marchand, Svein Rennemo and Ingrid Wiik, all elected by the shareholders, and Trond Andersen, Stein-Roar Eriksen and Kåre Leira elected by and among the employees.

PARTLY OWNED COMPANIES AND OTHER ACTIVITIES

XYNERGO AS

In 2008, Norske Skog established the company Xynergo AS in cooperation with Norwegian forest owners. Norske Skog owns 71 per cent of the shares. Xynergo's long-term goal is to establish full-scale production of second-generation bio-diesel based on wood in Norway. Initially, Xynergo plans to build a plant in connection with Norske Skog Follum for the production of bio-oil based on wood. Further progress depends, among other factors, on partial financing from Norwegian authorities.

NORSKE SKOG EIENDOM AS

Norske Skog Eiendom AS was established as a separate company in 2007 as the holding company for Klosterøya AS, Oxenøen Eiendom AS, Oxenøen Utvikling AS, Ranheim Eiendomsutvikling AS and Eidsverket AS.

In 2008, the company sold the properties belonging to Oxenøen Eiendom AS and Oxenøen Utvikling AS, as well as the shares in the title-holding company Oxenøen Bruk AS to a company owned by Obos Forretningsbygg AS and Aspelin-Ramm Gruppen AS. The property was taken over by the buyer on 14 November 2008.

The company has also entered into an agreement regarding sale of a vacant lot of about 12 acres belonging to Ranheim Eiendomsutvikling AS to Maja Eiendom AS in Trondheim.

REPARCO GLOBAL HOLDING

Reparco is a wholly-owned subsidiary engaged in the trading and handling of recovered paper. The company has three sorting plants in the Netherlands, and branch offices in the Netherlands, the UK, USA and China. Reparco delivers all recovered paper to Norske Skog Parenco in the Netherlands. About half the recovered paper in the Netherlands is collected from Reparco's own sorting plants, while the rest is traded in the market. In addition, Reparco contributes supplies of recovered paper from the UK to Norske Skog Skogn in Norway, and from USA to Norske Skog Hebei in China.

Reparco achieved gross operating earnings (adjusted EBITDA) of NOK 18 million in 2008, compared with NOK 25 million in 2007. About one quarter of the earnings are generated by sales to external customers.

MALAYSIAN NEWSPRINT INDUSTRIES (MNI)

Norske Skog owns 33.65 per cent of MNI, which is the only newsprint mill in Malaysia. Norske Skog uses the equity method in the consolidation of MNI, which means that Norske Skog's share of MNI's result after tax is included in the income statement under the item "share of profit in associated companies". In 2008, this percentage amounted to NOK 29 million. The corresponding percentage amounted to NOK 23 million in 2007.

RISK MANAGEMENT

Norske Skog maps and manages operational and financial risk factors systematically. The group's liquidity position and cash flow are monitored closely and the financial forecasts for each individual business unit are updated regularly. Analyses are also prepared to evaluate the effect on the cash flow if the development should become weaker than expected, as well as the effect on the balance sheet of various value fluctuations. The board is continually updated regarding the group's operational and financial risk situation.

The most important exposure is related to the development in newsprint and magazine sales volumes, as well as the price development for important input factors such as timber, recovered paper and energy. The paper industry has traditionally been a cyclical industry, with large fluctuations in results and cash flow. The prices of and demand for newsprint and magazine paper have to a large degree been related to the general economic development. In recent years, increased competition from electronic media has been a factor in reducing demand for newsprint in some markets. This effect is expected to continue in the years ahead. These matters have created an imbalance between production capacity and demand, resulting in price pressure. This has been amplified by the building of new capacity, particularly in China. Newsprint is a global product, but there have still been major regional price differences due to regional capacity imbalances. As Norske Skog's production is distributed over four geographical regions, these differences mitigate risk to a certain extent compared to if the company had all its capacity in only one region.

The international financial crisis has resulted in reduced advertising volumes in printed media. Norske Skog has reduced production capacity, both on a permanent and temporary basis, to meet the expected lower demand. The depth and duration of the crisis is uncertain and there is thus increased risk in connection with future demand development.

As it is, Norske Skog has stable financing with an average term to maturity for outstanding loans of 5.2 years, but like other large groups, Norske Skog depends on revolving maturity for its bank and bond loans. Such revolving maturity will usually be relatively non-problematic in a normal financial market, but the financial crisis makes the refinancing work more demanding than previously. The group plans to use its solid liquidity position at the end of 2008 to negotiate refinancing of the group's debt portfolio.

Norske Skog has insignificant forest and fibre resources or own energy production. Access to such input factors is mostly ensured through long-term contracts, which ensure stable framework conditions. The group has long-term wood contracts in Norway and at some other mills in Europe, as well as long-term contracts in Australasia and South America ensuring stable, long-term raw materials access for the business units there.

Energy is an important input factor in the production of paper and is primarily ensured through the establishment of long-term energy contracts. Both in Norway, South America and Australasia, long-term contracts have been entered into which cover most of the expected consumption. Such long-term contracts reduce the fluctuations in energy costs, and thus contribute to mitigate the risk for the group's cash flow. However, such contracts can result in an accounting exposure as the contracts may contain price clauses where the future price is adjusted vis-à-vis currencies and/or various indices. If the contracts contain such built-in derivatives, it is a requirement that they must be valued, either together with the entire contract or separately. Furthermore, distinction is made between contracts for own use and contracts which are not considered to be for own use. The long-term energy contracts are expected to generate surplus energy which can be resold in the market. According to the accounting rules, the energy contracts must be recognised in the balance sheet and changes in value must be reported in the income statement. Due to volume and contract term, this can cause major result fluctuations if underlying indices change. However, these accounting effects do not affect the cash flow. In addition to long-term contracts, some energy exposure is uncovered through financial hedging contracts, primarily forward contracts. This is particularly the case for Continental Europe.

Financial risk management mainly comprises currency, interest and liquidity risk.

Currency factors influence Norske Skog's cash flow and balance sheet. The group attempts to mitigate this risk through an active hedging program. The group hedges 100 per cent of the expected cash flow denominated in foreign currency over the next 12 the months on a rolling basis. The purpose is to improve the predictability of the group's cash flow. Cash flow hedging is limited for countries with capital restrictions. Forward contracts and options are used for cash flow hedging. As the group has a substantial share of its recorded assets outside of Norway, currency fluctuations will also affect book equity and individual debt-related key figures. The balance sheet is mainly hedged by adapting the currency composition of the loan portfolio to the currency composition of assets and cash flow. In addition to borrowing in foreign currency, hedging instruments such as short forward contracts and more long-term swap agreements are used for currency. In this manner, the fluctuations in equity and key debt-related figures are reduced.

The historical correlation between Norske Skog's earnings and the general economic cycle has been good. Norske Skog has therefore considered a floating interest rate as providing a practical risk profile, as interest rates are usually high in boom periods and lower in recession periods. In periods where the group has experienced pressure on results an cash flow due industry-specific market conditions, increased predictability in interest payments will be given priority through an increased fixed interest share. The interest risk is managed through the use of interest hedging agreements.

The management of liquidity and refinancing risk is considered an important area. The main principle is that the group must have a steady and long-term instalment profile, where the objective is an average term for the debt portfolio of minimum five years. As of 31 December 2008, the average term was 5.2 years. In addition, the group must have a strong liquidity reserve in the form of bank deposits and/or unused lines of credit.

Norske Skog has some group-level loan agreements which contain financial key figure requirements which must be met. The relationship between debt and equity (gearing) must not exceed 1.4, and net equity (defined as equity less intangible assets) must at least amount to NOK 9 billion. The group complied with both these assumptions at the end of 2008 and does not expect to breach them.

Norske Skog subjects all financial trading counterparties to credit rating processes. These counterparties are primarily Nordic and international banks. Individual limits for credit exposure is set on the basis of external ratings. Counterparties in long-term contractual relationships are also subject to rating processes.

Norske Skog also subjects the group's customers to credit rating processes. Here, internal credit limits are stipulated on the basis of information obtained from external sources and credit rating agencies. Norske Skog has low losses from accounts receivable.

The group's non-life insurance policies are managed through a well-established insurance program.

See also information concerning the group's risk factors in note 22 in the group's annual accounts.

SHARES AND SHARE CAPITAL

SHARE DEVELOPMENT

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2008, a total of 787 million Norske Skog shares were traded on the Oslo Stock Exchange, an increase of 19 per cent compared with 2007. On average, each share was traded 4.1 times in 2008.

Oslo Stock Exchange and most other stock exchanges in the world had a weak development in 2008 due to the crisis in the financial markets. The all-share index on the Oslo Stock Exchange was more than halved during the course of the year, and Norske Skog's shares fell by 70 per cent, from NOK 45.85 on 2 January 2008, also the year's highest price, to NOK 13.50 on 30 December 2008. The lowest share price of the year was NOK 13.15 on 17 December 2008. Most other companies in the paper industry also saw their share prices drop significantly in 2008.

SHARE CAPITAL

As of 31 December 2008, the share capital in Norske Skog was NOK 1 899 456 260, divided among 189 945 626 shares at a nominal value of NOK 10. All shares have equal rights. There were no changes in the company's share capital in 2008, and there are no authorisations for the board to expand the share capital.

At the beginning of 2008, Norske Skog owned 600 000 of its own shares. In February, 650 000 shares were bought, and 955 910 shares were later sold to employees, mainly in connection with the annual share sale program. Norske Skog's holding of own shares is 294 090 shares as of 31 December 2008.

The board has been authorised to buy back up to 10 per cent of the outstanding shares, but in connection with the approval from the banks for the sale of mills in South Korea, Norske Skog pledged not to buy back own shares before a loan which falls due in January 2010 has been repaid or refinanced. However, this is not an obstacle for Norske Skog buying back a sufficient number of shares in connection with the share sale to employees in the spring of 2009.

SHAREHOLDER STRUCTURE

As of 31 December 2008, the foreign ownership was 40 per cent per, compared with 49 per cent on 31 December 2007. As of 31 December 2008, the largest individual Norwegian shareholder was Unionen AS, with an ownership interest of 5.9 per cent. On the same date, Viken Skog owned 5.7 per cent and the Norwegian forest owner federations owned 15 per cent in total.

With the exception of employees in Norske Skog's companies outside of Norway, the foreign shareholders are to a large degree registered through investment banks. The US investment bank Third Avenue owned between five and ten per cent at the end of last year.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 26 812 shareholders in total as of 31 December 2008, of which 1 355 resided outside Norway.

SHARE-BASED INCENTIVE PROGRAM FOR THE EXECUTIVE MANAGEMENT

Norske Skog has a long-term incentive program for the corporate management, based on a relative share return. The disbursements under this program depend on the return (dividend + share price development) from Norske Skog's shares being among the eight best within a defined group of 16 listed paper industry companies, including Norske Skog. The scheme will yield a profit if Norske Skog is among the companies in the upper half of this reference group. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The potential profit increases in stages from 30 per cent and reaches 100 per cent if Norske Skog is among the companies in the top quartile. The development is measured in three-year periods, and a new period starts every year. The first period started in the first quarter of 2007, with potential disbursement in 2010, and the next period started in the first quarter of 2008, with potential disbursement in 2011.

The maximum annual allocation will amount to the value of 35 000 shares before tax for the CEO and 17 500 shares before tax for other members of the group management team. The allocation in a given year can at most correspond to 1.25 times the annual wage. A minimum of 50 per cent of the allocation from this program must be used to acquire shares, which are retained until total share ownership amounts to one gross annual wage.

Previously, Norske Skog had an incentive program in the form of synthetic options for corporate management. Options were last awarded under this program in July 2006. As of 31 December 2008, there are 150 000 synthetic options outstanding, of which 60 000 are for the CEO. We also refer to Note 4 in the group accounts.

MEASURES TO IMPROVE PROFITABILITY AND REDUCE DEBT

THE IMPROVEMENT PROGRAM

In 2006, Norske Skog established an improvement program with the objective to improve the group's overall cost position by NOK 3 billion on an annual basis at the end of 2008 compared with the base year 2005. The result from the improvement program is a cost improvement of NOK 2.95 billion, compensated for cost increases on input factors as well as price changes on the company's products.

Norske Skog aims for continuous cost improvements, and a new program has been established to implement additional cost improvements in 2009 and 2010.

TEMPORARY AND PERMANENT CAPACITY REDUCTION

Norske Skog shut down 260 000 tonnes of newsprint production capacity in Europe in 2008.

Norske Skog Steti in the Czech Republic was closed in June 2008. The production equipment was sold to Mondi Steti in the first quarter of 2009, and the new owner will not use the equipment for newsprint production. The production capacity at this the mill was 130 000 tonnes.

At Norske Skog Follum in Norway one of the three paper machines was shut down indefinitely. The shut-down paper machine has a production capacity of 130 000 tonnes per year.

Throughout 2008, minor temporary production curtailments were also implemented at other mills to build-up of stock.

DEBT REDUCTION MEASURES

One of the main goals for Norske Skog is to reduce the net interest-bearing debt by generating sufficient cash flow from operations and transactions.

In total, a cash flow of about NOK 5 billion was generated from operations and transactions in 2008. Norske Skog's net interest-bearing debt was, however seriously influenced by the strengthened US dollar and Euro compared to NOK, reducing the group's net interest-bearing debt by NOK 2.4 billion in 2008.

The most important debt-reducing factors were the sale of Norske Skog's two paper mills in South Korea, as well as the sale of several properties in Norway, Germany and New Zealand. The sale of the activities in South Korea yielded a net debt reduction of NOK 3.6 billion. The sale of properties contributed NOK 559 million in reduced net debt.

Norske Skog's focus on debt reduction through cash flow from operations and transactions will continue in 2009.

NORSKE SKOG AND SOCIETY

Norske Skog has substantial activities in Norway, and is a large and important employer for local communities elsewhere in the world where the company's business units are located. An open and trusting relationship between the company and society is important to Norske Skog.

Norske Skog is a Norwegian company, listed on the Oslo Stock Exchange with headquarters in and three of its 15 business units located in Norway. The company is therefore subject to particularly high focus in Norway.

High priority is given to maintaining an open dialogue with authorities and trade unions on the national level in order to ensure understanding of the company's strategy and decisions. In addition, the business units maintain extensive contact with regional and national authorities.

The relationship to the media and world outside the company is based on Norske Skog's communication platform, with the company's core values - openness, honesty and cooperation - forming the basis.

The public relations work aims to create understanding of and insight into Norske Skog's activities among important stakeholder groups, improve Norske Skog's reputation, contribute to making Norske Skog a preferred supplier and promoting Norske Skog as a good place to work.

THE COMPANY'S SOCIAL RESPONSIBILITY

ENVIRONMENT

Recovered paper

Norske Skog used 2.1 million tonnes of recovered paper in 2008. This makes Norske Skog one of the world's largest consumers of recovered paper as raw material for production of publication paper. The use of recovered paper is an important part of the company's energy and climate strategies. Recovered paper requires less energy for production of new paper than fresh wood and thereby results in lower emissions of greenhouse gases.

Forestry

Norske Skog gives priority to timber and woodchips from certified forestry when buying raw materials. The company's purchasing policy calls for all wood to come from sustainable forestry.

All Norske Skog business units have traceability certificates for the documentation relating to the origin of the wood.

Energy, waste and emissions and discharges

Norske Skog's strategy emphasises that the company must work towards sustainable development through high environmental standards and socially responsible business practices. Norske Skog's goal is to reduce the environmental footprint from its own activities to a minimum. The company works to ensure that the same environmental standards also apply to partly owned companies and the company's suppliers.

All Norske Skog business units operate within national laws and regulations. There have been no incidents in 2008 which resulted in serious violation of laws and regulations. In many cases, Norske Skog sets higher environmental targets than required by national and local authorities.

In 2008, operations generated 767 000 dry tonnes of waste. Of this, 69 per cent was utilised as bio energy. The company produced 2300 GWh in this manner in 2008.

Emission of greenhouse gases

Norske Skog has decided to reduce its emissions of greenhouse gases by 25 per cent by 2020, compared with 2006. The reduction target includes direct emissions of greenhouse gases from paper production and indirect emissions from the production of purchased electricity and heat. The target will be attained through a combination of energy saving and use of alternative energy sources.

Norske Skog reduced its greenhouse gas emissions by four per cent in 2008.

Environmental investments

Norske Skog made environmental investments of NOK 164 million in 2008. Most of the investments were made in measures to increase the content of recovered fibre and fillers in our products, in addition to cleaning of discharges to water and energy saving measures.

Environmental certification

Thirteen of Norske Skog's 15 business units are ISO 14001 certified. The two business units which have so far not been environmentally certified are the business units Heibei and Shanghai in China, which use 100 per cent recovered paper in the production. The work to obtain environment certification for these business units has been initiated.

ENVIRONMENTAL REPORTING

Norske Skog supports the work to arrive at a global standard for reporting of sustainable development, and prepares the company's annual report in accordance with GRI (Global Reporting Initiative). Norske Skog also reports the development in the company in line with the principles in the UN Global Compact.

ICEM

Norske Skog has signed the ICEM agreement, which is a global agreement aiming at ensuring the rights of all employees. The agreement has been signed with the Norwegian United Federation of Trade Unions and the International Federation of Chemical, Energy, Mine and General Workers' Unions. The agreement is revised every second year, most recently in 2007.

GLOBAL EMPLOYEE REPRESENTATIVE FORUMS

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

In connection with the group's global manager meeting in September 2008, the working committee of Global Employee Forum (GEF) (one delegate from each region) participated. GEF also held its own meetings in parallel with the manager meeting.

The regional forums have held meetings, and employee representatives have been elected at both the Chinese mills. The European works council held two meetings in 2008. The group employee representative participated in these meetings.

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

YOUNG READERS
Through cooperation with the World Association of Newspapers (WAN), Norske Skog contributes to reading and writing training among children in large parts of the world. The programme is called Young Readers, and use of newspapers and magazines in school forms the basis for the effort.

SHAPING THE FUTURE OF THE NEWSPAPER
Norske Skog is sponsoring an initiative from the World Association of Newspapers called "Shaping the future of the newspaper". Along with the major newsprint publishers and other players in the industry, the initiative works on a number of projects for the development of future newspaper products.

OTHER

TERMINATION OF THE PISA PM2 PROJECT
In 2006, Norske Skog decided to move a used paper machine from the defunct paper mill Norske Skog Union in Norway to Norske Skog Pisa in Brazil. The project had an original cost limit of USD 210 million.

When it became clear that the total costs to complete the project would become significantly higher than budgeted, the board decided to terminate the project. The project had cost NOK 353 million when it was terminated. In addition came termination costs of NOK 148 million. Adjusted for currency hedging gains, the total result impact from the Pisa PM 2 project was NOK 348 million.

In retrospect, measures have been implemented to improve the company's routines to avoid similar incidents in the future.

EVENTS AFTER 31 DECEMBER 2008
Norske Skog has decided to reduce the newsprint production capacity in Europe by about 200 000 tonnes in 2009. The magazine paper production capacity will be reduced by about 75 000 tonnes in 2009. The measures are temporary and will be divided between the mills in Europe, focusing on optimising the results in the overall activities. The need for production curtailments will be assessed continuously in 2009 so that the capacity can be quickly adjusted to changes in demand. It is hard to quantify the effect of the temporary capacity reductions on the group's financial results.

On 8 January 2009 Kim Wahl informed the election committee of Norske Skog that he will not stand for re-election as chair of the company's board. He will continue to function as chair of the board until the corporate assembly elects a new board following the company's ordinary general meeting on 23 April 2009. The election committee of Norske Skog has unanimously recommended that Eivind Reiten be elected as the new chair of Norske Skog's board, and recommends re-election of the other board members.

In March 2009, Norske Skog chose to draw the full amount under of the syndicated credit facility of EUR 400 million (about NOK 3.6 billion) which expires in February 2012. Along with EUR 100 million from the group's cash reserve, the amount will be used to repay a bank loan of EUR 500 million which falls due in January 2010. The transaction will not influence Norske Skog's net interest-bearing debt or gearing.

There are no other special events after 31 December of significance for the annual report.

OUTLOOK FOR 2009
The board emphasises that there is significant uncertainty as regards future prospects. This applies to an even greater degree than earlier, as the year 2009 will be characterized by the international financial crisis.

Norske Skog expects volumes to drop in most markets. Some price increases for the group's products are expected in some markets. There is reason to expect lower prices in other markets. It is assumed that the cost level for recovered paper, wood fibres and energy will be lower in 2009 than in 2008.

Norske Skog will implement measures to reduce the production capacity in line with reduced demand for the company's products.

Reduced demand in some markets, as well as an impact from electronic media, is a substantial challenge for the producers of publication paper. A large global market for newsprint and magazine paper will continue to exist, but the board of Norske Skog is of the opinion that consolidation will be positive for the industry's overall profitability and the companies' ability to provide long-term competitive return on capital.

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)
The parent company in the group, Norske Skogindustrier ASA, comprises most of the group's activities in Norway. In 2007, Norske Skog reduced the expected economic life for five machines in Norway to the end of 2010. Following a new review, the decision was reversed for one machine at Skogn. The expected remaining economic life for this machine is nine years at the end of 2008. The reason for the change was an overall assessment of the expected supply and demand in the market for newsprint in Europe after 2010.

In Norway and Brazil, Norske Skog has entered into energy contracts for volumes which are higher than the expected future need for own use. The values of the energy contracts in Norway which are not for own use influence the parent company income statement in the same way that they influence the group accounts. In 2008, the changes in value between the quarters have been substantial, but the changes are only marginal on an annual basis. The value of the company's energy contracts are recorded under the accounting item Other current assets, while changes in value are recorded under Other gains and losses.

During the first quarter of 2008, a decision was made to temporarily shut down one paper machine at Norske Skog Follum. As a consequence, write-downs of NOK 139 million in total were recorded in the accounts in the first quarter. The company has carried out quarterly evaluations of the recoverable amount over the course of 2008. The result of Norske Skogindustrier ASA's evaluation of the recoverable amount was a reversal of write-downs of NOK 1 billion related to Norske Skog Saugbrugs. The reversal is in connection with write-downs made in 2007. Reference is made to Note 7 in the group accounts for further details on the calculation of the recoverable amount.

A total of NOK 37 million in reorganisation costs, related to the temporary shut-down of one machine at Norske Skog Follum, as well as staff reductions at the company's main office at Lysaker, has been booked against income.

As a result of reduced values for underlying assets, Norske Skogindustrier ASA has written off the value of some of its subsidiaries recognised in the balance sheet. Net write-down of shares in subsidiaries charged against income amounts to NOK 600 million and is included under financial items. The high net financial costs are due to currency effects and interest costs. Negative currency effects of about NOK 3.4 billion are included under financial items.

The cash flow from operations in the parent company was minus NOK 81 million in 2008, mainly as a result of net financial disbursements.

At year-end 2008, Norske Skogindustrier ASA had 1 813 employees. 172 of these are women.

PROFIT ALLOCATION

The annual earnings for Norske Skogindustrier ASA (the parent company) was minus NOK 1 834 million in 2008, and this has been fully allocated to retained earnings. After this, the free equity in Norske Skogindustrier ASA amounts to NOK 4 326 million.

Lysaker, 11 March 2009,
The board of directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øystein Stray Spetalen
Deputy chair

Trond Andersen
Board member

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Gisèle Marchand
Board member

Svein Rennemo
Board member

Ingrid Wiik
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
President and CEO

INCOME STATEMENT

NOK MILLION	NOTE	2008	2007	2006
Operating revenue	3	**26 468**	**27 118**	**28 812**
Distribution costs		(2 340)	(2 400)	(2 521)
Cost of materials		(15 771)	(15 214)	(15 498)
Change in inventories		(176)	144	(102)
Employee benefit expenses	4, 5	(3 381)	(3 495)	(3 800)
Other operating expenses	4, 6, 8	(2 077)	(2 221)	(2 187)
Gross operating earnings		**2 723**	**3 932**	**4 704**
Depreciation	7	(2 623)	(2 878)	(3 226)
Gross operating earnings after depreciation		**100**	**1 054**	**1 478**
Restructuring expenses	9	(221)	0	(484)
Other gains and losses	10	(502)	4 463	(288)
Impairments	7	(785)	(4 840)	(3 233)
Operating earnings		**(1 407)**	**677**	**(2 527)**
Share of profit in associated companies	11	30	37	202
Financial items	12	(1 402)	(479)	(1 155)
Profit / loss before income taxes		**(2 779)**	**235**	**(3 480)**
Income taxes	14	13	(918)	463
Net profit / loss for the year		**(2 765)**	**(683)**	**(3 017)**
Attributable to minority interests	15	(50)	(65)	(208)
Attributable to equity holders of the Company		(2 715)	(618)	(2 809)
Basic / diluted earnings per share (in NOK)	16	(14.33)	(3.26)	(14.84)

BALANCE SHEET

NOK MILLION	NOTE	31.12.2008	31.12.2007	31.12.2006
Assets				
Deferred tax asset	14	73	11	216
Other intangible assets	7	287	132	3 056
Property, plant and equipment	3, 7, 29	25 139	28 401	33 547
Investment in associated companies	11	295	234	333
Other non-current assets	5, 18, 19	1 186	529	425
Total non-current assets		**26 980**	**29 307**	**37 577**
Inventories	3, 20	2 703	2 731	2 688
Receivables	19	3 885	3 811	3 999
Cash and cash equivalents	21	6 036	1 792	397
Other current assets	3, 13, 20, 21, 22	5 587	5 619	569
Total current assets		**18 211**	**13 953**	**7 653**
Total assets		**45 191**	**43 260**	**45 230**
Shareholders´ equity and liabilities				
Paid-in equity		12 310	12 310	12 309
Retained earnings and other reserves	17	1 052	3 282	5 791
Minority interests	15	269	365	450
Total equity		**13 632**	**15 957**	**18 550**
Pension obligations	5	644	519	530
Deferred tax liability	14	1 588	2 033	1 804
Interest bearing non-current liabilities	22, 23, 29	18 820	17 294	14 712
Other non-current liabilities	24, 25	2 226	1 687	1 756
Total non-current liabilities		**23 277**	**21 533**	**18 802**
Interest-bearing current liabilities	22, 26	2 339	1 141	3 114
Trade and other payables		4 999	3 702	3 833
Tax payable	14	89	73	123
Other current liabilities	20, 22	855	854	808
Total current liabilities		**8 282**	**5 770**	**7 878**
Total liabilities		**31 559**	**27 303**	**26 680**
Total equity and liabilities		**45 191**	**43 260**	**45 230**

Lysaker, 11 March 2009,
The board of directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øystein Stray Spetalen
Deputy chair

Trond Andersen
Board member

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Gisèle Marchand
Board member

Svein Rennemo
Board member

Ingrid Wiik
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2008	2007	2006
Cash flow from operating activities				
Cash generated from operations		26 639	27 238	28 905
Cash used in operations		(23 574)	(23 547)	(24 608)
Cash from net financial items		(727)	(1 011)	(1 365)
Taxes paid		(361)	(514)	(169)
Net cash flow from operating activities	28	**1 977**	**2 166**	**2 763**
Cash flow from investing activities				
Investments in operational fixed assets		(1 283)	(1 746)	(1 722)
Sales of operational fixed assets		618	15	11
Dividend received [1]		30	87	0
Acquisition of shares in companies [2]		(127)	0	0
Sale of shares in companies [3]		3 051	0	1 213
Net cash flow from investing activities		**2 289**	**(1 644)**	**(498)**
Cash flow from financing activities				
New loans raised		1 511	9 238	3 777
Repayments of loan		(2 533)	(7 286)	(5 412)
Dividend paid [4]		0	(1 049)	(1 046)
Purchase / sale of treasury shares		(3)	5	0
New equity [5]		9	0	0
Net cash flow from financing activities		**(1 016)**	**908**	**(2 681)**
Foreign currency effects on cash and cash equivalents		1 059	(29)	(1)
Total change in liquid assets		**4 309**	**1 401**	**(417)**
Liquid assets at 1 January	21	1 886	485	902
Liquid assets at 31 December	21	6 195	1 886	485

[1] In 2008 the amount relates to dividends received from Malaysian Newsprint Industries SDN BHD and Sapin SA. The 2007 amount related to dividends received from Malaysian Newsprint Industries SDN BHD.

[2] The amount in 2008 relates to the acquisition of the remaining 20 % of Norske Skog (Hebei) Paper Co. Ltd.

[3] The amount in 2008 relates to sale of Norske Skog Korea Co. Ltd. The 2006 amount relates to the sale of Catalyst, Forestia and Nordic Paper.

[4] The amounts include dividend paid to minority interests in Norske Skog (Thailand) Company Ltd. The equivalent amounts in 2007 and 2006 were NOK 4 million and NOK 5 million respectively. The parent company paid dividend of NOK 1 045 million and NOK 1 041 million in 2007 and 2006 respectively.

[5] The amount in 2008 relates to paid in equity in Xynergo AS.

STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	SHARE CAPITAL AND OTHER PAID-IN EQUITY	RETAINED EARNINGS	HEDGING	OTHER EQUITY RESERVES	MINORITY INTERESTS	TOTAL
Equity 1 January 2008	**12 310**	**3 354**	**1 305**	**(1 377)**	**365**	**15 957**
Net profit for the period	0	(2 715)	0	0	(50)	(2 765)
Net investment hedge	0	0	(2 519)	0	0	(2 519)
Cash flow hedge	0	0	(78)	0	0	(78)
Currency translation differences	0	0	0	2 377	61	2 438
Divestment of operations [1]	0	0	(44)	783	0	739
Other items booked directly to equity	0	(18)	0	0	0	(18)
Total recognised income, expenses and changes in value	**0**	**(2 733)**	**(2 641)**	**3 160**	**11**	**(2 203)**
Dividend paid	0	0	0	0	(2)	(2)
Change in holding of own shares [2]	0	0	0	(1)	0	(1)
Change in ownership in subsidiaries [3]	0	0	0	(15)	(105)	(120)
Equity 31 December 2008	**12 310**	**621**	**(1 335)**	**1 766**	**269**	**13 632**

[1] Divestment of the Group's South Korean operations (Norske Skog Korea Co. Ltd.).
[2] Number of shares held by the Company is disclosed in the Note 16 Equity to the parent company accounts.
[3] Redemption of minority interest of the Hebei mill in China (Norske Skog (Hebei) Paper Co. Ltd.).

NOK MILLION	SHARE CAPITAL AND OTHER PAID-IN EQUITY	RETAINED EARNINGS	HEDGING	OTHER EQUITY RESERVES	MINORITY INTERESTS	TOTAL
Equity 1 January 2007	**12 309**	**5 006**	**254**	**531**	**450**	**18 550**
Net profit for the period	0	(618)	0	0	(65)	(683)
Net investment hedge	0	0	1 039	(242)	0	797
Cash flow hedge	0	0	12	0	0	12
Currency translation differences	0	0	0	(1 680)	(16)	(1 696)
Divestment of operations	0	0	0	0	0	0
Other items booked directly to equity	0	11	0	0	0	11
Total recognised income, expenses and changes in value	**0**	**(607)**	**1 051**	**(1 922)**	**(81)**	**(1 559)**
Dividend paid	0	(1 045)	0	0	(4)	(1 049)
Change in holding of own shares	1	0	0	14	0	15
Change in ownership in subsidiaries	0	0	0	0	0	0
Equity 31 December 2007	**12 310**	**3 354**	**1 305**	**(1 377)**	**365**	**15 957**

NOK MILLION	SHARE CAPITAL AND OTHER PAID-IN EQUITY	RETAINED EARNINGS	HEDGING	OTHER EQUITY RESERVES	MINORITY INTERESTS	TOTAL
Equity 1 January 2006	**12 309**	**8 833**	**234**	**590**	**713**	**22 679**
Net profit for the period	0	(2 809)	0	0	(208)	(3 017)
Net investment hedge	0	0	20	0	0	20
Cash flow hedge	0	0	0	0	0	0
Currency translation differences	0	0	0	(59)	(40)	(99)
Divestment of operations	0	0	0	0	0	0
Other items booked directly to equity	0	0	0	0	0	0
Total recognised income, expenses and changes in value	**0**	**(2 809)**	**20**	**(59)**	**(248)**	**(3 096)**
Dividend paid	0	(1 041)	0	0	0	(1 041)
Change in holding of own shares	0	23	0	0	0	23
Change in ownership in subsidiaries	0	0	0	0	(15)	(15)
Equity 31 December 2006	**12 309**	**5 006**	**254**	**531**	**450**	**18 550**

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 16 fully and partly owned mills on four continents.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Lysaker outside of Oslo. The Company is listed on the Oslo stock exchange. The consolidated financial statements were authorized for issue by the Board of Directors in Norske Skogindustrier ASA on 11 March 2009.

2. ACCOUNTING PRINCIPLES

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

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

Consolidation

a) Subsidiaries

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

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

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

b) Associates

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

Use of the equity method means that the Group's share of post-acquisition profits or losses made by its associates is recognised as financial income or cost and is assigned to the carrying value of the investment, and its share of post-acquisition movements in reserves is recognised in reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

c) Transactions and minority interests

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

Segment reporting

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

Foreign currency translation

a) Functional and presentational currency

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

b) Transactions and balances

Foreign currency transactions are translated into the entity's functional currency at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Gains and losses relating to currency positions qualifying as cash flow hedges or net investment hedges are booked directly against equity.

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 recognised as a separate equity component.

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 taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

Property, plant and equipment

Land and buildings comprise mainly mills, machinery and office premises. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation. Cost includes expenditure directly attributable to the acquisition of the items. 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 derecognized. 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.

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 licences

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

c) Computer software

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

Impairment of assets

Intangible assets which have an indefinite useful life 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 sales costs and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which cash flows are separately identifiable (cash-generating units). At each balance sheet date, the possibility of reversing impairment losses in prior periods is evaluated (except for goodwill).

Financial assets

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

a) Financial assets at fair value through profit or loss

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

Non-financial commodity contracts where the relevant commodity is readily convertible to cash and where the contracts are not for own use fall within the scope of IAS 39. Such contracts are treated as derivatives. Norske Skog currently has energy contracts which have resulted in surplus energy in Norway and South America. This means that certain non-financial commodity contracts are no longer considered to be in accordance with Norske Skog's expected usage requirements (IAS 39.5). When the own use exception no longer applies, these contracts must be treated as derivatives and booked to fair value through the income statement. See also Note 22.

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Investments held to maturity

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

Derivatives and hedging

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

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

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

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

a) Fair value hedge

Changes in the fair value of derivatives that qualify as hedging and which are effective, are recorded in the income statement, together with any changes in the fair value of the of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortized over the period to maturity.

b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within financial items.

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

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

d) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized 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 22).

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

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

Inventory
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when objective evidence exists that the Group will be unable to collect 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. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "other operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "other operating expenses" in the income statement.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

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

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

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

Income taxes
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 directly in equity. In this case, the tax is also recognised in equity.

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

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

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

Employee benefits
a) Pension obligations
Group companies operate various pension schemes. These are generally funded through payments to insurance companies, as determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a one which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group makes fixed contributions to a separate entity. The Group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds which are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating to the terms of the related pension liability.

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

Past-service costs are recognised immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortised on a 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 when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share-based remuneration
The Group has an option programme which provides cash settlement if the option is exercised. The value of the option is recognised in the income statement over the period from when the option is awarded to expected exercise date. See also Note 4.

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

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

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

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

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized 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 finalization of the production to deliverance of the goods to the buyer.

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

- "D" terms, where the Group delivers the goods to the purchaser at the agreed destination, usually the purchaser's premises. The point of sale is when the goods are delivered to the purchaser. If the customer is invoiced before delivery of the goods purchased, revenue is only recognized if the customer has taken over a significant part of the gain and loss potential related to those goods.
- "C" terms, where the Group arranges and pays for the external transport of the goods, but the Group no longer bears any responsibility for the goods once they have been handed over to the transporter in accordance with the terms of the contract. The point of sale is when the goods are handed over to the transporter contracted by the seller.
- "F" terms, where the purchaser arranges and pays for the transport. The point of sale is when the goods are handed over to the transporter contracted by the purchaser.

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

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

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

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

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

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

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

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

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

a) Estimated decline in value of intangible assets and tangible fixed assets
The Group performs annual tests to assess whether there has been a decline in the value of intangible assets and tangible fixed assets. The recoverable amount from cash-generating units is determined by calculating the higher of value in use and fair value less costs to sell. 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 LWC, Asia, Australasia, South America, Saugbrugs, Follum magazine paper, Singburi and Malaysian Newsprint Industries. The capitalised value of intangible assets and tangible fixed assets within the cash-generating units is measured against the value in use of intangible assets and tangible fixed assets within these units. A possible future change in the composition of the Group's cash-generating units could mean changes in the value in use within cash-generating units, which could in turn mean a future decline in the value of intangible assets and tangible fixed assets.

Calculating the value in use of intangible assets and tangible fixed assets within the cash-generating units is based on discounted cash flows. Cash flow is calculated individually for up to ten years for each cash-generating unit based on estimated economic life. Sales prices and prices for input factors are based on budgeted figures in year one and on long-term price prognoses thereafter. The estimated value of operation exceeding ten years is assessed as a terminal value based on the assets' technical state and the expected useful life.

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

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

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

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

d) Dismantling provision
The provision for future costs relating to asset dismantlement, removal and restoration is based on a number of assumptions made using management's best judgment.

e) Residual value
The Group must perform a review of the residual value of its mills at minimum at the end of each accounting year. The 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 effect on future depreciation.

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

Implemented changes in presentation, measurement and recognition caused by new accounting standards or interpretations effective in 2008 or later

IFRS 8 Operating segments
IASB issued IFRS 8 Operating segments in November 2006. The standard replaces IAS 14 "Segment reporting" and becomes mandatory for accounting periods beginning after 31 December 2008. Earlier adoption is permitted. Norske Skog adopted IFRS 8 in the first quarter of 2008. The changes are described in detail in Note 3 – Operating segments.

IAS 23 Borrowing costs (Amendment)
The amendment requires capitalisation of all borrowing costs to the extent the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The borrowing costs are capitalised as part of the acquisition cost of the asset and depreciated accordingly. The amendments to IAS 23 are mandatory for annual financial statements beginning 1 January 2009 or later. The Group has applied policies consistent with the new standard since the implementation of IFRS in 2005, and the changes will therefore not effect the Group accounts.

IFRIC 11, IFRS 2 Group and treasury share transactions
The interpretation provides guidance on the accounting treatment of treasury shares. The interpretation has not impacted the Group's presentation, measurement or recognition of the above mentioned transactions.

IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction
The interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory minimum funding requirement.

Interpretations effective in 2008 but which are not relevant for the Group
The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

IFRIC 12 Service concession arrangements
The interpretation gives guidance on contractual arrangements where a party from the private or public sector participates in development, operation and maintenance of infrastructure in the public sector.

IFRIC 13 Customer loyalty programmes
The interpretation gives guidance on the accounting where goods and services are offered as part of a customer loyalty programme.

New interpretations and changes to existing standards
Listed below are new interpretations and changes to existing standards which have not yet become mandatory, and which the Group has not chosen to adopt early:

IAS 1 Presentation of financial statements (Revised)
The revised standard will prohibit the presentation of items of income and expenses in the statement of changes in equity, and requires changes in equity which are not related to the equity owners to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a perfor-

mance statement, but entities can choose to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The changes are effective from 1 January 2009.

IAS 1 Presentation of financial statements (Amendment)
The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 will be classified as current assets and liabilities respectively. The amendment is effective from 1 January 2009.

IFRS 2 Share-based payment (Amendment)
The amendment is related to vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The change is effective from 1 January 2009.

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

IFRS 5 Non-current assets held for sale and discontinued operations (Amendment)
The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The change is effective from 1 July 2009.

IAS 19 Employee benefits (Amendment)
There are a number of amendments to IAS 19 which are effective from 1 January 2009:
• A plan amendment that results in a change to the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
• The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
• The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
• IAS 37, Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent with IAS 37.

IAS 20 Accounting for government grants and disclosure of government assistance (Amendment)
The benefit of a below-market government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment is effective from 1 January 2009.

IAS 23 Borrowing costs (Amendment)
The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The amendment is effective from 1 January 2009.

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

IAS 28 Investments in associates (Amendment)
An investment in an associate is treated as a single asset for the purpose of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment is effective from 1 January 2009.

IAS 32 Financial instruments – presentation and IAS 1 Presentation of financial statements (Amendment)
The amended standards require entities to classify puttable financial instruments and instruments, or components of instrument, that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendments are effective from 1 January 2009.

IAS 36 Impairment of assets (Amendment)
When fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The amendment is effective from 1 January 2009.

IAS 38 Intangible assets (Amendment)
A repayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment is effective from 1 January 2009.

IAS 39 Financial instruments – recognition and measurement
There are a number of amendments to IAS 39 which are effective from 1 January 2009:
• There is a clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge
• The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended.
• An amendment to the guidelines for designating and documenting hedges such that hedges will still be reported in the operating segment to which the hedged items relate, but the grop will not formally document and test this relationship.
• When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used

IFRIC 16 Hedges of a net investment in a foreign operation
The interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentational currency, and hedging instruments may be held anywhere in the Group (but not in the net investment that is to be hedged). The requirements of IAS 21 apply to the hedged item. The interpretation is effective for accounting periods beginning 1 October 2008 or later.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but are not relevant to the Group's operations:

IFRS 1 First time adoption of IFRS and IAS 27 Consolidated and separate financial statements (Amendment)
The amended standard is applicable to first-time adopters of IFRS and it is therefore not expected that this will have any impact on the Group financial statements.

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

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

IAS 28 Investments in associates (Amendment)
The amendment deals with disclosure requirements when an investment in an associate is accounted for in accordance with IAS 39. The amendment will not have an impact on the Group's operations because investments in associates are accounted for in accordance with the equity method.

IAS 29 Financial reporting in hyperinflationary economies, IAS 40 Investment property, and IAS 41 Agriculture (Amendments)
There are a number of minor changes to IAS 29, IAS 40 and IAS 41 which are effective from 1 January 2009. None of these are expected to have any impact on the Group's operations, and have therefore not been analysed in detail.

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

IFRIC 15 Agreements for construction of real estates
The interpretation clarifies whether IAS 18, "Revenue", or IAS 11, "Construction contracts", should be applied to particular transactions. This is not expected to have any impact on the Group's operations.

3. OPERATING SEGMENTS

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

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

Implementation of IFRS 8 Operating Segments
Norske Skog implemented IFRS 8 in the first quarter of 2008. Comparative figures for 2007 have been restated in accordance with the revised segment structure. The information necessary to restate figures for 2006 is not available and the cost to develop it would be excessive. Comparative figures for 2006 are, for this reason and in compliance with paragraph 29 of IFRS 8, not disclosed.

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

The Group has 16 fully or partly owned paper mills on four continents. Two of the mills produce only magazine paper, two produce both magazine paper and newsprint and 12 produce newsprint only. Both the Newsprint and the Magazine paper segment represent an aggregation of the paper machines in the Group producing the two paper qualities.

Newsprint
The Newsprint segment encompasses production and sale of paper qualities which, measured in grams per square meter, will normally be in the range 40-57 g/m^2. These paper qualities are used in newspapers, inserts and advertising materials. The Group has an annual production capacity of newsprint of 3 723 000 tonnes as at the end of 2008.

Magazine paper
The Magazine paper segment encompasses production and sale of the paper qualities super calendered (SC), machine finished coated (MFC) and lightweight coated (LWC). These paper qualities are used in magazines, catalogues and advertising materials. The Group has an annual production capacity of magazine paper of 1 465 000 tonnes as at the end of 2008.

Energy
The Energy segment includes purchase and sale of energy to the Norwegian entities in the Group, 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 Norwegian mills and in the spot market is reported as operating revenue in the energy segment, while changes in fair value of energy contracts and embedded derivatives are reported as Other gains and losses.

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

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

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

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

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

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

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

SHARE OF OPERATING REVENUE FROM EXTERNAL PARTIES

	2008	2007
Newsprint	100 %	100 %
Magazine paper	100 %	100 %
Energy	36 %	19 %
Other activities	25 %	21 %

OPERATING REVENUE PER GEOGRAPHICAL REGION

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

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

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

GROSS OPERATING EARNINGS PER GEOGRAPHICAL REGION

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

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

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

BALANCE SHEET ITEMS AND INVESTMENT IN FIXED ASSETS – KEY FIGURES

Norske Skog manages taxes, non-current debt and cash positions on a group basis. Consequently, these items are not allocated to the Group's operating segments.

31 DECEMBER 2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
Property, plant and equipment	19 081	5 813	0	245	25 139
Inventories	1 722	896	0	85	2 703
Other current assets	461	12	4 844	269	5 587

31 DECEMBER 2007	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
Property, plant and equipment	23 895	4 108	0	398	28 401
Inventories	1 906	738	0	86	2 731
Other current assets	597	17	4 899	105	5 618

INVESTMENTS IN OPERATIONAL FIXED ASSETS

	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	NORSKE SKOG GROUP
2008	973	232	0	78	1 283
2007	1 195	493	0	58	1 746

PROPERTY, PLANT AND EQUIPMENT PER GEOGRAPHICAL REGION

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

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

OPERATING REVENUE BY MARKET

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

	2008	2007
Norway	1 186	1 375
Rest of Europe	12 977	12 891
North America	1 210	1 089
South America	1 976	1 657
Australasia	3 678	3 967
Asia	5 279	5 944
Africa	162	195
Total operating revenue	**26 468**	**27 118**

4. EMPLOYEE BENEFIT EXPENSES

	NOTE	2008	2007	2006
Salaries		2 628	2 730	3 106
Social security contributions		504	462	421
Pension costs	5	118	128	118
Other salary costs and social costs		131	175	155
Total		**3 381**	**3 495**	**3 800**

NUMBER OF EMPLOYEES BY REGION

	2008	2007	2006
Europe	3 837	4 094	4 309
South America	574	587	612
Australasia	1 051	1 086	1 191
Asia [1]	788	1 563	1 671
Corporate functions (head office)	176	242	255
Total	**6 426**	**7 572**	**8 038**

[1] Norske Skog's activities in South Korea were sold in the third quarter of 2008. The two factories had 765 employees at the transaction date.

The Chief Executive Officer's (CEO's) basic salary per 31 December 2008 is NOK 3 935 000, and total payments received by the CEO during 2008 amount to NOK 5 294 195. On 5 July 2006 the CEO was awarded 60 000 synthetic options with a strike price of NOK 87.50. The share option programme is described in more detail below. The CEO's retirement age is 64, and his pension amounts to 65 % of base salary at retirement age.

The mutual period of notice for the CEO and other members of corporate management is six months. If circumstances arise in which the Company or the person concerned, by mutual agreement, terminates the contract of employment in the best interests of the Company, the Company guarantees to pay the affected person's basic salary, less remuneration they may receive from others, for a period of 18 months from the end of the period of notice. This provision applies equally to the CEO and the other members of corporate management.

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 – the targets – is set annually by the Board and CEO respectively. Remuneration to members of the Corporate Assembly and the Board amounted to NOK 720 000 and NOK 2 980 600 respectively in 2008.

Three members of corporate management left the Company in 2008 and received severance packages according to individual agreements. Ketil Lyng received NOK 5 294 195 in 2008, including NOK 3 500 000 as severance payment. Andreas Enger received NOK 6 608 284, including NOK 3 600 000 as severance payment. Antonio Dias in Brazil received severance payment of NOK 2 925 000.

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

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

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

	SALARY 31.12.2008	PAYMENTS IN KIND ETC. FOR 2008[1]	BONUS 2008[2]	NUMBER OF SYNTHETIC OPTIONS[3]	LOANS 31.12.2008[4]
Christian Rynning-Tønnesen	3 935	282	927	60 000	
Vidar Lerstad	2 143	177	412		
Kristin Slyngstad Klitzing	1 725	224	330	30 000	
Rune Gjessing	1 900	194	562		
Jan-Hinrich Clasen	2 100	159			540
Audun Røneid	2 300	28			
Terry Hamilton	2 100				

[1] Includes special benefits, interest free loan etc.
[2] Based on results achieved in 2007, paid in 2008.
[3] Synthetic options have been awarded in 2006, with the right to exercise in the period from 1 January to 30 June 2009. The strike price is NOK 87.50.
[4] Jan-Hinrich Clasen repaid the loan in January 2009.

SHARE BASED REMUNERATION

The CEO and other members of the corporate management are awarded synthetic options. These options are synthetic in that the difference between the share price at the date they are exercised and their strike price is paid in the form of salary, and the recipients have undertaken to purchase Norske Skog shares in the market, at market price, for the amount received after tax. The shares must be retained by the recipient for three years. A positive gain can thus be realised after approximately six years. The right to exercise these options is conditional on the recipient continuing to be in the Company's employment at the date they are exercised. This arrangement has no dilution effect, since the shares are purchased in the market. The options are valued by using the Black and Scholes option pricing model and the value is recognised in the income statement on a linear basis over the option period. In the valuation of the option a risk free interest rate of 4.5 % is assumed, a volatility in the Norske Skog share of 30 %, and an annual dividend of 50 %. The fair value is calculated on the basis of the share price at the balance sheet date. No synthetic options have been awarded after 2006.

LONG-TERM OWNERSHIP PLAN

The Board adopted new principles for the long-term incentive programme in 2007, whereby the criteria for awarding synthetic shares to the corporate management team are related to total shareholder return (TSR – development of the share price including dividend payments), 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 pay-out if the Company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the CEO and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50 % of the allocation 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.

OUTSTANDING OPTIONS AT 31 DECEMBER 2008	DATE OF AWARD	NUMBER	PERIOD OF REALISATION	STRIKE PRICE
	7 May 2006	270 000	1 January – 30 June 2009	87.50

Of options awarded in previous periods, 180 000 expired in 2008. These options had a strike price which was higher than the share price at the time of realisation and had no value at that time.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEE MEMBERS
(in NOK 1 000)

	SALARY	BOARD OF DIRECTORS REMUNERATION	REMUNERATION FOR COMMITTEE WORK
Trond Andreas Andersen	319	280	
Halvor Bjørken		280	34
Stein-Roar Eriksen	373	280	
Kåre Leira	446	280	84
Kjetil Bakkan		6	
Kim Wahl		510	34
Øivind Lund		183	25
Gisèle Marchand		280	75
Ingrid Wiik		280	34
Kari Broberg		140	
Svein Rennemo		140	
Wenche Holen		140	25
Øystein Stray Spetalen		183	

AUDITORS FEES
(in NOK 1 000)

	PARENT COMPANY	SUBSIDIARIES AUDITED BY GROUP AUDITOR	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	3 000	10 128	115	13 243
Audit-related assistance [1)]	4 343	1 346	0	5 689
Tax assistance	0	758	0	758
Other fees	5 344	187	0	5 531
Total	**12 687**	**12 419**	**115**	**25 221**

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

5. PENSION COSTS AND OBLIGATIONS

Norske Skog has various pension schemes. Contributions to these schemes are made in accordance with local agreements. A total of 7 099 people are covered by such schemes. Of these, 5 756 people are covered by defined benefit plans and 1 343 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

Norske Skog has two significant defined benefit plans

	BENEFITS IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBERS OF MEMBERS
Norske Skogindustrier ASA	65	30	67	62	4 592
Norske Skog Parenco B.V.	70	40 / 37	65 / 62	60	425

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

Plan assets in Norske Skog Parenco B.V. are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands. Several smaller schemes also exist. In evaluating plan assets, their estimated value at 31 December is used.

This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the life insurance company.

In measuring incurred obligations, the projected obligation at 31 December is used.

This projected obligation is corrected every year in accordance with the figures on incurred pension obligations provided by the actuary.

In addition to the benefit obligation funded through insurance plans, the Group has uninsured benefit obligations. These include estimated future obligations relating to the Norwegian AFP early retirement scheme as well as obligations to former owners of subsidiaries and pensions for senior management and directors. Obligations relating to senior management pensions are partly funded through a supplementary retirement plan with a life insurance company.

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

CALCULATION OF FUTURE BENEFIT OBLIGATIONS IS BASED ON THE FOLLOWING ASSUMPTIONS

	2008	2007	2006	2005	2004
Discount rate	3.8 %	4.7 %	4.5 %	4.5 %	5.0 %
Expected return on plan assets	5.8 %	5.8 %	5.5 %	5.5 %	6.0 %
Pay adjustment	3.8 %	4.5 %	4.5 %	2.5 %	2.5 %
Social security increase / inflation	3.8 %	4.4 %	4.3 %	2.0 %	2.0 %
Pension increase	3.0 %	2.0 %	1.6 %	2.0 %	2.0 %

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

NET PERIODIC PENSION COST IN THE CONSOLIDATED ACCOUNTS

	2008	2007	2006	2005	2004
Benefits earned during the year	102	107	140	87	74
Interest cost on prior period benefits	142	137	95	161	126
Pensions cost contribution schemes	9	14	12	14	10
Expected return on plan assets	(138)	(114)	(112)	(168)	(149)
Periodic national insurance contributions	11	6	(3)	3	5
Expensed portion of changes in AFP early retirement plan	(8)	(2)	(2)	(2)	(2)
Expensed portion of differences in estimates	0	(20)	(12)	12	9
Net periodic pension cost	**118**	**128**	**118**	**107**	**73**

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

UNFUNDED PENSION PLANS

	2008	2007	2006	2005	2004
Projected benefit obligations	(452)	(370)	(455)	(419)	(362)
Plan assets at fair value	0	0	0	0	0
Plan assets in excess of / (less than) obligations	**(452)**	**(370)**	**(455)**	**(419)**	**(362)**
Unamortised changes in AFP early retirement plans	0	0	0	0	0
Differences in estimates not taken to the income statement	(58)	(25)	0	0	0
Net plan assets / pension obligations	**(510)**	**(395)**	**(455)**	**(419)**	**(362)**
Accrual national insurance contributions	(22)	0	0	0	0
Net plan assets / (pension obligations) in the balance sheet	**(532)**	**(395)**	**(455)**	**(419)**	**(362)**

PARTLY OR FULLY FUNDED PENSION PLANS

	2008	2007	2006	2005	2004
Projected benefit obligations	(2 319)	(2 186)	(2 006)	(2 962)	(2 478)
Plan assets at fair value	2 122	2 347	2 080	2 973	2 621
Plan assets in excess of / (less than) obligations	**(197)**	**161**	**74**	**11**	**143**
Unamortised changes in AFP early retirement plans	0	0	0	0	0
Differences in estimates not taken to the income statement	250	(159)	(20)	83	0
Net plan assets / pension obligations	**53**	**2**	**54**	**94**	**143**
Accrual national insurance contributions	(24)	(36)	(32)	(26)	(21)
Net plan assets / (pension obligations) in the balance sheet	**29**	**(34)**	**22**	**68**	**122**

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

	NOTE	2008	2007	2006	2005	2004
Pension assets in the balance sheet	19	140	91	97	93	126
Pension liabilities in the balance sheet		(644)	(519)	(530)	(444)	(365)
Net pension obligations		**(504)**	**(428)**	**(433)**	**(351)**	**(239)**
Net unfunded pension plans		(532)	(395)	(455)	(419)	(362)
Net partly or fully funded pension plans		29	(34)	22	68	122

CHANGES IN PENSION LIABILITY DURING THE YEAR

	2008	2007	2006	2005	2004
Balance 1 January	2 186	2 006	2 962	2 478	2 321
Changes owing to entities acquired / sold	(149)	0	(89)	37	0
Current year's service cost	102	108	139	87	74
Current year's interest cost	142	137	95	156	126
Pensions paid	(53)	(12)	(43)	(103)	(100)
Actuarial gains and losses	1	(23)	(100)	341	3
Other changes	12	(12)	(951)	(57)	103
Currency translation effects	78	(18)	(7)	23	(49)
Balance 31 December	**2 319**	**2 186**	**2 006**	**2 962**	**2 478**

A return on plan assets of NOK 138 million is estimated for 2008. The actual return on the plan assets for 2007 was NOK 120 million, compared with an estimated return of NOK 114 million. The difference between the booked return and the estimated return is treated as an estimate difference.

CHANGES IN THE PLAN ASSETS DURING THE YEAR

	2008	2007	2006	2005	2004
Balance 1 January	2 347	2 080	2 973	2 621	2 400
Changes owing to entities acquired / sold	(106)	0	0	0	0
Return on plan assets	138	114	108	180	177
Actuarial gains and losses	0	0	0	6	7
Contributions to the plan assets	16	12	52	19	20
Other changes	(383)	164	(1 072)	188	17
Currency translation effects	110	(23)	19	(41)	0
Balance 31 December	**2 122**	**2 347**	**2 080**	**2 973**	**2 621**

6. OTHER OPERATING EXPENSES

	2008	2007	2006
Maintenance materials, servicing and spare parts	1 018	1 113	1 044
Marketing expenses	36	44	32
Administration expenses	577	666	680
Losses on bad debts	12	23	86
Operating leases	107	101	112
Research and development	17	18	19
Miscellaneous expenses	311	256	214
Total	**2 077**	**2 221**	**2 187**

SPECIFICATION OF LOSSES ON BAD DEBTS			
Receivables written off during the period	9	5	1
Received on previous write-offs	(2)	0	0
Change in provision for bad debt	5	18	85
Total	**12**	**23**	**86**

7. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTANGIBLE NON-CURRENT ASSETS

GOODWILL	2008	2007	2006
Acquisition cost 1 January	5 682	5 444	5 433
Additions	0	0	0
Disposals	(171)	0	0
Currency translation difference	166	238	11
Acquisition cost 31 December	**5 677**	**5 682**	**5 444**
Accumulated impairments 1 January	5 624	2 774	931
Impairments	0	2 716	1 739
Disposals	(171)	0	0
Currency translation difference [1)]	166	134	0
Accumulated impairments 31 December	**5 619**	**5 624**	**2 670**
Carrying value 31 December	**58**	**58**	**2 774**

GOODWILL SPECIFICATION PER ACQUISITION	ACQUIRED YEAR	2008	2007	2006
Golbey	1995	58	58	58
Fletcher	2000	0	0	2 576
Klabin	2003	0	0	140
Total		**58**	**58**	**2 774**

LICENSES, PATENTS AND SIMILAR RIGHTS	2008	2007	2006
Acquisition cost 1 January	118	102	215
Additions	0	11	43
Disposals	(8)	0	(159)
Reclassified from asset under construction	0	0	1
Currency translation difference	19	5	2
Acquisition cost 31 December	**129**	**118**	**102**
Accumulated depreciation and impairments 1 January	85	75	147
Depreciation	8	9	7
Impairments	0	0	0
Disposals	(4)	0	(79)
Currency translation difference [1)]	15	1	0
Accumulated depreciation and impairments 31 December	**104**	**85**	**75**
Carrying value 31 December	**25**	**33**	**27**

Licenses, patents and similar rights are depreciated over a period from five to 20 years.

OTHER INTANGIBLE ASSETS	2008	2007	2006
Acquisition cost 1 January	240	490	446
Additions	182	0	108
Disposals	(108)	(216)	(64)
Reclassified from asset under construction	0	0	0
Currency translation difference	47	(34)	0
Acquisition cost 31 December	**361**	**240**	**490**
Accumulated depreciation and impairments 1 January	199	235	179
Depreciation	15	26	30
Impairments	8	94	85
Disposals	(73)	(150)	(59)
Currency translation difference [1]	8	(6)	0
Accumulated depreciation and impairments 31 December	**157**	**199**	**235**
Carrying value 31 December	**204**	**41**	**255**

Other intangible assets are depreciated over a period from five to 20 years.

OPERATIONAL NON-CURRENT ASSETS

BIOLOGICAL ASSETS	2008	2007	2006
Acquisition cost 1 January	323	369	349
Additions	24	24	38
Disposals	0	(49)	(19)
Currency translation difference	32	(21)	1
Acquisition cost 31 December	**379**	**323**	**369**
Accumulated depreciation and impairments 1 January	67	139	158
Depreciation	3	0	0
Value changes	51	(27)	0
Disposals	0	(35)	(19)
Currency translation difference [1]	(14)	(10)	0
Accumulated depreciation and impairments 31 December	**107**	**67**	**139**
Carrying value 31 December	**272**	**256**	**230**

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

MACHINERY AND EQUIPMENT	2008	2007	2006
Acquisition cost 1 January	46 640	54 438	52 985
Additions	406	1 070	1 233
Disposals	(3 866)	(1 324)	(761)
Reclassified from asset under construction	597	270	0
Reclassification [2]	0	(3 341)	0
Currency translation difference	5 343	(4 473)	981
Acquisition cost 31 December	**49 120**	**46 640**	**54 438**
Accumulated depreciation and impairments 1 January	26 622	27 366	23 492
Depreciation	1 890	2 339	2 735
Depreciation from acquired companies	0	0	0
Impairments	1 430	2 030	1 409
Reversal of impairment	(1 000)	0	0
Disposals	(1 302)	(1 300)	(270)
Reclassification [2]	0	(1 033)	0
Currency translation difference [1]	3 424	(2 780)	0
Accumulated depreciation and impairments 31 December	**31 064**	**26 622**	**27 366**
Carrying value 31 December	**18 056**	**20 018**	**27 072**

Machinery and equipment are depreciated over a period from three to 25 years.

PLANTS AND BUILDINGS	2008	2007	2006
Acquisition cost 1 January	11 246	8 566	8 229
Additions	134	100	225
Disposals	(1 627)	(7)	(148)
Reclassified from asset under construction	200	145	188
Reclassification [2]	0	3 040	0
Currency translation difference	1 306	(599)	72
Acquisition cost 31 December	**11 259**	**11 245**	**8 566**
Accumulated depreciation and impairments 1 January	4 551	3 510	3 191
Depreciation	621	416	350
Impairments	1	0	0
Disposals	(385)	(5)	(31)
Reclassification [2]	0	766	0
Currency translation difference [1]	609	(136)	0
Accumulated depreciation and impairments 31 December	**5 397**	**4 551**	**3 510**
Carrying value 31 December	**5 862**	**6 694**	**5 056**

Land is not depreciated. Buildings and other property are depreciated on a linear basis over a period from three to 33 years.

FIXTURES AND FITTINGS	2008	2007	2006
Acquisition cost 1 January	1 080	876	816
Additions	10	18	46
Disposals	(71)	(14)	(18)
Reclassified from asset under construction	27	32	21
Reclassification [2]	0	207	0
Currency translation difference	163	(39)	11
Acquisition cost 31 December	**1 209**	**1 080**	**876**
Accumulated depreciation and impairments 1 January	812	587	499
Depreciation	86	88	104
Impairments	0	0	0
Disposals	(63)	(11)	(16)
Reclassification [2]	0	173	0
Currency translation difference [1]	121	(25)	0
Accumulated depreciation and impairments 31 December	**956**	**812**	**587**
Carrying value 31 December	**253**	**268**	**289**

Fixtures and fittings are depreciated over a period from three to five years.

PLANT UNDER CONSTRUCTION	2008	2007	2006
Carrying value 1 January	1 165	900	951
Additions	1 069	523	162
Disposals	(527)	(17)	0
Completed in period	(824)	(288)	(209)
Impairments	(346)	0	0
Reclassification [2]	0	94	0
Currency translation difference [1]	160	(47)	(4)
Carrying value 31 December	**697**	**1 165**	**900**

Plant under construction is not depreciated.

[1] Currency translation differences have until 2006 been calculated based on the net carrying value of operational and intangible non-current assets. From 2007 and onwards, translation differences are calculated separately for acquisition cost and accumulated depreciation and disclosed accordingly in the notes. The change does not have an impact on the income statement or net carrying value of non-current assets.

[2] Following the increased ownership in Norske Skog Pan Asia Co. Pte. Ltd. and the subsequent reclassification from joint venture to subsidiary, the classification of operational and intangible non-current asset in the region has been reviewed. The review resulted in a reclassification in the 2007 accounts between the sub-categories under non-current assets. The reclassifications did not have any impact on the income statement or the net carrying value of the assets in the Group.

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

The present value of the estimated future cash flow is estimated in the currency in which it will be generated and then discounted using a weighted average cost of capital appropriate for that currency and the individual asset or cash-generating unit. The cost of capital is assessed on the interest rate of 10-year government bonds in Norway adjusted for a specific operational risk relevant to Norske Skog and, in certain instances, with a country-specific risk premium relevant to the individual asset or cash-generating unit. The cost of the liability part of the weighted average cost of capital is based on average market interest rates on Norske Skog's debt liabilities. Based on the present value calculations made in 2008, the discount rate after tax was in the interval from 9.0 % to 11.3 %.

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

Cash flow is calculated individually for up to ten years for each cash-generating unit based on estimated economic life. Sales prices and prices for input factors are based on budgeted figures in year one and on long-term price prognoses thereafter. The estimated value of operation exceeding ten years is assessed as a terminal value based on the assets technical state and the expected useful life.

The term "forecasts for long-term prices" refers to the equilibrium price level which the least cost-efficient mills in the industry need in order to survive an economic cycle. 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. As for most industrial products, real paper prices are declining by approximately 1-2 % per year.

Sensitivities in estimation of recoverable amount
The estimation of recoverable amount is based on assumptions regarding the future development of several input factors. These include the price development for finished goods, sales volumes, input prices (wood, recovered paper, energy, development in wages etc.), capital expenditure on operational fixed assets, currency rates and interest rates. Consequently, there are a number of uncertainties involved in the calculation of recoverable amount. Norske Skog has completed a sensitivity analysis using the variables mentioned above to predict how fluctuations will impact the recoverable amount. Recoverable amount is most sensitive to changes in prices on finished goods, sales volume and exchange rate movements. A reduction in sales price and sales volume of 5 % will cause a reduction in recoverable amount in the order of NOK 10 000 million and NOK 3 500 million respectively. Correspondingly, a decrease of the USD of 5 % will cause a NOK 2 500 million reduction in the recoverable amount. A price increase of 5 % on input prices on wood, recovered paper, energy and wages will reduce recoverable amount with approximately NOK 1 000 million, NOK 1 500 million, NOK 2 000 million and NOK 1 000 million respectively.

Impairment charges in 2008 and expected useful life
The result of Norske Skog's estimation of recoverable amount was recognition of an impairment loss in the Newsprint segment related to the mills in China of NOK 498 million. At the same time a reversal of impairment loss amounting to NOK 1 000 million was made in the Magazine paper segment, relating to Norske Skog Saugbrugs. The reversal relates to an impairment loss recognized in 2007. The impairment loss in China is caused by lower expectations relating to future earnings (reduction in sales prices, together with higher prices on recovered paper). The reversal of previously recognized impairment losses at Norske Skog Saugbrugs is caused by changes in the currency assumptions and a reduction in the energy prices.

In the first quarter of 2008, write-downs of NOK 940 million were recognized related to the closure of three paper machines in the Newsprint segment. Additionally, write-downs were recognized during the first and second quarters regarding previously capitalized amounts related to the Pisa PM2 project. This project involved moving one paper machine from the closed mill Norske Skog Union in Skien to Norske Skog Pisa in Brazil. The project was terminated in the first quarter of 2008 and the total write downs amounted to NOK 353 million.

Norske Skog has completed sensitivity analyses with respect to changes in the expected useful life of the paper machines in the Group. If the expected useful life of the Group's paper machines is reduced by one year, the annual depreciation charge will increase by approximately NOK 400 million.

8. LEASES

Operating leases
The Group expensed NOK 107 million related to operating leases in 2008. The corresponding figures for 2007 and 2006 were NOK 101 million and NOK 112 million respectively.

Contractual obligations related to operating leases amount to NOK 94 million in total, of which NOK 31 million is due within one year, NOK 57 million is due between one and five years, and NOK 6 million is due in more than five years.

Finance leases
Leases of operating non-current assets where control and substantially all the risks have been transferred to the Group are classified as finance leases. Finance leases are capitalised at the inception of the lease, at the lower of fair value of the asset and net present value of the minimum lease payments. The capitalised value is depreciated on a linear basis over the estimated economic life. The net present value of the minimum lease payments amounts to NOK 19 million at the end of 2008 and the capitalised value of the operating non-current asset is NOK 17 million.

9. RESTRUCTURING EXPENSES

	2008	2007	2006
Restructuring expenses Union	0	0	45
Redundancy payments Group	30	0	439
Capacity curtailments and closures	191	0	0
Total	**221**	**0**	**484**

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

10. OTHER GAINS AND LOSSES

	2008	2007	2006
Gains and losses from divestment of business activities	(433)	36	(15)
Value changes, energy contracts [1]	(589)	4 729	135
Value changes, derivatives	525	(370)	(541)
Value changes, biological assets	(51)	0	0
Realised profit / loss on commodity contracts	46	68	133
Total	**(502)**	**4 463**	**(288)**

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

Changes in ownership interests in subsidiaries and other businesses
The Group's main divestments in 2008 are the sale of its two mills in South Korea, the sale of its head office in Norway and divestment of various non-production related properties. All of these transactions were settled in cash.

Net profit from the sale of the head office is NOK 218 million, while the divestment of the two mills in South Korea generated a loss of NOK 606 million, out of which accumulated translation differences constituted a loss of NOK 783 million. The accumulated translation differences were, in accordance with IAS 21 The effects on changes in foreign exchange rates, recognized directly in equity during the ownership period, and subsequently reclassified from equity to the income statement on divestment of the entity. Both items are included in losses from the divestment of business activities amounting NOK 433 million, as presented in the table above.

Total current and non-current assets in the divested entities amounted to NOK 1 020 million and NOK 3 800 respectively, out of which cash constituted NOK 3 million. Total liabilities in the same entities were NOK 1 857 million.

11. INVESTMENT IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2008	CARRYING VALUE 31.12.2008	SHARE OF PROFIT 2008	DIVIDEND AND TRANSLATION DIFFERENCES	CARRYING VALUE 31.12.2007	CARRYING VALUE 31.12.2006
Malaysian Newsprint Industries SDN BHD	33.7 %	260	29	27	204	310
Other associated companies		35	1	4	30	23
Total		**295**	**30**	**31**	**234**	**333**

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

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

12. FINANCIAL ITEMS

FINANCIAL INCOME	2008	2007	2006
Dividends received	1	3	2
Interest income	135	71	50
Realised / unrealised gain on foreign currency	686	826	0
Other financial income	322	10	13
Total	**1 144**	**910**	**65**

FINANCIAL EXPENSES	2008	2007	2006
Interest expense	1 420	1 097	1 026
Realised / unrealised loss on foreign currency	944	158	16
Loss on securities	0	0	1
Other financial expenses	182	133	178
Total	**2 546**	**1 388**	**1 220**
Net financial items	**(1 402)**	**(479)**	**(1 155)**

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

CURRENT INVESTMENTS	NOTE	31.12.2008	31.12.2007	31.12.2006
Certificates		159	91	85
Quoted investment shares		0	3	3
Total	20, 21	**159**	**94**	**88**

Current investments are held for trading and classified at fair value through profit or loss as financial items.

14. INCOME TAXES

TAX EXPENSE	2008	2007	2006
Current tax expense	363	423	321
Change in deferred tax	(376)	495	(784)
Total tax expense	**(13)**	**918**	**(463)**

INCOME TAX RECONCILIATION	2008	2007	2006
Profit / loss before income taxes	(2 779)	235	(3 480)
Computed tax at nominal tax rate of 28 %	(778)	66	(975)
Differences due to different tax rates	(23)	(19)	(37)
Result fron affiliated companies	(9)	(4)	(56)
Exempt income / non deductible expenses	123	777	577
Change in tax legislation	0	63	(4)
Divestment of operations [1]	400	0	0
Adjustment previous years	(9)	(80)	36
Tax losses not recognised	357	131	55
Other items	(75)	(15)	(59)
Total tax expense	**(13)**	**918**	**(463)**

[1] After divestment of the Group's operations in South Korea, NOK 216 million was paid in witholding taxes in South Korea. In addition NOK 184 million is related to reversed currency translation differences recognised in the income statement without tax effect.

CURRENT TAX LIABILITY	2008	2007	2006
Norway	23	13	25
Europe other	5	30	48
Australasia	0	0	0
Asia	41	19	40
North America	9	11	10
South America	11	0	0
Total current tax liability 31 December	**89**	**73**	**123**

DEFERRED TAX	2008	2007	2006
Net deferred tax liability 1 January	2 022	1 588	2 452
Deferred tax charged to the income statement	(376)	495	(784)
Tax charged to equity	(121)	4	(95)
Sale of subsidiaries	(103)	0	19
Reclassification of Group tax allocations	9	24	69
Currency translation differences	85	(88)	(73)
Net deferred tax liability 31 December	**1 515**	**2 022**	**1 588**

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

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

DEFERRED TAX 2006	1.1.2006	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	CURRENCY TRANSLATION DIFFERENCES	31.12.2006
Fixed assets, excess values and depreciation	3 355	18	(265)	(33)	3 075
Pensions	26	2	(107)	(1)	(80)
Contingent provisions and other liabilities	219	2	16	(27)	210
Currency translation differences and financial instruments	280	(61)	11	(4)	226
Deferred tax current items	(11)	(1)	(26)	3	(35)
Tax losses and tax credit to carry forward	(1 417)	33	(413)	(11)	(1 808)
Net deferred tax liability	**2 452**	**(7)**	**(784)**	**(73)**	**1 588**

TAX LOSSES TO CARRY FORWARD	31.12.2008	31.12.2007	31.12.2006
Europe	7 396	4 811	4 567
Australasia	1 223	1 110	1 216
Asia	610	626	321
South America	1	0	8
Total	**9 230**	**6 547**	**6 112**
Indefinite carry forward period	8 620	5 921	5 791
Expires 2011, 2012 or 2013	610	626	321
Deferred tax asset	2 680	1 928	1 939
Deferred tax asset not recognized	(748)	(416)	(182)
Tax credits	56	51	51
Deferred tax asset recognised on losses and tax credits	**1 988**	**1 563**	**1 808**

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

As part of the net investment, the Group has unrealised gains and losses on long term debt in foreign currency. According to accounting principles, deferred tax is not recognised on such investments. The total unrealised tax asset is NOK 396 million at the end of 2008. The corresponding amount at the end of 2007 was an unrealised tax liability of NOK 668 million.

15. MINORITY INTERESTS

	2008	2007	2006
Minority at 1 January	365	450	713
Changes in minority owing to sales / purchases [1]	(105)	0	(11)
Share of net earnings / (loss)	(50)	(65)	(208)
Dividend paid	(2)	(4)	(5)
Currency translation differences	61	(16)	(39)
Minority at 31 December	**269**	**365**	**450**

[1] The amount in 2006 is related to a capital reduction in Norske Skog (Thailand) Company Ltd. The amount in 2008 relates to the redemption of minority interests in Norske Skog (Hebei) Paper Co. Ltd. (NOK (113) million) and minority interests upon incorporation of Xynergo AS in Norway (NOK 8 million).

16. EARNINGS PER SHARE

	2008	2007	2006
Net profit / loss for the year attributable to equity holders of the Company in NOK million	(2 715)	(618)	(2 809)
Weighted average number of shares in 1 000 [1]	189 501	189 411	189 258
Basic and diluted earnings per share in NOK [1]	**(14.33)**	**(3.26)**	**(14.84)**

[1] There are no delution effects in 2008, 2007 or 2006.

17. DIVIDEND PER SHARE

No dividend was paid for 2007, and the dividend paid for 2006 was NOK 5.50 per share (total NOK 1 045 million). The Board of Directors recommends that no dividend should be disbursed for the accounting year 2008. The dividend decision will be made by the Annual General Meeting on 23 April 2009.

18. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Sikon Øst ASA, Norway	NOK	50 000	2	2 000
Other shares, booked value below NOK 1 million	NOK			7 279
Total				**9 279**

SHARES IN SUBSIDIARIES

SHARES IN NORWEGIAN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
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 Holding AS, Lysaker	NOK	5 000	100	8 554
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100	15 264 196
Reparco Global Holding AS, Lysaker	NOK	100	100	120
NSI Focus AS, Lysaker	NOK	100	100	100
Wood og Logistics AS, Lysaker	NOK	3 000	72	2 175
Xynergo AS, Hønefoss	NOK	1 000	71	21 314
Total				**17 491 611**

SHARES IN FOREIGN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Norske Skog Golbey SA, Golbey, France	EUR	253 164	100	2 063 850
Norske Skog France sarl., Paris, France	EUR	235	100	7 939
Norske Skog Europe Recovered Paper NV, Antwerp, Belgium	EUR	62	99.9	493
Norske Skog Belgium B.V., Antwerp, Belgium	EUR	480	100	3 235
Norske Skog Logistics NV, Antwerp, Belgium	EUR	62	100	540
Norske Skog Bruck GmbH, Bruck, Austria	EUR	1 817	99.9	165 918
Norske Skog Österreich GmbH, Graz, Austria	EUR	150	100	1 292
Norske Skog Deutschland GmbH, Wiesbaden, Germany	EUR	520	100	10 063
Norske Skog Walsum GmbH, Duisberg, Germany	EUR	150 025	100	1 490 197
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100	2
Markproject Ltd., London, United Kingdom	GBP	300	100	0
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	45	100	401
Norske Skog Holdings B.V., Amsterdam, The Netherlands	EUR	170 100	100	1 545 322
Nornews Portugal LDA, Lisbon, Portugal	EUR	400	75	0
Norske Skog Espana S.A., Madrid, Spain	EUR	90	100	3 607
Norske Skog (Ireland) Ltd., Clonmel, Ireland	EUR	3	100	0
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	50	100	193
Norske Skog Danmark ApS, Værløse, Denmark	DKK	200	100	0
NSI Forsikring A/S, Hvidovre, Denmark	DKK	54 000	100	58 531
Norske Skog Italia srl., Milan, Italy	EUR	10	95	84
Norske Skog Steti a.s., Steti, Czech Republic	CZK	573 100	100	52 216
Norske Skog Czech & Slovak Republic spol. s.r.o., Steti, Czech Republic	CZK	495	100	0
Norske Skog Jämtland AB, Trångsviken, Sweden	SEK	200	100	780
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	CYP	1	95	0
Norske Skog Polska Sp. z.o.o., Warsaw, Poland	PLN	50	100	0
Norske Skog Hungary Kft., Budapest, Hungary	HUF	3 000	100	0
Norske Skog Adria d.o.o., Ljubljana, Slovenia	EUR	21	100	0
Norske Skog Pan Asia Co. Pte. Ltd., Singapore	USD	723 322	100	6 239 989
Norske Skog Japan Co. Ltd., Tokyo, Japan	JPY	3 000	100	0
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia	MYR	5 007	100	185 430
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	BRL	110 269	99.9	1 137 613
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	0.1	614
THP Paper Company, Seattle, USA	USD	0	100	0
Total				**12 968 309**
Total shares in subsidiaries owned by the parent company				**30 459 920**

SHARES IN OTHER COMPANIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Fletcher Paper Sales North America Inc., Delaware, USA	USD	10	100
Forest Terminals Corporation, California, USA	USD	5	100
Norske Skog (USA) Inc., Southport, USA	USD	2 200	100
Norske Skog US Recovered Paper Inc., USA	USD	250	100
Norske Skog (Australasia) Pty Limited, Sydney, Australia	AUD	21 000	100
Norske Skog (Australia) No. 1 Pty Ltd., Sydney, Australia	AUD	10	100
Norske Skog (Australia) No. 2 Pty Ltd., Sydney, Australia	AUD	0	100
Norske Skog Asia Pacific Pte Ltd., Singapore	AUD	565 078	100
Norske Skog Capital (Australia) Pty Ltd., Sydney, Australia	AUD	223 000	100
Norske Skog Industries Australia Limited, Australia	AUD	0	100
Norske Skog Paper Mills (Australia) Limited, Tasmania, Australia	AUD	7 539	100
Pan Asia Paper Sales (Australasia) Pty. Ltd., Australia	AUD	0	100
Norske Skog Holdings (NO.1) Limited, Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (NO.2) Limited, Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (NO.3) Limited, Auckland, New Zealand	NZD	1	100
Norske Skog Tasman Limited, Auckland, New Zealand	NZD	600 000	100
33027 YUKON INC., Vancouver BC, 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	1 353 843	100
Crown Forest Holdings (1995) Inc., Whitehorse, Canada	CAD	154 360	100
Crown Forest Industries Limited, Whitehorse, Canada	CAD	1 691 813	100
NS Industries Canada Limited, BC, Canada	CAD	567 380	100
Tasman Equipment Ltd., Vancouver, Canada	CAD	1	100
Norske Skog CI Ltd., Georgetown, Caymen Islands	CHF	1 300 000	100
Norske Skog Forest Holdings AG, Zürich, Switzerland	CHF	63 173	100
Norske Skog Holdings (Schweiz) AG, Zürich, Switzerland	CHF	100 100	100
Norske Skog Overseas Holdings AG, Zürich, Switzerland	CHF	35 000	100
Nornews Portugal LDA, Lisbon, Portugal	EUR	400	25
Norske Skog Italia srl., Milan, Italy	EUR	10	5
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	CYP	1	5
Norske Skog Parenco B.V., Renkum, The Netherlands	EUR	75 456	100
Parenco Finance B.V., Renkum, The Netherlands	EUR	18	100
Reparco Nederland B.V., Nijmegen, The Netherlands	EUR	227	100
Reparco Nijmegen B.V., Nijmegen, The Netherlands	EUR	18	100
Reparco Randstad B.V., Gravenhage, The Netherlands	EUR	14	100
Reparco Renkum B.V., Renkum, The Netherlands	EUR	18	100
Reparco Trading B.V., Nijmegen, The Netherlands	EUR	46	100
Reparco Rohstoffverwertung GmbH, Essen, Germany	EUR	130	100
Reparco UK Limited, United Kingdom	GBP	20	100
Norske Skog Industries (UK) Ltd., London, United Kingdom	GBP	0	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	1 817	0.1
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Europe Recovered Paper NV, Antwerp, Belgium	EUR	62	0.1
Eidsverket AS, Lysaker, Norway	NOK	620	100
Klosterøya AS, Lysaker, Norway	NOK	10 100	100
Oxenøen Eiendom AS, Lysaker, Norway	NOK	1 120	100
Oxenøen Utvikling AS, Lysaker, Norway	NOK	1 120	100
Ranheim Eiendomsutvikling AS, Lysaker, Norway	NOK	120	100
Enerpar-Energias do Parana Ltda., Jaguariaíva, Brazil	BRL	1	99.9
Norske Skog Florestal Ltda., Jaguariaíva, Brazil	BRL	89 400	99.9
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	99.9
Norske Skog (Hebei) Paper Co. Ltd., Zhaoxian, China	CNY	849 978	100
Norske Skog Sales (Hong Kong) Ltd., Hong Kong, China	HKD	0	100
Shanghai Norske Skog Pan Asia Potential Paper Co. Ltd., Shanghai, China	CNY	365 070	56
Norske Skog (Thailand) Company Ltd., Bangkok, Thailand	THB	1 083 750	94
Norske Skog PanAsia (Shanghai) Commercial Consulting Co. Ltd., China	CNY	1 126	67
Reparco Trading (Tianjin) Co. Ltd., China	USD	200	100

19. RECEIVABLES AND OTHER NON-CURRENT ASSETS

CURRENT RECEIVABLES	NOTE	31.12.2008	31.12.2007	31.12.2006
Accounts receivable		3 681	3 558	3 849
Provision for bad debt		(160)	(179)	(161)
Other receivables		348	379	271
Prepaid VAT		16	53	40
Total		**3 885**	**3 811**	**3 999**
OTHER NON-CURRENT ASSETS				
Loans to employees		25	31	37
Long-term shareholdings		14	25	22
Miscellaneous non-current receivables		91	242	249
Hedging derivatives	22	916	140	20
Pension plan assets		140	91	97
Total		**1 186**	**529**	**425**

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

AGEING ANALYSIS OF RECEIVABLES	31.12.2008	31.12.2007	31.12.2006
Not due	3 390	2 863	3 705
0 to 3 months	459	618	240
3 to 6 months	52	353	126
Over 6 months	144	156	89
Total [1]	**4 045**	**3 990**	**4 160**

[1] Does not include provision for bad debt.

The maximum credit risk exposure as at 31 December 2008 is the fair value of each class of receivable mentioned above.

20. SPECIFICATION OF BALANCE SHEET ITEMS

	NOTE	31.12.2008	31.12.2007	31.12.2006
INVENTORIES				
Raw materials and other production input		1 415	1 230	1 157
Semi-manufactured materials		19	57	27
Finished goods		1 269	1 444	1 504
Total		**2 703**	**2 731**	**2 688**
OTHER CURRENT ASSETS				
Prepaid expenses		167	108	114
Derivatives	22	5 261	5 417	367
Current investments	13, 21	159	94	88
Total		**5 587**	**5 619**	**569**
OTHER CURRENT LIABILITIES				
Commodity derivatives	22	538	685	174
Accruals emission rights		83	14	34
Other non-interest bearing debt		233	155	600
Total		**855**	**854**	**808**
OTHER NON-CURRENT LIABILITIES				
Dismantling provision		1 651	997	1 071
Environmental provision		317	280	264
Restructuring provision		31	48	87
Deferred recognition of public grants		168	159	188
Other non-interest bearing debt		59	203	146
Total		**2 226**	**1 687**	**1 756**

21. LIQUID ASSETS

	NOTE	31.12.2008	31.12.2007	31.12.2006
Cash and cash equivalents		6 036	1 792	397
Current investments	13, 20	159	94	88
Total liquid assets		**6 195**	**1 886**	**485**

22. FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING

Financial Risk Factors

Norske Skog is exposed to various financial risk factors through its operating activities, including market risk (currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. Corporate Treasury seeks to minimise losses and volatility on the Group's earnings caused by adverse market movements. Moreover, Corporate Treasury monitors and manages financial risk based on internal policies and standards set forth by corporate management and approved by the Board of Directors. These written policies provide principles for the overall risk management as well as standards for managing exchange rate risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored by Risk Controlling. There has been no breach of these policies during 2008, 2007 or 2006.

Market Risk

Interest rate risk

The goal for managing interest rate risk has been to secure low interest cost over time and to contribute to an acceptable management of financial risk exposure. In the past, Norske Skog considered that a floating interest rate on its corporate debt would reduce risk and interest cost in the long run. This was related to the correlation between Norske Skog's earnings and economic cycles, where interest rates are normally high during boom conditions and low during recessions. However, predictability of interest costs will prove important in a situation where there is a risk that corporate earnings will deteriorate due to sector specific market conditions. At 31 December 2008, Norske Skog had an even mix of fixed and floating rate debt, to ensure stability and predictability of interest costs.

Interest rate swap contracts are used for hedging changes in the fair value of fixed rate debt, and changes in cash flows on variable rate debt. Moreover, such contracts are also in some cases used to adjust the duration of interest rate exposure in individual currencies. As a measure of interest rate sensitivity, duration is used to manage the financial risk on the debt portfolio.

INTEREST BEARING ASSETS AND LIABILITIES WITH CORRESPONDING HEDGES

	31.12.2008			31.12.2007			31.12.2006		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest bearing liabilities	9 029	11 268	20 297	8 051	10 140	18 191	8 353	9 296	17 649
Interest bearing assets	(6 195)	0	(6 195)	(1 886)	0	(1 886)	(397)	0	(397)
Net exposure before hedging	**2 834**	**11 268**	**14 102**	**6 165**	**10 140**	**16 305**	**7 956**	**9 296**	**17 252**
Fair Value Hedge	7 229	(7 229)	0	6 323	(6 323)	0	6 866	(6 866)	0
Cash flow Hedge	(3 009)	3 009	0	(2 430)	2 430	0	(2 061)	2 061	0
Net exposure after hedging	**7 054**	**7 048**	**14 102**	**10 058**	**6 247**	**16 305**	**12 761**	**4 491**	**17 252**

All amounts presented in the table are notional amounts. Total interest bearing liabilities will therefore differ from booked total amounts due to bond discount/premiums, unrealised effects from fair value hedging, and currency effects from forward contracts (see Note 23). Floating rate exposure is calculated without accounting for potential future refinancing.

Interest rate risk - fair value hedge

In order to mitigate the risk of changes in fair value of the fixed income bonds denominated in NOK, EUR and USD caused by movements in corresponding market interest rates, Norske Skog enters into interest rate swap contracts whereby the Group pays floating rate and receives fixed interest rate. The main purpose of the fair value hedge is to synthetically convert fixed rate debt into floating rate debt, and thereby offset movements in fair value of the fixed rate bonds with opposite movements in fair value of the interest rate swaps. Reference rates for NOK, EUR and USD are Nibor, Euribor and US Libor respectively. Changes in credit spreads are not hedged.

Changes in the fair value of derivatives which are designated and qualify as fair value hedges in accordance with IAS 39 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.

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

	2008	2007	2006
Changes in fair value of interest rate swaps	768	165	(171)
Changes in fair value of underlying debt (hedged item)	(759)	(164)	171
Ineffectiveness recognised in the income statement [1]	(9)	1	0

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

Interest rate risk - cash flow hedge

Floating rate liabilities expose Norske Skog to cash flow interest rate risk which means that interest payments will fluctuate based on changes in market interest rates. The cash flow risk associated with variable rate debt is mitigated by entering into interest rate swaps whereby Norske Skog receives floating and pays fixed interest rate. Norske Skog has hedged the floating interest payments of EUR denominated debt where the reference rate is 3-month Euribor. The underlying hedged item has a notional amount of EUR 500 million of which EUR 305 million has been hedged at 31 December 2008 (EUR 305 million hedged at 31 December 2007 and EUR 250 million hedged at 31 December 2006). Gains and losses on interest rate swap contracts recognised in equity will be continuously released to the income statement until maturity of the hedged item. The underlying hedged item and corresponding swap contracts mature in 2010.

The effective portion of the change in the fair value of derivatives which are designated and qualify as cash flow hedges is recognised in equity. The gain or loss related to the ineffective portion is recognised in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods where the hedged item will affect profit or loss. When the forecasted transaction results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

Certain derivatives do not qualify for hedge accounting. The change in fair value of any instruments which do not qualify for hedge accounting is immediately recognised in the income statement.

CHANGE IN FAIR VALUE OF INTEREST RATE DERIVATIVES DESIGNATED AS CASH FLOW HEDGE

	2008	2007	2006
Changes in fair value of interest rate swaps	(78)	12	22
The effective portion recognised in equity	(78)	12	22
Ineffectiveness recognised in the income statement [1]	0	0	0

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

Interest rate sensitivity analysis

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

Floating rate debt which is not designated as a hedged item in cash flow hedging is exposed to changes in market interest rates, i.e. the interest cost or interest income associated with such instruments will fluctuate based on changes in market rates. These changes are accounted for in the sensitivity analysis. The result is based on the assumption that all other factors are kept constant.

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

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

As a result of cash flow hedge accounting, any changes in fair value of interest rate swaps that are designated as cash flow hedges on the Group's floating rate borrowings will only affect equity in the sensitivity analysis.

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

The interest rate sensitivity analysis is based on a 50 basis points parallel shift in the yield curve for each relevant currency. Following a 50 basis points downward / upward parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK 4 million (NOK 21 million at 31 December 2007 and NOK 30 million at 31 December 2006) higher /lower. Change in net interest payments accounts for NOK 20 million, and the total change in market values of derivatives carried at fair value through profit and loss accounts for NOK (16) million. The sensitivity on net earnings is lower as at 31 December 2008 compared to 31 December 2007 and 31 December 2006 because of higher interest income from floating rate deposits at 31 December 2008.

Equity would have been NOK 22 million (NOK 15 million at 31 December 2007 and NOK 19 million at 31 December 2006) lower / higher following a 50 basis points downward /upward parallel shift as a result of change in market values of interest rate swaps designated as cash flow hedge of floating rate debt.

Exchange rate risk

Translation risk - net investment hedge

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

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

Norske Skog's net investment hedging is carried out in accordance with IAS 39. Hedges of net investment in foreign subsidiaries are accounted for similarly to cash flow hedges, which means that any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the income statement. The loss from net investment hedging in 2008 was NOK (3 216) million of which NOK (2 405) million was booked against equity (gain of NOK 1 047 million of which NOK 793 million was booked against equity as at 31 December 2007 and gain of NOK 66 million of which NOK 23 million was booked against equity as at 31 December 2007). The ineffectiveness is higher in 2008 than in 2007 and 2006 because a larger part of the liability portfolio did not qualify for hedge accounting. The foreign exchange gains and losses from such liabilities are recognised in the income statement under Financial Items. During 2008, a realised gain of NOK 61 million was reversed from equity to the income statement due to the sale of the mills in South Korea.

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

	2008	2007	2006
Changes in spot value of financial instruments [1]	(3 216)	1 047	66
The effective portion recognised in equity	(2 405)	793	23
Ineffectiveness recognised in the income statement [2]	(811)	254	43

[1] Includes the change in the value of FX forward contracts, cross-currency swap contracts and bonds. Norske Skog only uses hedge accounting for the part of changes in fair value attributable to spot FX movements, i.e. changes in fair value attributable to the interest rate element of derivatives are recognised in the income statement.

[2] Includes indirect economic hedge of MYR and CNY for which there is no hedge accounting.

Transaction risk - cash flow hedge

The group has revenues and costs in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk is the difference in the future value of outgoing or incoming funds in the various currencies used by the Group. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. 25 % to 100 % of the company's 12-month cash flow exposure is hedged at any time using forward contracts and currency options. The result of the hedging is included under financial items in the consolidated income statement. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a loss of NOK (316) million in 2008 (gain of NOK 446 million at 31 December 2007 and loss of NOK (112) million at 31 December 2006). Over time, currency loss or earnings is expected to offset increased or reduced future net operational earnings.

Foreign exchange sensitivity analysis on financial instruments

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

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

Currency derivatives and foreign currency debt that are designated as net investment hedges and qualify for hedge accounting according to IAS 39 will only affect equity. Other currency derivatives that are measured at fair value through profit and loss will affect the income statement. These effects stem mainly from currency derivatives designated as hedging of the Group's 12-month rolling cash flow exposure, and financial liabilities managed as an economic net investment hedge 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 2008, if the NOK had appreciated 10 % against all currencies to which the Group has significant exposure, post-tax profit from financial instruments would have been NOK 190 million higher (NOK 244 million higher at 31 December 2007 and NOK 453 higher at 31 December 2006). If the NOK had depreciated 10 % against all currencies to which the Group has significant exposure, post-tax profit from financial instruments would have been NOK 177 million lower (NOK 241 million lower at 31 December 2007 and NOK 462 million lower at 31 December 2006). The non-linearity on post-tax profit from financial instruments is due to changes in the fair value of options. The sensitivity on the income statement is mainly caused by changes in the fair value of derivatives designated as cash flow hedge, and foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting. Due to a relatively larger share of liquid assets which have effect on the income statement the sensitivity is minor in 2008 compared to 2007 and 2006.

Given a 10 % appreciation/depreciation of the NOK, equity would have been NOK 1 048 million higher/lower (NOK 969 million higher/lower at 31 December 2007 and NOK 1 026 higher/lower at 31 December 2006) as a result of foreign exchange gains/losses on financial instruments designated as net investment hedges. The sensitivity on equity excludes the effects from the above-calculated sensitivity on the income statement.

Commodity risk

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

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

Changes in fair value of commodity contracts are unrealised gains or losses represented by future gains or losses, where the price is fixed before delivery. Some commodity contracts are bilateral contracts or embedded derivatives in bilateral contracts for which there 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 inactive markets.

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

Contracted volumes have rated counterparts.

Sensitivity analysis for commodity contracts

Trading and hedging mandates have been established for energy activity. Most financial trading and hedging activities are carried out on Nord Pool, while some financial hedging is carried out bilaterally in the local markets of the country, such as in New Zealand. Currency effects arise when contract values nominated in foreign currencies are translated into the functional currency.

COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39

		FAIR VALUE 31.12.2008	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25 %	4 360	(3 170)	3 177
Currency [1]	change 10 %	4 360	173	(161)

		FAIR VALUE 31.12.2007	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25 %	4 993	(2 408)	2 408
Currency	change 10 %	4 993	1 667	(1 667)

		FAIR VALUE 31.12.2006	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25 %	156	(168)	168
Currency	change 10 %	156	140	(140)

[1] Includes changes in currency options in 2008. For 2007 and 2006 this effect is shown among the embedded derivatives.

Sensitivity analysis for embedded derivatives

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

EMBEDDED DERIVATIVES

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

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

		FAIR VALUE 31.12.2006	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10 %	(54)	(186)	186
USD / BRL	change 10 %	0	0	0
Price index	change 2.5 %	(54)	176	(177)

Fair value of derivatives

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

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

The electricity price for the long-term electricity contracts in Norway, Brazil and New Zealand is not directly observable in the market for the whole contract length. A change in the forecast to a reasonably possible alternative would change fair value significantly. For the energy contracts in Norway and in New Zealand, a reasonably possible alternative would be a parallel shift downwards of the forward curve of 5 %. In Brazil a reasonably possible alternative would be a parallel shift downwards of the forward curve of 10 % in the first half of the contract length. This discount would then gradually decrease to be zero at the end of the contract.

FAIR VALUE OF COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39

	31.12.2008	31.12.2007	31.12.2006
Observable market input	2 483	2 418	156
Non-observable market input	1 877	2 574	0
Total	**4 360**	**4 992**	**156**

FAIR VALUE OF COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39 GIVEN A REASONABLY POSSIBLE ALTERNATIVE

	31.12.2008	31.12.2007	31.12.2006
Non-observable market input	1 830	2 296	0

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

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

DERIVATIVES	31.12.2008		31.12.2007		31.12.2006	
NET INVESTMENT HEDGING	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Forward contracts	39	(2)	81	(1)	16	(5)
Cross-currency contracts	139	(22)	31	(74)	10	(253)
Total	**178**	**(24)**	**112**	**(75)**	**26**	**(258)**
FAIR VALUE HEDGING [1]						
Interest rate swaps	916	(33)	140	(25)	20	(69)
Total	**916**	**(33)**	**140**	**(25)**	**20**	**(69)**
CASH FLOW HEDGE [2]						
Interest rate swaps	0	(44)	34	0	22	0
Total	**0**	**(44)**	**34**	**0**	**22**	**0**
HELD FOR TRADING [3]						
Interest rate swaps	0	(76)	38	(1)	16	(2)
Forward rate agreements	9	(15)	2	(2)	6	(5)
Currency options	127	(230)	97	(4)	2	(15)
Forward contracts	56	(288)	138	(14)	58	(89)
Commodity contracts	4 844	(484)	5 062	(70)	267	(111)
Embedded derivatives	5	(55)	6	(495)	9	(63)
Total	**5 041**	**(1 148)**	**5 343**	**(585)**	**357**	**(285)**
TOTAL DERIVATIVES						
Interest rate swaps	916	(153)	211	(26)	57	(71)
Forward rate agreements	9	(15)	2	(2)	6	(5)
Currency options	127	(230)	97	(4)	2	(15)
Forward contracts	95	(290)	220	(15)	74	(94)
Cross-currency contracts	139	(22)	31	(74)	10	(253)
Commodity contracts	4 844	(484)	5 062	(70)	267	(111)
Embedded derivatives	5	(55)	6	(495)	9	(63)
Total	**6 135**	**(1 249)**	**5 628**	**(685)**	**425**	**(612)**

[1] The notional principal amount of the underlying debt in the fair value hedge was NOK 5 670 million (NOK 6 323 million in 2007 and NOK 6 866 in 2006).
[2] The notional principal amount of the underlying debt in the cash flow hedge was NOK 3 009 million (NOK 2 430 million in 2007 and NOK 2 061 million in 2006).
[3] Includes: active management portfolio, embedded derivatives in physical contracts, financial commodity hedging contracts, physical commodity contracts within the scope of IAS 39 and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through the income statement.

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	Note	Financial assets at fair value through profit or loss[1]	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest bearing non-current liabilities	23	0	18 820	0	18 820
Interest bearing current liabilities	26	0	2 339	0	2 339
Trade and other payables		710	4 289	0	4 999
Other current liabilities	20	538	0	316	855
Total		**1 248**	**25 448**		

[1] Out of which none are designated as at fair value through profit or loss.

31 December 2007	Note	Financial assets at fair value through profit or loss[1]	Loans and receivables	Available for sale	Hedging instruments	Non-financial assets	Total
Other non-current assets	19	0	31	25	140	333	529
Receivables	19	0	3 758	0	0	53	3 811
Cash and cash-equivalents	21	0	1 792	0	0	0	1 792
Other current assets	20	5 511	0	0	0	107	5 618
Total		**5 511**	**5 581**	**25**	**140**		

	Note	Financial assets at fair value through profit or loss[1]	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest bearing non-current liabilities	23	0	17 294	0	17 294
Interest bearing current liabilities	26	0	1 141	0	1 141
Trade and other payables		120	3 582	0	3 702
Other current liabilities	20	565	0	289	854
Total		**685**	**22 017**		

[1] Out of which none are designated as at fair value through profit or loss.

31 December 2006	Note	Financial assets at fair value through profit or loss[1]	Loans and receivables	Available for sale	Hedging instruments	Non-financial assets	Total
Other non-current assets	19	0	37	22	20	346	425
Receivables	19	0	3 959	0	0	40	3 999
Cash and cash-equivalents	21	0	397	0	0	0	397
Other current assets	20	455	0	0	0	114	569
Total		**455**	**4 393**	**22**	**20**		

	Note	Financial assets at fair value through profit or loss[1]	Other financial liabilities at amortised cost	Non-financial assets	Total
Interest bearing non-current liabilities	23	0	14 712	0	14 712
Interest bearing current liabilities	26	0	3 114	0	3 114
Trade and other payables		438	3 395	0	3 833
Other current liabilities	20	174	0	634	808
Total		**612**	**21 221**		

[1] Out of which none are designated as at fair value through profit or loss.

FINANCIAL ASSETS AND LIABILITIES

	31.12.2008		31.12.2007		31.12.2006	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Hedging derivatives	916	916	140	140	20	20
Miscellaneous other non-current assets	270	270	389	389	405	405
Other non-current assets	**1 186**	**1 186**	**529**	**529**	**425**	**425**
Accounts receivable	3 521	3 519	3 379	3 376	3 688	3 685
Other receivables	348	348	379	379	271	271
Prepaid VAT	16	16	53	53	40	40
Receivables	**3 885**	**3 883**	**3 811**	**3 808**	**3 999**	**3 996**
Cash and cash equivalents	6 036	6 036	1 792	1 792	397	397
Derivatives	5 262	5 262	5 417	5 417	367	367
Current investments	159	159	94	94	88	88
Non-financial current assets	166	166	107	107	114	114
Other current assets	**5 587**	**5 587**	**5 618**	**5 618**	**569**	**569**
Interest bearing non-current liabilities [1]	18 820	12 492	17 293	14 635	14 712	14 539
Interest bearing current liabilities [2]	2 339	2 320	1 141	1 141	3 114	3 114
Total interest bearing liabilities	**21 159**	**14 812**	**18 434**	**15 776**	**17 826**	**17 653**
Trade and other payables	4 999	4 999	3 702	3 702	3 833	3 833
Commodity derivatives	538	538	565	565	174	174
Non-financial current liabilities	316	316	289	289	634	634
Other current liabilities	**855**	**855**	**854**	**854**	**808**	**808**

[1] The fair value of non-current bank loan debt is based on cash flows discounted using swap rate, plus the credit default swap (CDS). The fair value of foreign bonds is calculated using price indications from banks or observations of our buy-backs of bonds in the fourth quarter of 2008. The fair value of Norwegian bonds is based on published assessment values at 1 January 2009.

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

At the end of the year 2008, the financial markets were characterised by high volatility which brings uncertainty 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.

Liquidity risk

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

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long-term cash flows. Cash flow forecasts include cash flows stemming from operations, investments, financing activities and financial instruments. The Group had liquid assets of NOK 6 195 million at 31 December 2008 (NOK 1 886 million at 31 December 2007 and NOK 485 million at 31 December 2006) and unused credit facilities of NOK 3 946 million (NOK 5 890 million at 31 December 2007 and NOK 5 600 million at 31 December 2006). See Note 23 Interest-bearing non-current liabilities for maturity of facilities.

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

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

MATURITY OF FINANCIAL LIABILITIES AND FINANCIAL INSTRUMENTS

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

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

31 DECEMBER 2006	0-6 MONTHS	6-12 MONTHS	2008-2009	2010-2011	> 2011
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest bearing debt	(1 238)	(1 896)	(2 740)	(8 795)	(2 980)
Projected interest payment on interest bearing debt	(463)	(539)	(1 613)	(1 043)	(2 305)
Trade payables	(2 455)	(940)	0	0	0
Total non-derivative financial instruments	**(4 156)**	**(3 375)**	**(4 353)**	**(9 838)**	**(5 285)**
DERIVATIVE FINANCIAL INSTRUMENTS					
NET SETTLED DERIVATIVE INSTRUMENTS					
Interest rate swaps - Net Cash flows	(46)	61	24	10	(77)
Forward rate agreements	0	0	0	0	0
Commodity contracts	54	10	12	0	0
GROSS SETTLED DERIVATIVE INSTRUMENTS					
Foreign exchange contracts - Outflows	(5 507)	(1 946)	(906)	0	0
Foreign exchange contracts - Inflows	5 455	1 962	930	0	0
Cross currency swaps - Outflows	(272)	(1 385)	(551)	(805)	(3 621)
Cross currency swaps - Inflows	272	1 354	536	806	3 461
Total derivative financial instruments	**(44)**	**56**	**45**	**11**	**(237)**
Total	**(4 200)**	**(3 319)**	**(4 308)**	**(9 827)**	**(5 522)**

Credit risk

Norske Skog makes a credit evaluation of all financial trading counterparties. The counterparty must be at least an A-rated company. For non-rated companies, calculations are made whereby the minimum criteria for key figures is the same as for an A-rated company. Based on the rating and other calculations, a limit on credit exposure is established for all counterparties. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. As of 31 December 2008, all counterparties were rated single A or above (unchanged from 2007 and 2006). The maximum credit risk arising from financial instruments is represented by the carrying amount of financial assets on the balance sheet. This includes derivatives with positive market value except embedded derivatives. Embedded derivatives are not subjected to credit risk as there are no future cash flows associated with such derivatives.

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

23. INTEREST-BEARING NON-CURRENT LIABILITIES

	31.12.2008	31.12.2007	31.12.2006
Bonds	13 618	11 651	7 830
Debt to financial institutions	5 200	5 643	6 882
Total	**18 820**	**17 294**	**14 712**
Senior non-current debt in NOK	1 050	2 096	1 421
Senior non-current debt in foreign currencies	17 769	15 198	13 291
Total	**18 820**	**17 294**	**14 712**

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

The average interest rate as at 31 December 2008 was 7.6 % (6.0 % at 31 December 2007 and 5.5 % at 31 December 2006).

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

SENIOR NON-CURRENT DEBT BY CURRENCY, CURRENT PORTION INCLUDED	CURRENCY AMOUNT 31.12.2006	EXCHANGE RATE 31.12.2006	NOK 31.12.2006
USD	1 200	6.26	7 509
EUR	601	8.24	4947
NZD	26	4.40	115
KRW	55 000	0.01	369
SGD	41	4.08	167
CNY	230	0.80	184
Total debt in foreign currencies in NOK			**13 291**
Total senior non-current debt in NOK			**1 421**
Total non-current debt			**14 712**

DEBT REPAYMENT

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

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

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

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

Maturity of the group´s total debt at 31 December 2006

	DEBT BANKS	BONDS	TOTAL
2007	1 345	1 769	3 114
2008	244	101	345
2009	1 383	1 011	2 395
2010	4 476	269	4 745
2011	317	3 753	4 070
2012	163	0	163
2014	0	200	200
2015	115	1 251	1 366
2017	0	0	0
2019	0	0	0
2033	0	1 251	1 251
Total	**8 044**	**9 605**	**17 649**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, unrealised currency effects on forward contracts and fair value hedging. Premiums or discounts on issued bonds will be amortised in the income statement over the lifetime of the issued bonds. At 31 December 2008, the accounts included a premium of NOK 9 million (discount of NOK 49 million at 31 December 2007 and a discount of NOK 25 million at 31 December 2006). See Note 29 for loans secured by mortgage.

The repayment schedule does not include unrealised currency effects on forward contracts. This decreased debt by NOK 63 million at 31 December 2008 (increased debt by NOK 153 million at 31 December 2007 and increased debt by NOK 183 million at 31 December 2006). In addition, the fair value hedging effect increased long-term interest-bearing debt by NOK 916 million (NOK 140 million at 31 December 2007 and NOK 20 million at 31 December 2006).

Norske Skog's liquidity reserve consists mainly of a credit facility of EUR 400 million which matures in 2012. The facility (NOK 3 946 million) was undrawn at 31 December 2008 (NOK 5 890 million was undrawn at 31 December 2007 and NOK 5 600 at 31 December 2006).

At 31 December 2008, the Company's holding of its own bonds amounted to NOK 531 million of Norwegian bonds and USD 151 million on bonds in foreign currency (NOK 413 million in total at 31 December 2007 and NOK 373 million at 31 December 2006). This is deducted from interest-bearing debt in NOK.

Norske Skog has made declarations of negative pledge when raising long-term loans. Some of the loan contracts also contain requirements relating to financial solvency ratios and other requirements which are common in syndicated loan agreements. These are:

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

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

24. ENVIRONMENT

During 2008 NOK 164 million was invested in environmental measures at Norske Skog's mills. The equivalent amount for 2007 and 2006 were NOK 279 million and NOK 128 million. Most of the expenditure in 2008 (63 %) went towards investments in equipment for increasing the filler content in paper products. Substantial amounts were also spent on energy saving (10 %), treatment of water and effluent (10 %) and on chemical (4 %) and waste handling (3 %). Other expenditure was made on items such as reducing air emissions and noise reduction.

In connection with the divestment of businesses during recent years, surveys have been carried out in some areas where pollution might be suspected. This has been done partly as a matter of routine and partly in response to government orders. As of today, none of these surveys have resulted in site clean up requirements which will incur major costs for the Group.

Norske Skog developed group guidelines during 2005 for identifying possible environmental obligations arising from past activities. The guidelines specify requirements for documenting the history of the facility, a description of its locality, legal obligations which applies, the impact of the activity now and in the past, and estimated costs for measures that should be applied.

See also Note 25 Provisions for accounting information related to environmental provisions.

25. PROVISIONS

AT 31 DECEMBER 2008, NORSKE SKOG HAS RECOGNISED THE FOLLOWING MAJOR CURRENT AND NON-CURRENT PROVISIONS IN THE BALANCE SHEET

Dismantling provision

A provision of NOK 1 651 million related to dismantling of production material related to future closedown of production facilities. The total amount is non-current and will only be realised at the time of a potential future close-down of any of the Norske Skog production units. The provision is the net present value of the future estimated cost, calculated by using a long term risk free interest rate. The periodic unwinding of the discount is recognised in the income statement as a financial item. The opposite entry for dismantling provision and change in provision estimates is property, plant and equipment. 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 1 percent point increases the provision by approximately NOK 160 million (10 %) with a corresponding increase of future depreciation on property plant and equipment.

CHANGE IN DISMANTLING PROVISION

Balance 1 January 2008	997
Recorded provision	99
Amounts used	0
Amounts reversed	0
Disposed activities	(48)
Changes in discounted amount and discount rate	446
Currency translation difference	157
Balance 31 December 2008	**1 651**

Restructuring provision

The restructuring provision related to staff reduction measures initiated in 2006 and 2008 amounts to NOK 148 million. This provision is expected to be realised through staff reduction processes in 2009 and 2010. The current portion of the restructuring provision is NOK 117 million and NOK 31 million is non-current.

CHANGE IN RESTRUCTURING PROVISION

Balance 1 January 2008	199
Recorded provision	201
Amounts used	(185)
Disposed activities	(79)
Currency translation difference	12
Balance 31 December 2008	**148**

Environmental provision

A provision of NOK 341 million has been made related to future environmental obligations. The current portion of the obligation is NOK 24 million and NOK 317 million is non-current. The total provision in 2007 and 2006 respectively was NOK 304 million and NOK 274 million. This provision is related to estimated future costs for cleaning up any pollution of the environment caused by Norske Skog production units. This provision will mainly be realised in a future period at a potential shut down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local governments may also lead to a realisation of this provision at a earlier point in time. See also Note 24 Environment.

CHANGE IN ENVIRONMENTAL PROVISION

Balance 1 January 2008	304
Recorded provision	10
Amounts used	(6)
Amounts reversed	(9)
Disposed activities	0
Changes in discounted amount and discount rate	41
Currency translation difference	1
Balance 31 December 2008	**341**

The carrying value of the provision is the best estimate made by measuring the expected value on the specific obligations, discounted to present value by using a long-term risk-free interest rate when the time value of money is material. Changes in factors included in the expected value will impact the carrying value of the obligations. To illustrate the sensitivity, a reduction in the future discount rate by 1 percent point increases the provision by approximately NOK 40 million (12 %). Changes in accounting estimates not related to assets are recognised as operating items in the income statement, and the periodic unwinding of the discount is recognized as a financial item.

26. INTEREST-BEARING CURRENT LIABILITIES

	31.12.2008	31.12.2007	31.12.2006
Current bank debt	1 617	1 054	1 345
Bonds	722	87	1 769
Total	**2 339**	**1 141**	**3 114**

The Group has unused bank overdraft facilities of NOK 150 million (NOK 150 million at 31 December 2007 and 2006).

No restrictions are placed on the use of the facility, which expires 29 June 2009.

27. CAPITAL MANAGEMENT

Norske Skog's objective when managing capital is to safeguard the ability to continue as a going concern by maximising return on capital employed and use capital effectively. The Group aims to keep capital expenditures related to existing operations at a moderate level. Investments that significantly increase production capacity are subject to approval by the group's investment board, which prioritizes investment opportunities based on the projects estimated return on invested capital and ability to ensure stable operations, compliance with safety standards and environmental regulations.

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

The gearing at 31 December 2008, 2007 and 2006 was as follows:

	NOTE	31.12.2008	31.12.2007	31.12.2006
Interest bearing debt	23, 26	21 159	18 435	17 826
-Liquid assets	13, 21	6 195	1 886	485
-Gain on fair value hedge	22	916	140	20
Net interest-bearing debt		**14 047**	**16 409**	**17 321**
Equity less minority interest		13 362	15 592	18 100
Gearing		1.05	1.05	0.96

28. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN PROFIT / LOSS BEFORE INCOME TAXES AND CASH FLOW FROM OPERATIONS	2008	2007	2006
Profit before tax	(2 779)	235	(3 480)
Depreciation / impairments	3 408	7 718	6 534
Share of profit / (loss) in associated companies	(30)	(37)	(202)
Gain / (loss) on sale of fixed assets and other items	(322)	(36)	16
Paid taxes	(361)	(514)	(169)
Changes in receivables	172	120	93
Changes in inventories	(73)	(195)	34
Changes in current liabilities	343	(316)	(693)
Non-cash financial items	675	(542)	210
Adjustments for non-cash working capital items and translation differences [1)]	945	(4 277)	420
Net cash flow from operating activities	**1 977**	**2 166**	**2 763**

1) This amount includes NOK (64) million and 4 360 million in unrealised gain / (loss) on energy contracts in 2008 and 2007 respectively. The 2008 amount also include loss of NOK 606 million of the divestment of the two mills in South Korea (See Note 10).

29. MORTGAGES

THE FOLLOWING LOANS WERE SECURED BY MORTGAGES ON REAL PROPERTY	31.12.2008	31.12.2007	31.12.2006
Other mortgage debt	936	1 088	1 623
BOOK VALUE OF ASSETS SECURING THIS DEBT			
Property, plant and equipment	2 304	2 559	2 915

As a general principle, Norske Skogindustrier ASA and its subsidiaries do not pledge assets above a pre-defined threshold in the bank loan agreements.

30. OTHER COMMITMENTS

In 1998, Norske Skog finalised a lease-and-buyback arrangement with three American investors for PM5 and PM6 at Norske Skog Saugbrugs. The present value of the cost of the leaseback was approximately NOK 4 000 million, which is irrevocably deposited in favour of the investors. The arrangement with one of the investors was terminated in December 2008, without incurring any additional costs for the Company. Although a deposit has been made for the lease payments, Norske Skog is not exonerated from liability for payment. However, the credit risk is low because the funds shall, at all times, be deposited with a bank with minimum "A grade" rating. Deposited rental costs and prepaid rental earnings are recognized net in the balance sheet. Should Norske Skog be unable to meet the requirements of the leasing agreement, it is obliged to compensate the investors for any loss. The investors' loss will vary over the term of the lease, but is regulated by contract and will at most amount to USD 39.8 million at the end of 2008. This amount will be reduced to zero by June 2014. The possibility of Norske Skog being unable to meet the requirements of the contract is limited to extraordinary circumstances in the nature of force majeure.

In 2004 a federal class action lawsuit and a number of public lawsuits were initiated in the US against publication paper producers both in North America and in Europe, hereunder Norske Skog, relating to alleged breach of competition rules. All the lawsuits, with the exception of one public lawsuit in California, have been withdrawn on a voluntary basis by the prosecutors. The lawsuits have been closed without any kinds of contractual obligations or pledges from Norske Skog. Norske Skog anticipates that the last pending lawsuit in California will be closed on the same terms as the other lawsuits that were initiated.

31. RELATED PARTIES

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

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

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 2008 amounted to NOK 21 million (NOK 18 million in 2007), and total amounts payable to the Norske Skog Group amounted to NOK 4 million as at 31 December 2008 (NOK 3 million as at 31 December 2007).

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

32. EVENTS AFTER THE BALANCE SHEET DATE

Temporary capacity curtailments in 2009

Norske Skog has decided to reduce the newsprint production capacity in Europe by approximately 200 000 tonnes in 2009. The magazine paper production capacity will be reduced by approximately 75 000 tonnes in 2009. The measures are temporary and will be divided between the mills in Europe, focusing on optimising the results in the overall activities. The need for production curtailments will be assessed continuously in 2009 so that capacity can be quickly adjusted to reflect changes in demand. It is not possible to make an accurate estimate of the financial effect of these temporary capacity curtailments.

Changes in the Board of Directors

On 8 January 2009 the Chair of the Board of Norske Skogindustrier ASA, Kim Wahl, informed the election committee that he will not stand for re-election as chair of Norske Skogindustrier ASA's Board. Kim Wahl will continue to function as Chair of the Board until the Corporate Assembly elects a new board following the Company's ordinary general meeting on 23 April 2009. In a unanimous recommendation, the election committee in Norske Skogindustrier ASA has nominated Eivind Reiten as new chair of the Company's Board, and proposes re-election of all other Board members.

The final decision-making body when it comes to the proposed changes in the Board of Directors will be the Corporate Assembly of Norske Skogindustrier ASA. No decision had been made at the date the financial statements for 2008 were authorised for publication.

Changes in the lending portfolio

In March 2009, Norske Skog chose to avail itself of the syndicated credit facility of EUR 400 million (approximately NOK 3 600 million) which expires in February 2012. The amount will, together with EUR 100 million from the Group's cash reserve, be used to repay a bank loan of EUR 500 million which falls due for repayment in January 2010.

The transaction will not influence Norske Skog's net interest-bearing debt or gearing.

INCOME STATEMENT

NOK MILLION	NOTE	2008	2007	2006
Operating revenue	2	**7 028**	**6 625**	**7 410**
Distribution costs		(709)	(707)	(760)
Cost of materials		(3 642)	(3 448)	(3 558)
Change in inventories		(88)	25	(45)
Employee benefit expenses	3	(1 199)	(1 201)	(1 236)
Other operating expenses	5	(903)	(723)	(681)
Gross operating earnings		**486**	**571**	**1 130**
Depreciation	6	(221)	(270)	(621)
Gross operating earnings after depreciation		**266**	**301**	**509**
Restructuring expenses		(37)	0	(79)
Other gains and losses	7	(76)	4 839	(129)
Impairments	6	861	(3 944)	(120)
Operating earnings		**1 013**	**1 196**	**181**
Financial items	8, 9, 21	(3 870)	451	(1 797)
Profit / loss before income taxes		**(2 857)**	**1 647**	**(1 616)**
Income taxes	10	1 024	(438)	(112)
Net profit / loss for the year		**(1 834)**	**1 209**	**(1 728)**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2008	31.12.2007	31.12.2006
Assets				
Deferred tax asset	10	124	145	229
Other intangible assets	6	8	21	27
Property, plant and equipment	6	2 834	1 608	5 109
Investments in subsidiaries	8, 11	30 460	33 745	33 578
Other non-current assets	13	3 966	2 469	2 446
Total non-current assets		**37 392**	**37 988**	**41 389**
Inventories	12	673	710	655
Receivables	5, 13	1 746	1 717	2 230
Cash and cash equivalents		5 252	1 347	57
Other current assets	14	5 237	5 315	328
Total current assets		**12 908**	**9 089**	**3 270**
Total assets		**50 300**	**47 077**	**44 659**
Shareholders´ equity and liabilities				
Paid-in equity		12 310	12 310	12 309
Retained earnings		941	2 851	2 642
Total equity	16	**13 251**	**15 161**	**14 951**
Pension obligations	3	211	166	118
Deferred tax libililty	10	53	907	424
Interest bearing non-current liabilities	13, 17	31 396	27 875	25 867
Other non-current liabilities		530	329	54
Total non-current liabilities		**32 191**	**29 277**	**26 463**
Interest-bearing current liabilities		1 144	168	258
Trade and other payables	13	3 673	2 415	2 676
Tax payable	10	0	0	0
Other current liabilities		42	56	311
Total current liabilities		**4 859**	**2 639**	**3 245**
Total liabilities		**37 049**	**31 916**	**29 708**
Total equity and liabilities		**50 300**	**47 077**	**44 659**

Lysaker, 11 March 2009,
The board of directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øystein Stray Spetalen
Deputy chair

Trond Andersen
Trond Andersen
Board member

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Gisèle Marchand
Board member

Svein Rennemo
Board member

Ingrid Wiik
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
Christian Rynning-Tønnesen
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2008	2007	2006
Cash flow from operating activities				
Cash generated from operations		6 856	6 546	7 448
Cash used in operations		(6 396)	(6 027)	(6 411)
Cash from net financial items		(542)	(615)	(1 147)
Taxes paid		1	(4)	(32)
Net cash flow from operating activities	18	**(81)**	**(100)**	**(142)**
Cash flow from investing activities				
Investments in operational fixed assets		(460)	(672)	(493)
Sales of operational fixed assets		53	7	4
Change in inter-company balances with subsidiaries		4 779	216	1 011
Net financial investments		0	(91)	(238)
Acquisition of shares in companies [1]		(21)	0	0
Sale of shares in companies and dividend received [2]		0	87	1 213
Net cash flow from investing activities		**4 351**	**(453)**	**1 497**
Cash flow from financing activities				
New loans raised		0	8 179	3 081
Repayments of loan		(1 211)	(5 299)	(3 834)
Dividend paid		0	(1 045)	(1 041)
Purchase / sale of treasury shares		(3)	5	0
Net cash flow from financing activities		**(1 214)**	**1 840**	**(1 794)**
Foreign currency effects on cash and cash equivalents		860	0	0
Total change in liquid assets		**3 916**	**1 287**	**(439)**
Liquid assets at 1 January	19	1 348	61	500
Liquid assets at 31 December	19	5 264	1 348	61

[1] In 2008 the amount relates to shares in Xynergo AS.

[2] The 2006 amount relates to the sale of Catalyst, Forestia and Nordic Paper.

1. ACCOUNTING PRINCIPLES

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

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

The accounts were authorised for issue by the Board of Directors on 11 March 2009.

All amounts are presented in NOK million unless otherwise stated.

2. OPERATING REVENUE BY MARKET

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

	2008	2007	2006
Norway	790	1 298	1 322
North America and Europe excluding Norway	5 695	4 990	5 596
South America	209	85	169
Australasia	23	5	65
Asia	263	195	253
Africa	47	52	5
Total	**7 028**	**6 625**	**7 410**

Operating revenue from the sale of goods and services to other entities in the Group, amounts to NOK 1 082 million in 2008. The corresponding figure for 2007 was NOK 896 million and NOK 1 239 million for 2006.

3. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2008	2007	2006
Salaries	801	772	853
Social security contributions	235	234	205
Pension costs	58	78	63
National insurance and other social costs	105	117	115
Total	**1 199**	**1 201**	**1 236**

The Company is required by law to have a pension scheme for all employees. The Company's pension schemes are compliant with the requirements in the Norwegian Act relating to defined contribution pension schemes. Note 4 to the Group accounts provides supplementary information regarding pay and other remuneration for senior employees as well as information regarding the audit fee.

MAN LABOUR YEARS	2008	2007	2006
Norske Skogindustrier ASA	1 813	1 965	1 960

NET PERIODIC PENSION COST	2008	2007	2006	2005	2004
Benefit earned during the year	60	78	61	51	49
Interest costs on prior period benefit	68	64	65	62	58
Expected return on plan assets	(78)	(71)	(72)	(72)	(69)
Periodic payroll tax	11	5	4	3	5
Expensed portion of changes in early retirement scheme	(2)	(2)	(2)	(2)	(2)
Expensed portion of differences in estimates	(1)	4	7	12	9
Net periodic pension cost	**58**	**78**	**63**	**54**	**50**

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

	2008	2007	2006	2005	2004
Projected benefit obligations	(1 691)	(1 486)	(1 480)	(1 445)	(1 234)
Plan assets at fair value	1 164	1 395	1 319	1 296	1 186
Estimated net pension obligations	**(527)**	**(91)**	**(161)**	**(149)**	**(48)**
Differences in estimates not recognized as income / expenses	360	(42)	70	107	46
Net pension obligations	**(167)**	**(133)**	**(91)**	**(42)**	**(2)**
Accrual payroll tax	(44)	(33)	(27)	(24)	(21)
Pension obligations in the balance sheet	**(211)**	**(166)**	**(118)**	**(66)**	**(23)**
Pension obligations	**(211)**	**(166)**	**(118)**	**(88)**	**(83)**
Pension assets	**0**	**0**	**0**	**22**	**60**

See Note 5 in the Group accounts for assumptions and further information.

4. PAY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

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

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

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

VARIABLE ELEMENTS
In addition to fixed salary, the Company has a three-pronged bonus and incentive programme designed to help harmonize the priorities of corporate management with the strategies and goals for the business established by the Board.

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

Long-term incentive programme
The purpose of this programme is to secure a continued strong focus on the development of shareholder value. The Board adopted new principles for the long-term incentive programme in 2007, where the criteria for awarding synthetic shares to the corporate management team is tied to total shareholder return (TSR – development of the share price including dividend payments), such that this must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 30 % payout if Norske Skog performs better than the average for the reference group and a full payout if the Company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the chief executive and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50 % of the allocation (after tax) from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. This scheme involves no dilution effect. The programme was continued for 2008 and has been proposed that it will also continue for 2009.

Turnaround
As a special motivational measure to ensure the best possible execution of the turnaround programme for profit improvement, the Board has resolved that all employees, including corporate management, will be offered an additional bonus scheme. The bonus will be calculated against a measured real improvement in earnings of NOK 3 000 million compared with the base year of 2005, adjusted for external factors beyond the Company's control. Certain senior vice presidents will also be measured on the performance of specified business units. The maximum payout will be seven months pay for the CEO and four months pay for the other members of the corporate management team. In the event that two-thirds of the target is reached, which is an absolute prerequisite for an award, the scheme will pay 40 % of the maximum. Should 80 % be reached, 60 % of the input amount will be paid. The bonus basis is an average of profit improvements in the third and fourth quarters and amounted to NOK 2 873 million, or 95.8 %. This gives a payout amounting to 89.5 % of the maximum amount. The programme established in connection with Turnaround is a on-off bonus for the years 2006-2008 and will not be continued.

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

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

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

5. LOSSES ON ACCOUNTS RECEIVABLE

	2008	2007	2006
Final losses on accounts receivable	0	(4)	0
Received on losses recognised previously	1	0	0
Change in provision for bad debt	0	1	3
Total	**1**	**(3)**	**3**

6. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTAGIBLE NON-CURRENT ASSETS

GOODWILL, LICENSES, PATENTS AND OTHER INTANGIBLE ASSETS	2008	2007	2006
Acquisition cost 1 January	172	165	157
Additions	0	8	135
Disposals	(73)	(1)	(127)
Acquisition cost 31 December	**99**	**172**	**165**
Accumulated depreciation and impairments 1 January	151	138	108
Depreciation	6	13	13
Impairments	0	0	85
Disposals	(66)	0	(68)
Accumulated depreciation and impairments 31 December	**91**	**151**	**138**
Carrying value 31 December	**8**	**21**	**27**

Goodwill is not depreciated. Licenses, patents and similar rights are depreciated on a linear basis over a period from five to 20 years.

FIXED ASSETS

MACHINERY AND EQUIPMENT	2008	2007	2006
Acquisition cost 1 January	11 034	11 586	11 578
Additions	188	578	209
Disposals	(36)	(1 315)	(201)
Reclassified from asset under construction	261	185	0
Acquisition cost 31 December	**11 447**	**11 034**	**11 586**
Accumulated depreciation and impairments 1 January	10 942	8 504	8 195
Depreciation	81	124	472
Impairments	45	3 531	33
Reversal of impairments	(1 000)	0	0
Disposals	(31)	(1 217)	(196)
Accumulated depreciation and impairments 31 December	**10 037**	**10 942**	**8 504**
Carrying value 31 December	**1 410**	**92**	**3 082**

Machinery and equipment are depreciated on a linear basis over a period from three to 25 years.

PLANTS AND BUILDINGS	2008	2007	2006
Acquisition cost 1 January	3 299	3 239	3 195
Additions	9	79	172
Disposals	(228)	(19)	(128)
Reclassified from asset under construction	195	0	0
Acquisition cost 31 December	**3 275**	**3 299**	**3 239**
Accumulated depreciation and impairments 1 January	1 947	1 638	1 580
Depreciation	101	92	84
Impairments	94	217	0
Disposals	(228)	0	(26)
Accumulated depreciation and impairments 31 December	**1 914**	**1 947**	**1 638**
Carrying value 31 December	**1 361**	**1 352**	**1 601**

Land is not depreciated. Buildings and other property are depreciated on a linear basis over a period from three to 33 years.

FIXTURES AND FITTINGS	2008	2007	2006
Acquisition cost 1 January	348	343	311
Additions	0	7	32
Disposals	(43)	(2)	0
Reclassified from asset under construction	9	0	0
Acquisition cost 31 December	**314**	**348**	**343**
Accumulated depreciation and impairments 1 January	290	250	196
Depreciation	33	41	52
Impairments	0	0	2
Disposals	(42)	(1)	0
Accumulated depreciation and impairments 31 December	**281**	**290**	**250**
Carrying value 31 December	**33**	**58**	**93**

Fixtures and fittings are depreciated on a linear basis over a period from three to five years.

PLANT UNDER CONSTRUCTION	2008	2007	2006
Acquisition cost 1 January	106	333	194
Additions	190	154	139
Disposals	0	(196)	0
Reclassified from asset under construction	(266)	(185)	0
Acquisition cost 31 December	**30**	**106**	**333**

Plant under construction is not depreciated.

Assumptions applied when estimating recoverable amount

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

The present value of the estimated future cash flow are estimated in the currency in which they will be generated, and then discounted using a weighted average cost of capital appropriate for that currency and the individual asset or cash-generating unit. The cost of capital is assessed on the interest rate of 10 year government bonds in Norway adjusted for a specific operational risk relevant to Norske Skog and, in certain instances, with a country -specific risk premium relevant to the individual asset or cash-generating unit. The cost of the liability part of the weighted average cost of capital is based on average market interest rates on Norske Skog's debt liabilities.

More information related to the assumptions applied when calculating recoverable amount is given in Note 7 to the Group accounts.

7. OTHER GAINS AND LOSSES

	2008	2007	2006
Gains and losses on disposal of non-current tangible assets	40	24	(2)
Gains / losses / value changes on commodity contracts [1)]	(116)	4 815	(127)
Total	**(76)**	**4 839**	**(129)**

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

8. IMPAIRMENT OF SHARES IN SUBSIDIARIES

	2008	2007	2006
Norske Treindustrier AS	996	(230)	0
Norske Skog Steti a.s.	(43)	0	0
Norske Skog Holdings B.V.	0	(535)	(765)
Norske Skog Pisa Ltda.	100	(41)	(59)
Norske Skog Walsum GmbH	0	226	(1 505)
Norske Skog Paper Malaysia SDN	0	(11)	(583)
Norske Skog Pan Asia Ltd.	(1 653)	0	0
Total	**(600)**	**(591)**	**(2 912)**

Write downs or reversals of previous write downs of shares in subsidiaries are based on an assessment of the carrying amount and underlying values on assets and debt. The write-downs and reversals are included in Financial items in the income statement.

9. FINANCIAL ITEMS

	2008	2007	2006
Dividends received	1 561	782	1 470
Interest income	296	244	182
Interest expense	(1 939)	(1 563)	(1 112)
Exchange rate gains and losses	(3 436)	1 643	820
Write-down of shares in subsidiaries	(600)	(591)	(2 912)
Other financial items	248	(64)	(245)
Total	**(3 870)**	**451**	**(1 797)**

10. TAX

TAX EXPENSE	2008	2007	2006
Current tax expense	0	4	13
Change in deferred tax	(1 024)	435	99
Total tax expense	**(1 024)**	**438**	**112**

INCOME TAX RECONCILIATION	2008	2007	2006
Profit / loss before income taxes	(2 857)	1 647	(1 616)
Computed tax at nominal tax rate of 28%	(800)	461	(453)
Exempt income / non-deductible expenses	(352)	(135)	(400)
Write-down of shares in subsidiaries	171	165	815
Adjustment previous years	1	(5)	(9)
Other items	(43)	(48)	158
Total tax expense	**(1 024)**	**438**	**112**

DEFERRED TAX	2008	2007	2006
Net deferred tax liability 1 January	762	195	27
Deferred tax charged to the income statement	(1 024)	435	99
Reclassification of Group tax allocations	191	132	69
Net deferred tax liability / (asset) 31 December	**(71)**	**762**	**195**

DEFERRED TAX 2008	1.1.2008	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2008
Fixed assets, excess values and depreciation	(428)	0	333	(96)
Pensions	(47)	0	(13)	(59)
Provisions and other liabilities	(234)	0	36	(198)
Currency translation differences and financial instruments	2 241	0	(970)	1 271
Deferred tax current items	16	0	(8)	8
Tax losses and tax credit to carry forward	(786)	191	(403)	(998)
Net deferred tax liability / (asset)	**762**	**191**	**(1 024)**	**(71)**

DEFERRED TAX 2007	1.1.2007	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2007
Fixed assets, excess values and depreciation	448	68	(944)	(428)
Pensions	(33)	0	(13)	(47)
Provisions and other liabilities	(25)	(88)	(121)	(234)
Currency translation differences and financial instruments	575	0	1 666	2 241
Deferred tax current items	16	0	0	16
Tax losses and tax credit to carry forward	(785)	152	(153)	(786)
Net deferred tax liability / (asset)	**195**	**132**	**435**	**762**

[1)] In 2007 Norske Skogindustrier ASA carried out a demerger of non-production related properties. The demerger was executed with taxable continuity

DEFERRED TAX 2006	1.1.2006	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	31.12.2006
Fixed assets, excess values and depreciation	544	0	(97)	448
Pensions	(18)	0	(15)	(33)
Provisions and other liabilities	13	0	(38)	(25)
Currency translation differences and financial instruments	158	0	417	575
Deferred tax current items	25	0	(9)	16
Tax losses and tax credit to carry forward	(694)	69	(159)	(785)
Net deferred tax liability / (asset)	**27**	**69**	**99**	**195**

11. SHARES IN SUBSIDIARIES

See Note 18 in the Group accounts for specification of shares in subsidiaries and other shares.

12. INVENTORIES

	31.12.2008	31.12.2007	31.12.2006
Raw materials and other production input	345	294	264
Finished goods	328	416	391
Total	**673**	**710**	**655**

13. INTER-COMPANY RECEIVABLES / LIABILITIES

INTER-COMPANY RECEIVABLES	31.12.2008	31.12.2007	31.12.2006
Crown Forest Industries Ltd.	247	0	0
Norske Skog Holdings B.V.	1 429	1 226	1 268
Norske Skog Walsum GmbH	1 284	1 003	1 086
Other inter-company receivables	42	34	33
Total	**3 002**	**2 263**	**2 387**

CURRENT INTER-COMPANY RECEIVABLES	31.12.2008	31.12.2007	31.12.2006
4246799 Canada Inc.	0	171	28
Crown Forest Industries Ltd.	0	235	0
Klosterøya AS	41	14	0
Lysaker Invest AS	158	0	0
Nornews AS	9	7	290
Norske Skog France sarl.	0	19	8
Norske Skog Golbey SA	136	27	41
Norske Skog Holdings B.V.	185	122	285
Norske Skog USA Inc.	133	50	105
Norske Skog Walsum GmbH	0	102	113
Oxenoen Eiendom AS	3	121	0
Pisa Papel de imprensa SA	72	45	13
Reparco Netherland B.V.	21	16	8
Other current inter-company receivables	86	75	644
Total	**845**	**1 004**	**1 535**

NON-CURRENT INTER-COMPANY LIABILITIES	31.12.2008	31.12.2007	31.12.2006
4246799 Canada Inc.	838	960	902
Lysaker Invest AS	55	52	50
Nornews AS	52	49	340
Norske Skog Bruck PM3	564	612	708
Norske Skog Golbey S.A.	2 129	1 207	684
Norske Skog Holding AS	39	37	35
Norske Skog Industries (UK) Ltd.	3 091	2 857	2 940
Norske Skog Holland B.V.	0	14	15
Norske Skog PanAsia Co. Pte. Ltd.	544	0	0
Norske Skog Paper Holdings (Schweiz) AG	0	0	371
Norske Skog Steti a.s.	0	61	60
Norske Treindustrier AS	6 067	6 092	5 500
Other non-current inter-company liabilities	0	4	4
Total	**13 379**	**11 946**	**11 608**

All inter-company non-current debt falls due for repayment at least 12 months after the balance sheet date. The majority of these items have a significantly longer term to maturity.

CURRENT INTER-COMPANY LIABILITIES	31.12.2008	31.12.2007	31.12.2006
Klosterøya AS	0	27	0
Lysaker Invest AS	0	25	221
Norske Skog Bruck GmbH	136	59	54
Norske Skog Deutschland GmbH	50	31	42
Norske Skog Golbey S.A.	169	72	211
Norske Skog Holding AS	14	17	13
Norske Skog Holland B.V.	18	17	15
Norske Skog Asia Pacific Pte. Ltd.	22	23	27
Norske Skog Industries Australia	410	129	38
Norske Skog Parenco BV	0	26	42
Norske Skog Tasman Ltd.	87	52	99
Norske Skog UK Ltd.	40	25	76
Norske Treindustrier AS	347	274	366
Oxenøen Eiendom AS	245	4	0
Oxenøen Utvikling AS	67	54	0
Wood and Logistics AS	54	82	73
Other current inter-company liabilities	135	64	47
Total	**1 795**	**979**	**1 323**

14. OTHER CURRENT ASSETS

	NOTE	31.12.2008	31.12.2007	31.12.2006
Total prepaid expenses		115	67	6
Derivatives [1]		5 110	5 247	318
Short-term investments	19	12	1	4
Total		**5 237**	**5 315**	**328**

[1] Derivatives are exclusive hedge accounting of fair value hedging and cash flow hedging of interest-rate cost (Note 15 Derivatives).

15. DERIVATIVES

	31.12.2008		31.12.2007		31.12.2006	
NET INVESTMENT HEDGING	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Forward contracts	39	(2)	81	(1)	16	(5)
Cross-currency contracts	139	(22)	31	(74)	10	(253)
Total	**178**	**(24)**	**112**	**(75)**	**26**	**(258)**
FAIR VALUE HEDGING [1]						
Interest-rate swaps	916	(33)	140	(25)	20	(69)
Total	**916**	**(33)**	**140**	**(25)**	**20**	**(69)**
CASH FLOW HEDGE [2]						
Interest-rate swaps	0	(44)	34	0	22	0
Total	**0**	**(44)**	**34**	**0**	**22**	**0**
HELD FOR TRADING [3]						
Interest-rate swaps	0	(76)	38	(1)	16	(2)
Forward rate agreements	9	(15)	2	(2)	6	(5)
Currency options	127	(230)	97	(4)	2	(15)
Forward contracts	56	(288)	138	(14)	58	(89)
Commodity contracts	4 740	(17)	4 899	(38)	252	(33)
Embedded derivatives	0	0	0	0	0	(50)
Total	**4 932**	**(626)**	**5 173**	**(58)**	**333**	**(194)**
TOTAL DERIVATIVES						
Interest-rate swaps	916	(153)	174	(25)	57	(71)
Forward rate agreements	9	(15)	2	(2)	6	(5)
Currency options	127	(230)	97	(4)	2	(15)
Forward contracts	95	(290)	219	(15)	74	(94)
Cross-currency contracts	139	(22)	31	(74)	10	(253)
Commodity contracts	4 740	(17)	4 899	(38)	252	(33)
Embedded derivatives	0	0	0	0	0	(50)
Total	**6 026**	**(727)**	**5 421**	**(157)**	**401**	**(521)**

1) Included in balance sheet line Other non-current assets. The notional principal amount of the underlying debt in the fair value hedge was NOK 5 670 million (NOK 6 323 million in 2007 and NOK 6 866 million in 2006).

2) The notional principal amount of the underlying debt in the cash flow hedge was NOK 3 009 million (NOK 2 430 million in 2007 and NOK 2 061 million in 2006).

3) Includes active management portfolio, embedded derivatives in physical contracts, financial commodity hedging contracts, physical commodity contracts within the scope of IAS 39 and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through the income statement.

Derivatives are described in detail in Note 2 Accounting principles and Note 22 Financial risk management and hedge accounting in the Group accounts.

16. EQUITY

	PAID-IN EQUITY	RETAINED EARNINGS	TOTAL
Equity at 1 January 2008	12 310	2 851	15 161
Change in own share holding	0	(1)	(1)
Profit / (loss) for the year	0	(1 834)	(1 834)
Dividend	0	0	0
Other adjustments	0	(75)	(75)
Equity at 31 December 2008	**12 310**	**941**	**13 251**

As at 31 December 2008, the share capital of the Company consisted of 189 945 626 shares, each with a face value of NOK 10. The number of own shares was 294 090. The Company has purchased 650 000 shares during 2008. The number of shares sold during the year was 955 910, comprising shares sold to corporate management and shares sold in relation to the share savings programme for employees. The shares were sold at NOK 29.33 and NOK 17.50.

SPECIFICATION OF DISTRIBUTABLE EQUITY	31.12.2008
Retained earnings	941
Paid-in other equity [1]	7 000
Other equity	**7 941**
Revaluation reserve	(3 483)
Deferred tax assets	(124)
Research and development	(8)
Distributable equity	**4 326**

[1] The General Assembly resolved on 12 April 2007 to transfer NOK 7 000 million from share premium reserve to other paid-in equity.

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
Unionen AS, Oslo	5.94
Viken Skog BA, Hønefoss	5.74
JPMorgan Chase Bank, Clients Treaty Ac, United Kingdom (NOM)	5.33
Folketrygdfondet, Oslo	4.87
Bear Stearns Securities, Customer Safe Keeping, USA (NOM)	4.14
The "Holta Group", Skien	3.64
AT Skog BA, Skien	3.51
State Street Bank, Client Omnibus D, USA (NOM)	3.28
Skagen-fondene, Stavanger	2.94
Allskog BA, Trondheim	2.77
Bank of New York, S/A New Jersey Pens. Fd	2.63
Mjøsen Skog BA, Lillehammer	1.80
Mellon Bank AS, A/C Nominee 15 Omnibus, USA (NOM)	1.38
JPMorgan Chase Bank, Special Treaty Lending Ac, United Kingdom (NOM)	1.14
State Street Bank, Client Fund no OM79, USA (NOM)	0.93
DnB NOR Investor, Oslo	0.88
Credit Suisse Securities, Non Treaty Client, USA (NOM)	0.73
Citibank N.A., NY A/C DFA-INTL SML VAL PORT, USA (NOM)	0.73
DnB NOR Bank ASA, Oslo	0.72

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the shareholders	
Tom Ruud, Oslo (Chair)	410
Helge Evju, Skollenborg	195
Emil Aubert, Porsgrunn	91 956
Kirsten C. Idebøen, Bærum	8 100
Even Mengshoel, Lillehammer	860
Christian Ramberg, Bø in Telemark	71

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the employees	
Øystein Bruce, Norske Skog Saugbrugs	2 767
Paul Kristiansen, Norske Skog Saugbrugs	2 857
Stig A. Stene, Norske Skog Skogn	360
Observers from the employees	
Thor Granaune, Norske Skog Skogn	1 551

SHAREHOLDERS ON THE BOARD OF DIRECTORS	
Elected by the shareholders	
Kim Wahl, Bærum (Chair)	200 000
Øystein Stray Spetalen, Oslo (Deputy Chair)	492
Halvor Bjørken, Verdal	4 001
Gisèle Marchand, Oslo	838
Ingrid Wiik, Bærum	2 160
Elected by the employees	
Kåre Leira, Norske Skog Skogn	4 496

SHAREHOLDERS AMONG SENIOR EXECUTIVES	
Christian Rynning-Tønnesen	33 120
Jan-Hinrich Clasen	4 283
Rune Gjessing	5 019
Terry Hamilton	410
Kristin Slyngstad Klitzing	11 767
Audun Røneid	1 071

17. INTEREST BEARING NON-CURRENT LIABILITIES

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2008

	DEBT BANKS	BONDS	TOTAL
2009	329	722	1 051
2010	5 002	0	5 002
2011	0	3 212	3 212
2012	0	902	902
2014	0	195	195
2015	0	1 330	1 330
2017	0	4 933	4 933
2033	0	1 400	1 400
Total	**5 331**	**12 694**	**18 024**

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2007

	DEBT BANKS	BONDS	TOTAL
2008	146	0	146
2009	317	840	1 157
2010	4 046	0	4 046
2011	31	3 247	3 278
2012	0	902	902
2014	0	195	195
2015	0	1 082	1 082
2017	0	3 981	3 981
2033	0	1 082	1 082
Total	**4 539**	**11 329**	**15 868**

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2006

	DEBT BANKS	BONDS	TOTAL
2007	570	1 133	1 703
2008	64	0	64
2009	1 107	844	1 951
2010	4 187	0	4 187
2011	32	3 753	3 785
2012	0	0	0
2014	0	200	200
2015	0	1 251	1 251
2017	0	0	0
2033	0	1 251	1 251
Total	**5 960**	**8 432**	**14 392**

Foreign currency debt is presented at the current rate of exchange in the installment profile. Debt used as instrument for hedging net investments in foreign currencies is presented at historical cost in the balance sheet.

For more information see Note 23 Interest-bearing non-current liabilities in the Group accounts.

18. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN PROFIT / LOSS BEFORE INCOME TAXES AND CASH FLOW FROM OPERATIONS	2008	2007	2006
Profit / loss before income taxes	(2 857)	1 647	(1 616)
Depreciation / impairments	(640)	4 214	741
Paid taxes	1	(4)	(32)
Gain / (loss) on sale of fixed assets and other items	(40)	(4)	2
Group contribution	0	(236)	(121)
Changes in receivables	(172)	(79)	38
Changes in inventories	36	(55)	31
Changes in current liabilities	74	(121)	(181)
Financial items without cash effect	3 328	(1 066)	650
Adjustments for non-cash working capital items and currency translation differences [1]	188	(4 396)	346
Net cash flow from operating activities	**(81)**	**(100)**	**(142)**

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

19. LIQUID ASSETS

	NOTE	31.12.2008	31.12.2007	31.12.2006
Cash and cash equivalents		5 252	1 347	57
Short-term investments	14	12	1	4
Liquid assets		**5 264**	**1 348**	**61**

20. GUARANTEES

The Company has guaranteed debt amounting to NOK 1 256 million in total on behalf of its subsidiaries (NOK 378 million at 31 December 2007 and NOK 326 million at 31 December 2006). Other guarantees amount to NOK 409 million (NOK 298 million at 31 December 2007 and NOK 293 million at 31 December 2006).

21. TERMINATION OF HEDGE ACCOUNTING

Norske Skogindustrier ASA terminated the use of hedge accounting in the company accounts of the parent company in 2006. This resulted in recognition of accumulated exchange rate gains and losses in the income statement which had not been recognized previously due to the use of hedge accounting. In total a gain of NOK 994 million was recognized in the income statement in 2006.

PRICEWATERHOUSECOOPERS

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Postboks 748, Sentrum
NO-0106 Oslo
Telephone +47 02316
Telefax +47 23 16 10 00

To the Annual Shareholders' Meeting of Norske Skogindustrier ASA

Auditor's report for 2008

We have audited the annual financial statements of Norske Skogindustrier ASA as of December 31, 2008, showing a loss of NOK 1 834 millions for the parent company and a loss of NOK 2 765 millions for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statement of the parent company comprises the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statement of the group comprises the balance sheet, the statement of income and cash flows, the statement of changes in equity and the accompanying notes. Simplified IFRS according to the Norwegian accounting act § 3-9 have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in accordance with simplified IFRS according to the Norwegian accounting act § 3-9
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of December 31, 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Oslo, March 11, 2009
PricewaterhouseCoopers AS

Erling Elsrud
State Authorised Public Accountant (Norway)

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

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the accounts for the period 1 January to 31 December 2008 have been prepared in accordance with prevailing accounting practices, and that the information in the accounts provides a correct impression of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the annual report provides a correct overview of the development, result and position of the company and the group, along with a description of the key risk and uncertainty factors which the company and the group faces.

Lysaker, 11 March 2009,
The board of directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øystein Stray Spetalen
Deputy chair

Trond Andersen
Board member

Halvor Bjørken
Board member

Stein-Roar Eriksen
Board member

Wenche Holen
Board member

Gisèle Marchand
Board member

Svein Rennemo
Board member

Ingrid Wiik
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
President and CEO

STATEMENT FROM THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

The corporate assembly recommends that the general meeting approves the board's proposal for income statement and balance sheet for 2008 for Norske Skogindustrier ASA and the group, and endorses the board's proposal for coverage of the deficit.

The corporate assembly took the board's statement concerning guidelines for stipulation of wages for senior executives under advisement.

Lysaker, 11 March 2009

Tom Ruud
Chair

WHAT DOES NORSKE SKOG DO WITH ITS ENVIRONMENTAL CHALLENGES?

The forest-based industry has a unique position when it comes to the environment. The raw material is renewable, the products are highly recyclable and both raw materials and products store carbon. Sustainably managed forests will absorb the carbon dioxide from the combustion of forest-based material. At the end of their life cycle the products can be used to produce bio-energy, which is neutral with regard to climate change.

In the pulp and paper industry the main topics that we focus on are fibre supply, energy source and use, greenhouse gas emissions, the efficiency of mill production processes and emissions, and the fate of our product at the end of its life. The importance and the emphasis placed on these topics vary at local, regional and national levels but as a company we believe it is important to understand and continuously improve our performances in all these areas.

Norske Skog only sources wood from sustainably managed forests and we do not source raw materials from high risk regions or controversial areas. In Europe the forest areas are increasing in every country where we source wood. In South America and Australasia (from 2010) only plantation forests are used to supply fresh fibre. In Asia only recovered paper is used as raw material.

All our mills have Chain of Custody certification for their wood supply and the areas where the wood is sourced are identified. All our suppliers comply with local rules and regulations and where possible we source wood locally to minimise transport emissions. We also give preference to certified suppliers and our goal is to have a 100% certified wood supply. There are two main global forest certification systems - FSC and PEFC - that function as umbrellas for endorsed national schemes. Norske Skog regards the two global certification systems as equally valuable tools to demonstrate responsible stewardship of the forest resources that our company and customers rely upon.

Norske Skog uses a combination of fresh fibre and recovered paper as raw material source depending on local conditions. Both sources are needed to make sustainable use of the global fibre resource.

In a world where increasing demands are being placed upon finite natural resources and the ecosystems which supply them, it is important that our production processes are efficient and continuously improving. In addition to 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. Our long term goal is for all our mills to operate at standards comparable to the limits defined in EU Best Available Technology documents.

Climate change is the environmental issue receiving the greatest attention today. Our emissions of greenhouse gases are primarily associated with our use of energy. Greenhouse gas emission rates differ considerably between our mills. The main reason for this lies in the different energy sources used both for externally purchased energy and for energy produced on-site. Purchased energy is mainly electrical energy used for fibre processing and to operate machinery. On-site produced energy is mainly used to dry paper on the production line. In many cases we use energy several times through heat recovery systems. The main strategies available to reduce greenhouse gas emissions involve reducing the consumption of energy and/or changing the source of the energy we use. In 2007 Norske Skog established a 25 per cent greenhouse gas reduction target in total emissions by 2020 in order to provide added focus on this issue.

Norske Skog sold the Korean mills and closed the Norske Skog Steti mill last year. These decisions have influenced the results reported levels in the sustainability report. The Korean mills used large amounts of recovered paper. As a consequence the per cent recovered paper of our total raw material source went from 49 per cent in 2007 to 39 per cent in 2008 and the total energy used per tonne of paper increased by eight per cent. The baseline for our greenhouse gas reduction target has also been adjusted.

NORSKE SKOG'S ENVIRONMENTAL POLICY

Norske Skog's environmental policy is an integral part of the strategy to achieve the overall corporate goal. It shall support sustainable development of environment and natural resources. The environmental commitments shall be viewed in context with the company's commitments to health, safety and corporate social responsibility. Norske Skog's environmental strategy and policy applies to all its business units. Norske Skog will work for similar environmental values in partially owned companies.

- Norske Skog shall operate and develop its business units by continuously improving their environmental performance, and with a view to reducing the environmental impact to a minimum. The basic requirement is compliance with laws and regulations.
- Efficient production processes with high yield on raw material and energy utilisation shall be key objectives in all production units. Environmental aspects shall be integrated in strategic considerations and operational decisions.
- Environmental responsibilities and tasks shall be clearly defined and adhered to throughout the organisation. The business units shall educate and train employees to know and understand the policy, its requirements and the work performance expectations.
- Certifiable internationally acknowledged environmental management systems shall be actively applied in the management in all production units.
- Norske Skog's production units shall have environmental programmes with clear objectives and annually set targets supporting the company's environmental policy and strategic ambition.
- Norske Skog shall expect the same high environmental performance from suppliers of goods and services in the value chain as maintained in its own activities. Forest certification shall be encouraged and certified wood suppliers will be given priority.
- Norske Skog shall have an environmental performance that supports its customers in reaching their environmental objectives.
- Norske Skog shall operate and develop its business units with respect for, and understanding of, the social and cultural values that exist in the countries in which it operates.
- Norske Skog shall be open to and actively engage in dialogue with stakeholders and will communicate openly on environmental matters.

ORGANISATION OF ENVIRONMENTAL WORK IN NORSKE SKOG

CENTRALLY:

Norske Skog's chief executive officer has overall responsibility for the company's results, including its environmental performance. A separate corporate environment (CE) department is responsible for developing and maintaining the global environmental policy, and for specifying and following up strategic environmental targets on behalf of the chief executive officer. The CE department works to ensure that the mills (business units) and other functional units set their own environmental targets and perform in accordance with these. It receives monthly mill reports, which are collated and reported to the corporate management and quarterly to the board of directors.The department cooperates closely with other Norske Skog functions. It may also provide support or assistance to business units on specific issues.

LOCAL:

Most of Norske Skog's environment-related work takes place in the mills. Each Business Unit manager has operational responsibility for meeting environ-mental targets at the facility. This responsibility is passed down to departmental managers and to each employee. All the mills have a dedicated manager, responsible for environmental matters, who reports directly to the mill manager. All mills cooperate closely with the CE department. A meeting is held once a quarter between the CE department and all the mills, primarily as a teleconference, in connection with the quarterly reporting.

CUSTOMER COOPERATION IN AUSTRALIA

– WORKING TOGETHER WITH OUR PARTNERS AND AUDIENCE TO RAISE ENVIRONMENTAL STANDARDS AND REDUCE NEWS LIMITED´S CARBON FOOTPRINTS

The sustainable production of newspapers continues to be an important issue for newspaper readers worldwide. In Australia, the Publishers National Environment Bureau and Norske Skog saw the benefit of working together on environment as far back as 1992 when we created our first "Plan for Publication Paper Recycling". In its latest incarnation it has been expanded to be a "National Environmental Sustainability Agreement" for newspapers which runs from 2006 to 2010.

Dr Tony Wilkins
Manager
Environment and Climate Change
News Limited

All State and Federal governments have endorsed this agreement and for good reason – it has helped propel Australia to be the number one recycler of old newspapers in the world with a recycling rate in 2007 of 76.7%. A figure that potentially avoids emission of up to a million tonnes of carbon dioxide and a stellar rise from a level of 28% recycling at the start of the 1990s.

Naturally, all elements of the production chain are important: from sustainable forestry and recycled fibre use, through to the newspaper manufacturing process itself. For the following reasons Old newspapers continue to be safe to compost, burn or bury:

- The inks remain safe. The pigment used in black ink is carbon similar to that used in liquorice. So safe you would need to eat 100 copies of a major Australian newspaper in one sitting for the ink to have a negative effect. In fact, old newspapers have been used safely as cattle feed.

- No heavy metals (as defined in Australian Standard 1647, Part 3-1982) are added to process colour inks. Background levels are measured in parts per million, many times less than the Australian Standards for inks used in children's toys and colour comics. In fact, by 1977 all newspaper inks used in Australia were modified to "low toxicity" and lead was discontinued as a pigment base.

While sustainable forestry, cleaner production and recycling remain important issues, this century the emerging critical environmental issue is climate change – and working together to tackle global warming is a new priority.

ONE DEGREE OF CHANGE – NEWS LIMITED'S CLIMATE CHANGE INITIATIVE

On May 9th 2007, Rupert Murdoch announced that News Corporation would be a "Carbon Neutral" company in 2010. This is

One Degree. It's about every one of us.

just one milestone on the journey we have set to tackle climate change. News Corporation has a three step approach based on the following principles:

1. to get our house in order and reduce our own emissions. To do this we have set a goal to reduce News Corporation's emissions worldwide by 10% by the end of 2012.

2. to work with our partners to reduce emissions. This includes all elements of the supply chain associated with the production of our newspapers, magazines and websites. Norske Skog's ambitious commitment to reduce its carbon emissions by 25% by 2020 is a stunning example of what the industry can achieve.

3. to engage with our audiences to empower them to reduce their carbon footprint. We can have 10,000 times the impact turning the company carbon neutral has on climate change if the billion people we reach are part of the solution.

News Limited, the Australian arm of News Corp, created its award winning "One Degree" initiative to tackle climate change in its region of the world. News Limited has set some ambitious targets – a 20% reduction in the company's carbon footprint by the end of 2010 – the same year that the company becomes carbon neutral.

To achieve our carbon emission reduction goal, at News Limited we are assessing the potential for energy savings across all our facilities, and have set up Carbon Councils in our business units to engage and empower staff. Over 85% of our carbon footprint has been energy audited and some 100 projects that will reduce our carbon emissions by more than 10% are being implemented or investigated.

News Limited Chairman and Chief Executive, John Hartigan recently commented that One Degree – launched in June 2007 - had already exceeded the company's expectations both in terms of reducing News Limited's own carbon footprint and by inspiring staff and the broader community to take action.

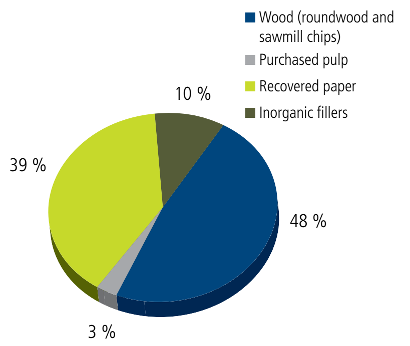
"One Degree of change by everybody every day can change the future of the planet," Mr Hartigan said.

"The response from both our staff and the community so far indicates that people are willing to make changes – however big or small – to make a difference to the future of the planet. And our partners in the supply and production chain are equally important and committed to making tackling the issue with us. Together all of us can make one degree of change."

SUSTAINABLE RAW MATERIALS

The main raw materials for newsprint and magazine paper production are recovered paper, round wood and sawmill chips. Norske Skog had a good balance between fresh fibre and recovered fibre in our paper products, 48 per cent and 39 per cent respectively in 2008.

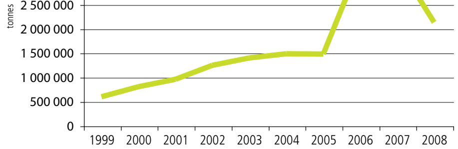
Consumption of raw materials, 2008



Recovered paper in Newsprint production, 2008

Norske Skog Albury, Australia	33%
Norske Skog Boyer, Australia	22%
Norske Skog Bruck, Austria	92%
Norske Skog Golbey, France	60%
Norske Skog Parenco, The Netherlands	73%
Norske Skog Skogn, Norway	27%
Norske Skog Singburi, Thailand	100%
HNLC Hebei, PR China	100%
SNP Shanghai, PR China	100%

Use of recovered paper, Norske Skog 1999-2008



Some paper purchasers want paper based entirely on recovered paper. However, a value chain based only on recovered paper is not sustainable. Fresh fibre must be added. Factors such as consumer awareness, waste disposal and collection systems and alternative uses for used paper influence its collection rate. Up to one third may be lost in the recovered paper 'loop'. The structure and strength of the cellulose fibres of paper degrade with successive use. Recovered paper fibres that are no longer suitable for papermaking are rejected in our mill pulping processes and are generally used as a source of renewable energy. In Europe the target for paper collection is 66 per cent by 2010. As more paper is recovered, the quality of the recovered paper will ultimately be reduced. To make the recovered paper value chain sustainable, fresh fibre direct from forests, plantations or sawmill residues must be added. Sawmill chips, the waste product from the sawmilling process, made up half of the company's fresh fibre supply in 2008.

Some paper grades also contain substantial amounts of purchased chemical pulp and inorganic fillers, mainly kaolin and calcium carbonate. This is particularly the case for magazine papers. The paper may also contain small amounts of binders, such as latex, starch and pigments.

The type of fibre source used at the different Norske Skog mills depends upon the availability of raw materials as well as economic considerations. The minimisation of transport distances and costs is an increasingly important economic and environmental consideration.

FRESH FIBRE

Norske Skog is not a significant forest owner. Less than 4 per cent of the wood we consume originates from our own forests in Australia. In Brazil, we are developing plantations to supply Norske Skog Pisa, and these are due to supply wood from 2010. In all countries where Norske Skog sources wood, with the exception of Brazil, the area of land under forest is increasing. In Brazil Norske Skog's wood supply comes only from plantations.

In 2008 Norske Skog consumed 2.6 million tonnes of fresh fibre. The round wood component of this fresh fibre came from both managed forests (61 %) and plantations (39 %).

We recognise our responsibility as a wood purchaser through our global wood purchasing policy, which states that all wood used in our paper originates from sustainably managed forests. Such forests are defined as:

- Certified forests – we recognise the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) systems
- Forests covered by a written declaration that they are managed according to national laws and regulations (when certified volumes are insufficient).

While forest managers have systems for sustainable forest management (SFM), forest product traders rely on chain of custody (CoC) systems. These traceability systems play an important role in responsible purchasing. A CoC certificate provides an assurance that claims of "certified wood" can be substantiated. CoC systems also require responsible purchasing of non-certified wood. These systems have a crucial role to play in the global efforts to halt illegal logging.

Norske Skog encourages both SFM and CoC certification of our suppliers. These certificates are the most credible guarantees available to us to demonstrate our responsible purchase of wood fibre. Other important tools include environmental management systems such as ISO 14001, environmental clauses in purchase contracts, supplier self-declarations, and control systems for uncertified suppliers.

The main global challenges related to the management of forests are deforestation in developing countries (which is presently responsible for 20 % of the world's greenhouse gas emissions) and forest biodiversity degradation through the logging of high conservation areas. In order to meet these challenges we have to ensure that more of the world's forest areas are managed on a sustainable basis. Forest certification is an important tool in this context. Currently we are experiencing fruitless discussion and debate on which of the two global certification systems, FSC or PEFC, is superior. Today PEFC is the globally dominant certification umbrella, with a certified forest area twice as large as the FSC umbrella. Norske Skog regards the two global certification systems as equally valuable tools to demonstrate responsible stewardship of the forest resources that our company and customers rely upon.

Both systems are based on inspection and auditing by independent third parties. In our opinion the resources spent debating the relative merits of certification systems would be better spent on addressing the underlying causes of deforestation and forest degradation, and on increasing the area of forest under sustainable forest management certification.

Presently 64 % of Norske Skog's fresh fibre material comes from certified forests. The percentage of certified wood fibre has remained relatively static in Norway. Certified percentages increased in EU and South America and fell slightly in Australasia in 2008. Norske Skog actively encourages the certification of forests. The ability to achieve increased certified wood percentages on an ongoing basis depends to a large degree upon the decisions that forest owners make. The most environmentally friendly form of wood sourcing is to be supplied by locally certified wood sources. In the European countries where we are operating production units, the certified amount of the forest areas are as follows; PEFC 62 % and FSC 1.7 %. Many customers want paper based only on FSC certified wood. From a sustainability point of view it is the total amount of certified wood that is important.

All Norske Skog mills purchasing fresh fibre will have chain of custody certification. The choice of certification system (FSC, PEFC or both) is a local decision made by the mill based on a number of factors including the certification system used on the forests or plantations from which it purchases wood.

//Wood from sustainably managed forests at Norske Skog Bruck

RECYCLED FIBRE

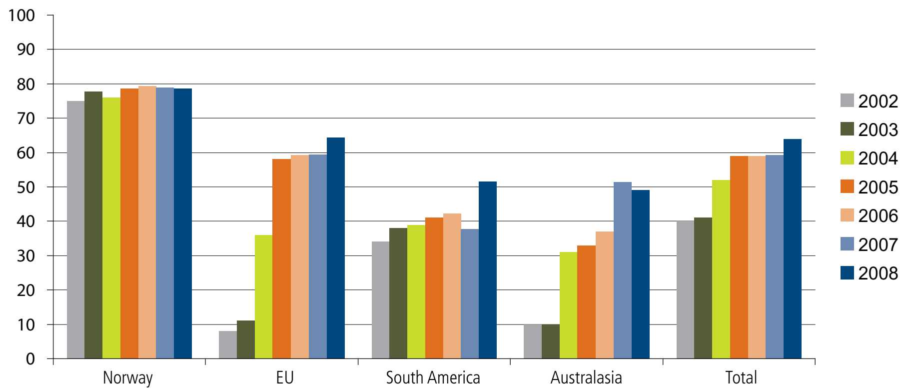
The mills utilising recovered paper consumed 2.1 million tonnes in 2008. Compared to 2007 Norske Skogs use of recovered paper has reduced by 36 per cent. The reduction is caused by the closure of the Steti mill and the sale of the Korean mills Cheongwon and Jeonju which all were considerable users of recovered paper.

Despite this reduction Norske Skog is still among the largest global users of recovered paper for production of publication grade paper.

On a tonnage basis, the largest consumption of recovered paper occurs in continental Europa and Asia. The three Asian mills use recovered paper as their sole raw material.

The use of recovered paper is an important part of Norske Skog's energy and climate change strategies. Paper production based on recovered paper requires less energy than paper production based on fresh fibre. This is because the processing of fresh fibre is much more energy consuming than the separation and processing of the fibres in the recovered paper.

Certified percentage wood fibre 2002-2008



ENERGY CONSUMPTION

Norske Skog is a leading producer of bioenergy, and we are continously making the energy consumption more environmentally friendly

The production of paper is an energy intense process. Energy is consumed for two main purposes:

- to drive production equipment and electrical devices which separate, process and transport fibres and water (electrical energy)
- to provide process heat and to dry paper (thermal energy).

The major use of electrical energy in mills which process fresh fibre is the thermo-mechanical pulping process (TMP) (which converts woodchips into fibre via mechanical means). The majority of electricity used in our mills (92 per cent in 2008) is purchased from the grid. Some mills have the capacity to generate a proportion of their own electricity requirements from biofuel, hydroelectric, natural gas or oil sources.

Thermal energy is used for heating and drying. In contrast with electrical energy, in most cases this thermal energy is generated within a mill. The sources of this energy include recovered heat from the thermo-mechanical pulping process, combustion of mill residues, biofuel, oil, gas or coal. In some cases the thermal energy may be supplied by third parties located externally to the mill or in the form of geothermal energy.

Paper production based on recovered paper consumes less energy when compared with production from fresh fibre because the fibres from recycled paper are more easily separated than those within wood. The sale of the Korean mills and the closure of the Steti mill in 2008 (all of which utilised recovered paper),has resulted in an eight percent increase in the company average energy use per tonne of paper.

In terms of the total consumption of energy by the company, approximately half is purchased as electricity from the grid. The remaining energy sources in 2008 were fossil fuel 17 per cent, biofuel 14 per cent, heat recovery from TMP 10 per cent and other sources 7 per cent. The fossil fuel share of the total energy decreased from 19 per cent to 17 per cent while the share of heat recovered from the TMP process increased from 8 per cent to 10 per cent. Natural gas is the most commonly used fossil fuel, and its share of total fossil fuel consumption increased from 54 per cent 67 per cent in 2008.

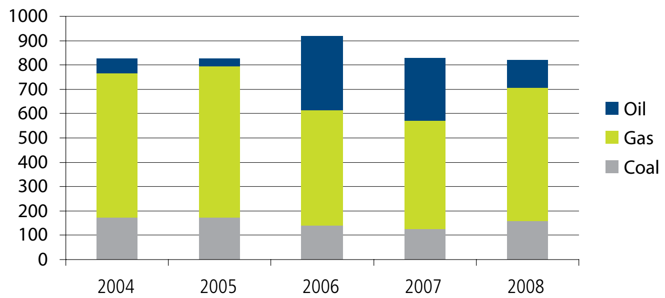
There is significant variation in the thermal energy sources used between different geographic regions. South American mills use 42 per cent bioenergy and very little fossil fuel. Asian mills mainly use fossil fuel and some biofuel. Australasian mills mainly use fossil and geothermal energy. In Europe the mills use similar amounts of fossil fuel, biofuel and heat recovered from the production of thermo-mechanical pulp from fresh fibre.

Organic waste from the production processes is used as biofuel where possible. A number of mills also purchase biofuel from external suppliers. Norske Skog is a leading producer of bioenergy.

ENERGY MANAGEMENT

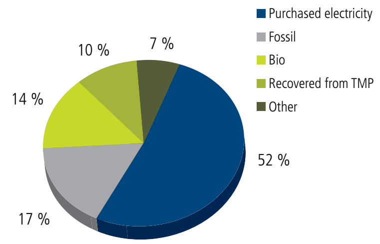
Energy management is included in the company global optimisation program Norske Skog Production System. There is ongoing technical development work to achieve reductions in energy consumption in the TMP process.

Use of fossil fuels (kWh per tonne of paper)

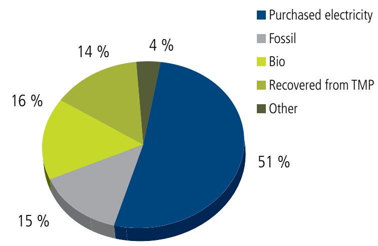


Norske Skog energy consumption, by source

Total 18 139 GWh; 3.73 MWh/tonne



Europe



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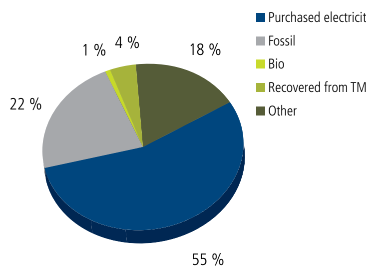
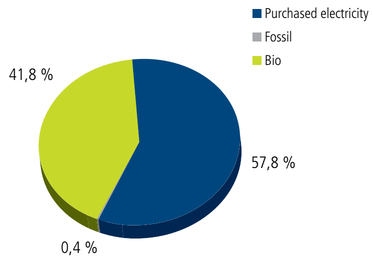
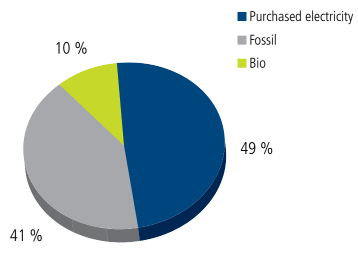


South America



Asia



NORSKE SKOG GREENHOUSE GAS EMISSIONS

A number of internal climate change related activities were undertaken by Norske Skog in 2008 in addition to external policy activities.

These activities included:

- Ongoing review and evaluation of government policies and programs in the countries in which we operate mills.
- A review of energy related investment opportunities for our mills which included an assessment of the greenhouse gas emissions impact.
- Investigations into transport related emissions.
- Development of an internal carbon footprint calculator for our value chain.

The calculator will be rolled out in the whole organisation during 2009.

The 'scope' of the greenhouse gas emissions reported for 2008 covers:

- Direct (referred to as 'Scope 1' in the Greenhouse Gas Protocol) emissions from the combustion of fossil fuels in boilers, combined heat and power plants, infrared drying equipment, mobile machinery and other mill site based equipment, and
- Indirect ('Scope 2') emissions from the purchase of electricity or heat from external sources.

The inventory covers all 15 Norske Skog wholly owned mills for the 2008 calendar year. Calculations were undertaken with the aid of the WRI/WBCSD Greenhouse Gas Protocol Pulp and Paper Workbook.

Based upon the above scope and emission estimation processes, Norske Skog operations emitted 3.16 million tonnes of fossil fuel derived CO2-e in 2008. More than two thirds of this amount came from externally purchased energy.

On a regional basis about 80 per cent of these emissions are arising from the European and Australasian operations.

The emissions per tonne of paper production ranged between 400 kg/tonne of paper in Europe to 1 390 kg/tonne in Australasia. There are a variety of reasons for these variations - the primary reason being the sources of energy used across the company.

The CO2 emissions arising from the combustion of biofuels/organic residues are deemed to be 'carbon neutral'. Direct emissions of biologically sequestered CO2 from the combustion of wood and bark residues are estimated to be 854 000 tonnes. The emissions from effluent treatment and deinking plant organic biofuels have not been included in this figure.

The emissions inventory data presented in this report does not include supply chain transport emissions. Large variations in transport related greenhouse gas emissions were found in the preliminary investigations carried out in 2008. In areas with a high use of fossil fuels the transport emissions accounts for less than 10 per cent of the total greenhouse gas emissions. In countries like Norway where fossil fuels are only a small per cent of the total mill energy use, transport related emissions will be a larger part of the total emissions.

EMISSION COMPARED TO REDUCTION TARGET

The Norske Skog greenhouse gas reduction target aims to achieve a 25 per cent reduction of our greenhouse gas emissions by 2020 compared with 2006 as a base year. In accordance with the WBCSD/WRI Greenhouse Gas Protocol the emission for the basis year 2006 have been adjusted to 3.36 million tonnes CO_2 equivalents. We reduced our greenhouse gas emissions by four per cent in 2008 when compared with 2007. The total emission reduction to date compared to our revised 2006 base year emission is six per cent.

GEOTHERMAL POWER FOR NORSKE SKOG TASMAN

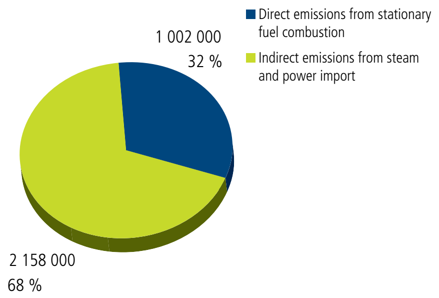
Norske Skog Tasman's geothermal power station is now fully operational and generating at a capacity of 100 MW. Owned by Mighty River Power the plant is sited on Norske Skog owned land and draws steam from Norske Skog and surrounding properties.

The NZ$300 million Kawerau project is the largest single geothermal development in New Zealand in more than 20 years. The station's output significantly increases national generation capacity and meets approximately one-third of residential and industrial demand in the Eastern Bay of Plenty region.

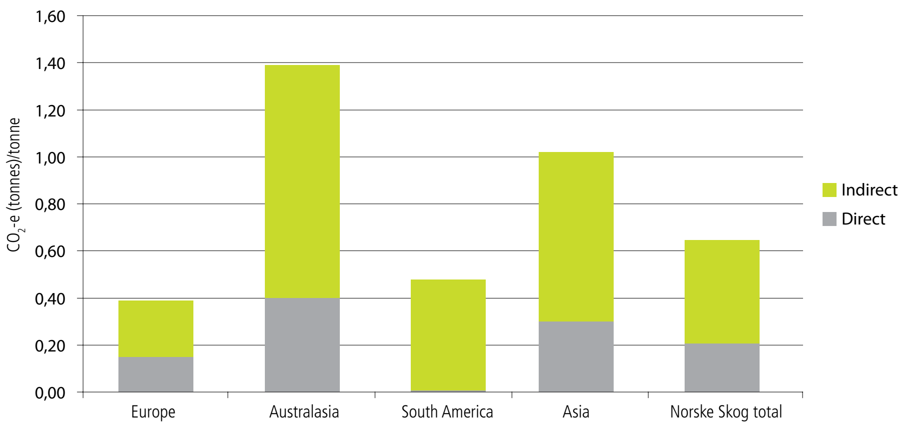
It supplies more than 85% of the power used by the Norske Skog Tasman mill, replacing power currently drawn from the New Zealand grid.

The Kawerau geothermal field is considered a world class resource and capable of sustaining further development. The Tasman mill is unique in the world in using 100% geothermal steam to produce pulp and dry the paper.

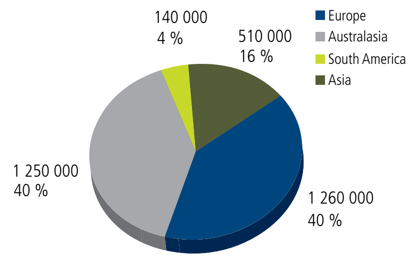
Norske Skog 2008 greenhouse gas emissions (CO_2-e tonnes)



Norske Skog specific greenhouse gas emissions (Tonne CO_2-e / tonne paper)



Norske Skog regional distribution of greenhouse gas emissions (CO_2-e tonnes & % of company total)



NORSKE SKOG GREENHOUSE GAS EMISSION INVENTORY 2008

	CO_2 1 000 tonne	CH_4 tonne	N_2O tonne	CO_2-equiv 1 000 tonne
Direct (Scope 1) Emissions				
Direct emissions from stationary fuel combustion	992	39	5	995
Direct emissions from transportation and mobile sources	7	0	0	7
Total direct emissions	999	39	5	1 002
Indirect (Scope 2) Emissions				
Indirect emissions from steam and power imports	2 158	0	0	2 158
Total Fossil Fuel Based Emissions (Direct & Indirect)	**3 157**	**39**	**5**	**3160**
Combustion-related releases of biomass-derived CO2 *	854			

* wood and bark residues only

OUR CONTRIBUTION TO COMBATING CLIMATE CHANGE

There is mounting evidence of the need for substantial and effective reductions in greenhouse gas emissions in order to avoid significant detrimental effects to nature and mankind. There is also a pressing need for the implementation of a truly global agreement in order to achieve these reductions. While it is difficult to find a solution to this problem that is acceptable to both the developed and developing countries, this should not be a reason for inaction. Industries must be proactive and lead the way without waiting for final political consensus.

On the political scene we are actively participating in local and regional industry associations and in 3C, Combat Climate Change, which launched its roadmap in Washington in November 2007.

Norske Skog has worked for many years to reduce greenhouse gas emissions in our value chain through reducing our energy consumption and optimising our transport of raw materials and paper products. Norske Skog has integrated climate change as a key part of our business strategy and we were ranked among the top Nordic Carbon-intensive companies in the 2008 Carbon Disclosure Project.

In 2007 Norske Skog made a decision to reduce company greenhouse gas emissions by 25 per cent by 2020 when compared with the 2006 base year. In the same year the company decided to build a prototype biodiesel plant. See separate article on Xynergo.

CONTINUOUSLY IMPROVING OUR PRODUCTION PROCESSES

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

The desire to measure this continuous improvement in our mills and as a company over both the short and long term led us to develop an environment index (E-index) 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 and target areas for additional investment
- demonstrate the environmental improvements derived from process changes or investments.

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

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

The divestment of the Korean mills influenced the E-index results for 2008 significantly. If these mills are included the 2008 E-index score achieved was 1.06 which is below the company target. Without these mills the 2008 E-index target and result was 1.10 and 1.11 respectively. Nine mills achieved their own mill based E-index targets and nine mills achieved a score of 1.0 or less. The main reason the present mill portfolio did not reach the company target for 2008 was market based down time of paper machines leading to non optimal production conditions.

Main figures for wholly-owned mills in 2008

Consumption of raw materials	
Roundwood	4 386 000 m3
Sawmill chips	2 162 000 m3
Recovered paper	2 122 000 tonne
Purchased pulp	237 000 tonne
Inorganic fillers	511 000 tonne
Energy	
Electricity	10 200 GWh
Heat	7 900 GWh
Discharges to water	
Discharged process water	83 mill m3
Organic material (COD)	27 100 tonne
Suspended solids (TSS)	3 150 tonne
Phosphorus (Tot-P)	59 tonne
Emissions to air	
CO_2 equivalents (direct)	1 002 000 tonne
SO_2	910 tonne
Production waste	
Sludge (dry)	521 000 tonne
Bark	178 000 tonne
Other	67 000 tonne
Products	
Newsprint grades	3 524 000 tonne
Magazine paper	1 304 000 tonne

Environmental Index		Achieved 2006	Achieved 2007	Achieved 2008*	Target 2008	Target 2009
Discharged process water	(m3/tonne)	19.5	17.0	17.0	16.8	16.8
COD	(kg/tonne)	8.65	6.59	5.56	4.95	4.95
Suspended solids	(kg/tonne)	0.71	0.61	0.65	0.56	0.58
NOx	(g/GJ)	104	124	96	110	103
Waste to landfill	(kg/tonne)	19.5	18.5	21.1	21.9	21.1
Total energy consumption	(GJ/tonne)	12.6	11.3	12.1	11.9	11.9
Environmental Index		**1.16**	**1.11**	**1.11**	**1.10**	**1.10**

*2008 Results presented exclude the Korean mills that were divested in 2008. If these mills performances are Included then the E-index score for 2008 was 1.06

WATER MANAGEMENT

In many parts of the world water is a scarce resource. Contrary to climate change which is a global challenge, the management of water is a local issue. The main global users of water are agriculture, industry and potable water. Water is used in many ways within the pulp and papermaking processes including the

- Separation, conveyance and processing of pulp
- Cooling of equipment
- Dilution or addition of process chemicals
- Generation of steam

Usually most of the water taken into the mill is returned to the waterways after a biological treatment process to fulfil the local quality requirements for water discharges. Although the pulp and paper industry uses large amounts of water, the industry does not consume all this water. It can rather be regarded as a loan of water which is then returned. There is an emerging trend to develop a water footprint that includes use, consumption and the quality aspects.

Water management has been and continues to be a focus within all Norske Skog mills. Norske Skog also recognises that water use and efficiency is linked to the continuous improvement cycle with the company setting aggressive water use targets at the operational level. The ongoing reduction of water use has been achieved by a continuous focus on water use throughout the mills on daily operations, maintenance practices and water efficient design when installing new equipment.

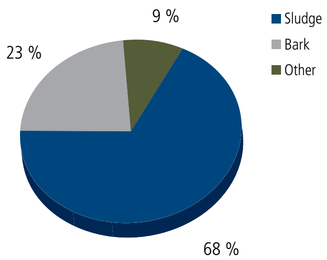
The water management philosophy is based on:

- The mills using counter current water design and water is recycled many times
- Operational control – targets, measurement & monitoring, review of performance
- Investment strategies
- Maintenance
- Education and training of employees

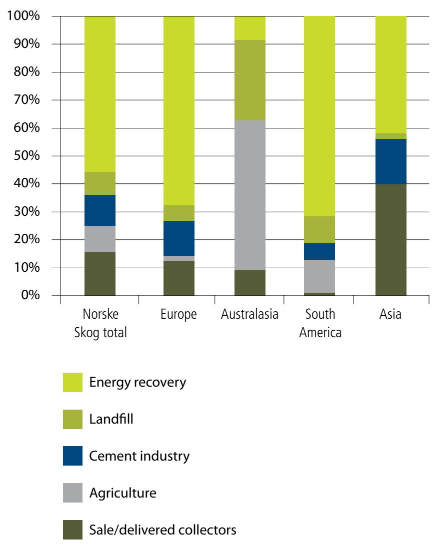
EMISSIONS AND DISCHARGES

We are using numerous technologies to reduce and control the emissions from our mills.

Total production waste generated by Norske Skog mills 2008



Disposal of mill waste in 2008



The manufacture of pulp and paper requires the input of raw materials and energy. The Norske Skog environmental policy and good business practices demand that we make efficient use of these inputs. However, not everything that is brought into the manufacturing process is converted to pulp or paper – a number of emissions and discharges are generated.

AIR EMISSIONS AND SOLID RESIDUES

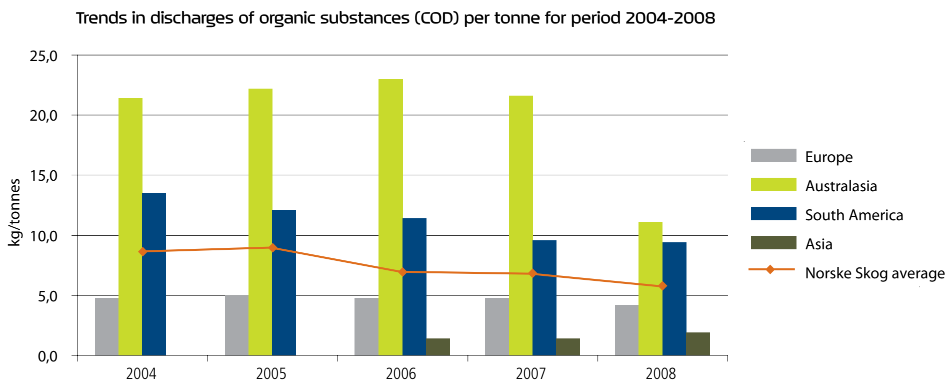
Air emissions occur primarily from energy generation processes, and the majority of solid wastes arise from the processing of fibre inputs (wood or recovered paper) and from the treatment of effluent (fibre and biological solids).

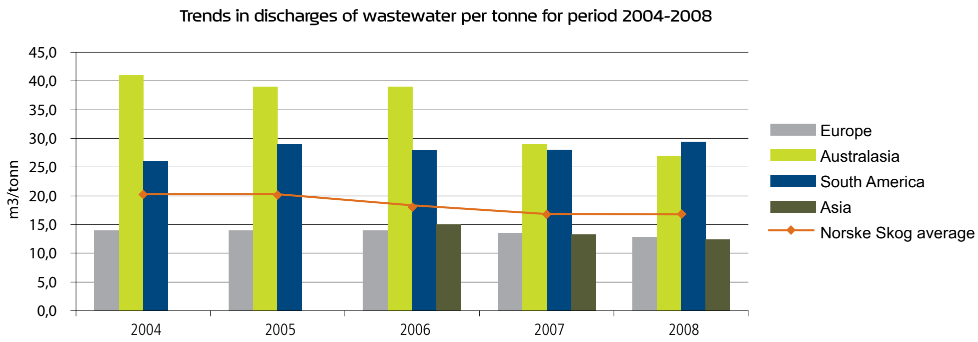
Most of our mills have their own boilers or incinerators for producing thermal energy (heat) from these solid residues. Fossil fuels in the form of natural gas, oil and coal may also be used. The main air emission loads associated with these activities include carbon dioxide, particulates, sulphur dioxide and nitrogen oxides. A number of technologies are used to reduce and control these discharges. Ash residues are produced as a result of the combustion processes involving solid fuels.

The total quantity of production waste generated by the company in 2008 was 767 000 dry tonnes. This is a reduction of 10 000 tonnes for our present mills compared to 2007. In addition about 230 000 tonnes of ash from combustion was generated.

The residues from the production processes are used or disposed of in a number of ways. Where possible, process residues are used to generate energy for the pulp and paper manu-

//Norske Skog makes a valuable effort for the local and global enviroment





facturing process. Other residues, for example ash, are recycled in concrete or brick making, or road construction. Agricultural reuse is also an option for some ash and organic materials (9 per cent in 2008). Approximately 7 per cent of the production residues were deposited in landfills in 2008 compared with 6 per cent in 2006.

Our aim is to continuously reduce the amount of hazardous waste from the production. Hazardous waste made up 0.1 per cent of the production wastes generated in 2008 and the amount was reduced by nearly 50 % compared to 2007. About 60 % of the hazardous waste was waste oil. The hazardous waste is disposed of in accordance with national regulations, generally via government authorised collection systems.

WATER DISCHARGES

Water is used in a number of applications in the pulp and paper-making processes. It is primarily used to move fibre through the production process, but is also used to cool equipment and to generate steam. It is generally used and recovered multiple times through the pulp and paper-making processes before finally being discharged to a number of treatment stages. These treatment stages remove solid particles as well as dissolved organic material, making the water suitable for return to the natural environment.

In 2008 we continued to reduce our water use and improve effluent quality. The discharge of organic substance was reduced by 16 per cent compared to 2007 due to investments in external treatment plants in 2007.

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

PERFORMANCE BY REGION

EUROPE: During 2008 a number of minor permit limit exceedences relating to discharged water or air quality were reported to the authorities by the Follum, Parenco, Skogn and Saugbrugs mills.

The Parenco mill finished its investigations related to vibrations being experienced in the neighbouring area. The issue is expected to be settled through discussions with the authorities and members of the local community during the first half of 2009.

AUSTRALASIA: A secondary effluent treatment plant was commissioned at the Boyer mill in late 2007. This contributed to large improvements in effluent quality (primarily BOD and COD) in 2008.

The Albury mill achieved and maintained a very low specific water use (7.4 m3/tonne), partly as a result of the drought conditions being experienced in the regional water catchment area.

During January an incident occurred where high pH cooling water was released to the Murray River. A penalty notice for $ 1500 AUD was issued by the local authorities.

SOUTH AMERICA: During 2008 the second stage of the Bio Bio mill secondary effluent treatment plant was installed. In December the Bio Bio mill was given the Clean Production Certificate by the Chilean Authorities. The Pisa mill exceeded its permit limits for COD in February, July and November.

ASIA: The sale of the Korean mills in 2008 resulted in a large reduction in the emissions associated with the Asian mills. For our present mills the reductions in average water use continued in 2008. The desulphurisation facility installed in the SNP Shanghai Mill boiler in 2007 resulted in a large reduction in the SO2 emissions in 2008.
The Hebei mill exceeded its permit limits for COD in May.

//From Norske Skog Saugbrugs

TRANSPORT

Our aim is to reduce transport related greenhouse gas emissions through optimising logistics and cooperation with our transport suppliers

TRANSPORT OF RAW MATERIALS

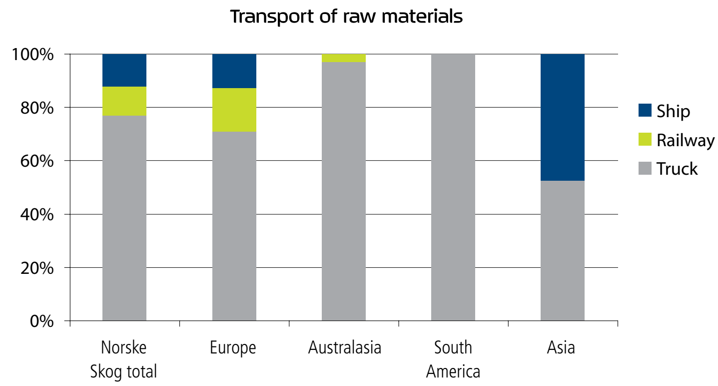
A number of different methods are used to deliver raw materials to our production sites, with considerable local variation. At a company level, trucks dominate the delivery method, accounting for more than 77 per cent of inwards transport in 2008 (down five per cent from 2007). Ship and train deliveries accounted for 11 per cent and 12 per cent respectively. Asia has a larger proportion of its deliveries made by train or ship (47.5 per cent) than the other regions. Due to the sales of our Korean mills the use of train and ship deliveries increased significantly in Asia. There was little relative change in transport means in the other regions.

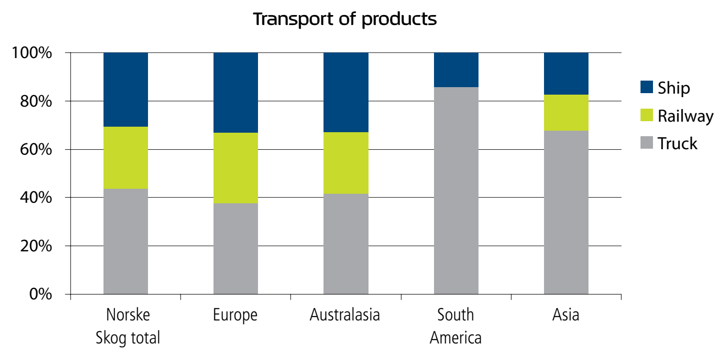
TRANSPORT OF PRODUCTS

In 2008 we transported 4.8 million tonnes of paper products to our customers. The 'balance' of distribution methods used to transport our finished products differs from the supply of raw materials.

At a company level, truck transport continues to be the dominant distribution method with 45 per cent of our finished products using this method (down four per cent from 2007). Rail and ship (up six per cent from 2007) transportation are also important methods of moving our products to the customer.

At a regional level, there were little or no change in Europe and Australasia. There was an increase in the use of trucks and corresponding reductions in ship transportation in South America. In Asia, however, the reverse occurred with an increased volume of products being shipped and a corresponding reduction in truck and rail transportation when compared to 2007.





ENVIRONMENT-RELATED INVESTMENTS

Environmental investments totalling NOK 164 million were made at our mills in 2008.

Most of this spending went towards investments in equipment for increasing the filler content in paper products. Measures to save energy and treat water and effluent also received significant funding.

The presentation of environment related investments often only covers the expenditure side of the equation. While some investments are made to meet changes in regulations, a large proportion of investments are also made to provide financial or other business benefits. For example investments in new equipment or technology which reduce water use will also reduce energy use through reductions in the volumes of water pumped, heated or treated. Investments in solid waste handling systems are often done to improve the suitability of the waste for combustion and heat recovery. Improvements in chemical handling often have an improved health and safety dimension.

The filler project at the Norske Skog Skogn mill is a perfect example of investing for multiple benefits. The project will result in an expansion of the mill's product range thereby maintaining its financial competitiveness, reducing its energy requirement by about 17 % and thereby reducing its greenhouse gas emissions. The project will also increase the use of recovered paper and reduce emissions to the receiving water. The total project investment is NOK 330 million and the investment in 2008 was NOK 100 million.

Norske Skog Follum and Norske Skog Bruck invested NOK 7 and NOK 5 million in energy saving projects related to steam production. A number of other mills implemented smaller energy saving projects.

In 2007 the Norske Skog Bio Bio mill built the first stage for the secondary treatment of the water effluent. In 2008 the secondary treatment process was completed by building a second reactor at a cost of NOK 5 million.

Last year the new biological effluent treatment plant at Norske Skog Boyer was completed. In 2008 NOK 5 million was invested in a composting process to pre-treat the effluent treatment sludge before agriculture use.

Oil burners at Norske Skog Saugbrugs were rebuilt at a cost of NOK 4.5 million to reduce NOx emissions.

A rebuild and change of chemicals used in the bleaching process at Norske Skog Saugbrugs resulted in a lower release of organic matter to the process water and also contributed to better effluent treatment performance. The cost was NOK 3 million.

All mills implemented a number of smaller environmental related projects as part of their continuous improvement programs.

ENVIRONMENT-RELATED OPERATING COSTS

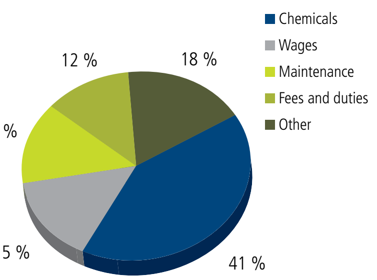
Our environment-related operating costs totalled NOK 317 million in 2008, corresponding to approximately NOK 66 per tonne of product. The cost per tonne of product is similar to 2007 costs. The cost of chemicals in treatment plants and sludge dewatering accounted for 41 % of this spending, while payroll costs and maintenance were responsible for 15 and 14 % respectively. Government taxes and various other charges relating to operating and monitoring treatment plants and waste management accounted for the remainder.

Environment-related costs include environmental investments and environment-related operating costs. Costs shown are based on best estimates, and on spending which we believe has primarily been made to achieve environmental improvements.

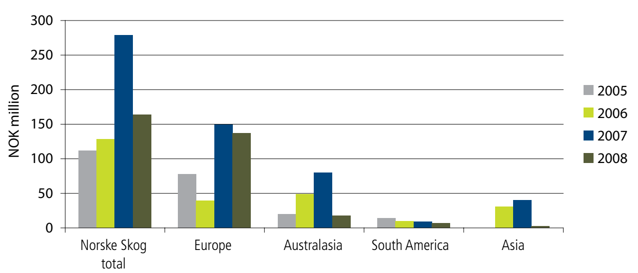
Environmental investments are defined as costs relating to the installation of treatment plants and waste handling equipment, measures to reduce noise, energy saving, environmental monitoring equipment and environment-related rehabilitation.

Environment-related operating costs are defined as the cost of chemicals for treatment plants and sludge dewatering, maintenance of such facilities, salaries for employees involved in environment-related work and treatment plant operation, environment related trials, investigations, fees and taxes, and the operation and maintenance

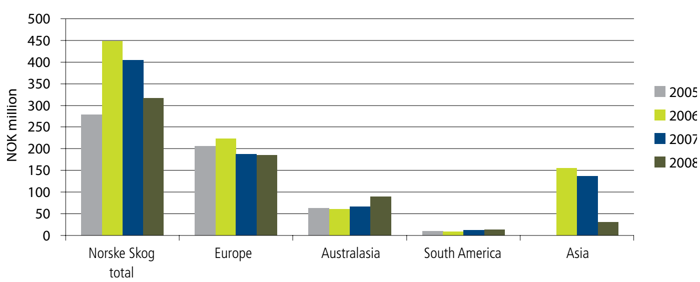
Environment-related operating costs, by type of cost, 2008



Environment-related investments



Environment-related operating costs



XYNERGO - FUELLING THE FUTURE

Norske Skog' s subsidiary, Xynergo, aims to deliver large amounts of environment-friendly, renewable fuel at competitive prices. This is a high-quality fuel produced from low-grade wood. It can be used for transport and stationary applications and can thus contribute to reduce our greenhouse gas emissions.

Norske Skog, Viken BA, Mjøsen BA, Allskog Holding and Statsskog SF have established the company Xynergo AS. The company will address the climate and environment challenges, exploiting the unused growth of biomass in Norway to develop and produce second-generation biofuel. The name Xynergo is of Greek origin. Xyn means forest/tree and ergo means energy.

Norway has a very competitive engineering industry, petroleum industry and wood processing industry. Experience from these industries forms the cornerstones of the belief the owners of Xynergo have in Norway's chances of establishing large-scale biofuel production. The owners of Xynergo provide the company with a good basis, possessing core competence in raw materials handling and logistics.

XYNERGO – STATUS AND IMPLEMENTATION

The climate challenge is not something to be left for later. Norway must implement measures now, and good projects for reducing CO2 emissions are not easy to find. In order for Norway to achieve its climate goals, transport emissions must be reduced. If we envision an ideal solution for clean transport in Norway which entails transport using renewable electricity, we still face challenges in connection with heavy transport, air travel and agricultural and construction machinery. This challenge may be difficult to solve in the short term using renewable electricity or hydrogen as a carrier of clean energy. In our view, the optimal solution is using low-grade wood to produce synthetic bio-diesel.

As the first step, Xynergo wants to build a bio-oil plant and then a large plant for production of synthetic diesel. Studies are underway to look at the feasibility of commercial bio-oil production at Årbogen near Norske Skog Follum at Hønefoss. The studies examine technology solutions and products, as well as plans for access to raw materials, and will be completed in the first half of 2009.

The plant in question is intended to be ready in 2011 and to produce 40 million litres of bio-oil (Xyn-Oil) from wood per year. This can replace 10 per cent of the Norwegian need for fuel oil. Bio-oil production is also important as a bridge to commercial synthetic bio-diesel production, as condensation of energy through bio-oil production makes raw materials access for large-scale Xyn-diesel more cost-efficient.

The next step is to establish a large commercial plant for the production of synthetic diesel, Xyn-diesel. This production will also be based upon raw materials from low-quality wood. The plant is intended to deliver 250 million litres of Xyn-diesel from 2014, generating a need for 2-2.3 million cubic metres of wood. This equals 14 per cent of the current need for diesel for road transport in Norway. Should we find ourselves in a situation where diesel is not necessary in road transport, the plant can easily be modified to produce aviation fuel.

TECHNOLOGY COOPERATION

Earlier this year, German company CHOREN Industries GmbH commissioned the world's first semi-commercial plant for production of synthetic biofuel (BTL, Biomass-to-Liquids) in Germany. In September 2008, Norske Skog / Xynergo and CHOREN entered into an agreement relating to potential cooperation in the field of second-generation bio-fuel production based on forest biomass. CHOREN is a world leader in gasification technology for solid fuel and synthetic bio-diesel production. CHOREN' s facility is in the start-up phase, and will shortly produce about 18 million litres of renewable diesel annually.

PRODUCT QUALITY

Shell, Daimler and Volkswagen AG are among the owners of CHOREN, and they emphasise that the fuel produced by CHOREN will be the fuel of choice for the car industry, as it has all the beneficial characteristics of fossil fuel, and none of the negative. Xyn-diesel™ will provide the desired quality, and can replace fossil products completely or be mixed in 0-100 per cent without requiring any modifications to the infrastructure or the engines under the current warranty schemes.

LONG-TERM ECOLOGICAL SUSTAINABILITY

A major Xyn-diesel production plant will require 2-2.3 million cubic metres of wood. For purposes of comparison, the annual growth is 15.1 million cubic metres per year in Norway. There is also a possibility of increasing the amount of harvestable wood. Responsible harvesting is a key concept in our work. Xynergo maintains a dialogue with SABIMA, the Cooperation Committee for Biodiversity in Norway, to ensure that we are continually challenged on how to collect low-grade wood without harming the forest or its biodiversity.

Xynergo wants to do this right and is asking the hard questions to develop our knowledge and ensure the long-term viability of our project. In Norway, this entails, for example, requesting a review of the Living Forest standard sooner than originally scheduled to ensure that harvesting of low-grade wood takes place in a responsible manner.

Xynergo is building on the strong Norske Skog tradition when we commit ourselves to sustainable forest management, and we are participating in political processes to set proper, long-term requirements for sustainable harvesting of wood, both in a national and international perspective.

Xynergo bio-fuel provides a reduction of fossil CO2 of more than 90 per cent compared with fossil fuel oil and fossil diesel. The production of Xyn-diesel will reduce fossil CO2 emissions from Norwegian road traffic by seven per cent - or 700,000 tonnes, and the production of bio-oil will reduce fossil CO2 emissions by 70,000 tonnes per year. Our production has an isolated energy efficiency of slightly more than 50 per cent. If the steam is exploited in industrial activity, such as drying paper or district heating, the effect will be substantially higher.

//Managing director Klaus Schöffel has great confidence in the XYN-products

XYNERGO FACTS

- Established at Follum, Hønefoss in Norway
- Owned by Norske Skog, 71 per cent, Viken 12 per cent, Allskog Holding 8 per cent, Mjøsen Skog 4 per cent and Statsskog 5 per cent.
- Managing director Klaus Schöffel.

XYNERGO – COMMERCIALLY INTERESTING

- The project will create value.
- The bio-oil project will condense energy which is presently underexploited.
- Xynergo can use waste wood currently deposited in landfills, but which will be banned from landfills from 1 July 2009.
- It is desirable to spread the risk of the establishment of the bio-fuel plant.
- The Xyn-diesel product requires public investment in infrastructure for distribution and utilisation.
- Exemptions from CO2 tax and other taxes when using fuel oil replacements for bio-oil production, and exemptions from CO2 tax and mineral oil tax for the bio-diesel production are desirable.

XYNERGO AND THE ENVIRONMENT

- The authorities and other investors will take action on both the climate, the environment and transport challenges by committing to the project.
- Norway needs to implement measures to come to grips with the climate challenge now.
- Xyn-fuel will entail a 90 per cent reduction in fossil CO2 compared with fossil diesel. Xyn-diesel from a full-scale plant will reduce the emissions from Norwegian road transport by 700 000 tonnes of CO2 annually. The planned Xyn-oil plant will reduce the emissions by 70 000 tonnes per year.
- Xyn-diesel gives lower local NOx, soot and suspended solids emissions than diesel currently in use.
- It is a precondition that the raw materials can be obtained in a sustainable manner. Our estimates show there is enough low-grade wood for at least 1-2 full-scale plants in Norway.
- We see certification as a key element in our "licence to operate" as a sustainable company.
- Large-scale Xyn-diesel production has an energy efficiency of 53 per cent, and substantially more if the residual heat is exploited.

//AUDITOR'S STATEMENT

TO THE MANAGEMENT OF NORSKE SKOG

We have reviewed the environmental information presented in Norske Skog's 2008 annual report, pages 94 – 113 (”the Report”). The report has been prepared by the company's management. Our assignment is to make a statement about the Report.

Our work is based on the international standards for attestation assignments, ISAE 3000 ”Assurance Engagements Other than Audits and Reviews of Historical Financial Information”, issued by the International Auditing and Assurance Standards Board. The purpose and scope of our work has been agreed with the management of the company and includes the matters on which conclusions have been drawn below.

Based on an assessment of materiality and risk, our work has included analyses and interviews, as well as spot check reviews of the underlying documentation for matters covered by the assignment. We have carried out the work we believe necessary to be able to make a statement with a moderate degree of surety. Such verification achieves a lower degree of surety than if we had carried out work of the extent carried out in an audit.

CONCLUSIONS

In our work, we have not learned of any significant matters which give us reason not to assume that:

- The report relates to the most important group-level environmental matters.
- Norske Skog has established routines for collection, collation and quality assurance of environmental data from the mills for use in the report, as described on page 110.
- The overall information which appears as a result of the routines referred to above is consistent with the environmental data reported by the mills and the information is presented in a practical manner in the report.
- The environmental information for 2008 from a sample of two mills visited (Norske Skog Saugbrugs and Norske Skog Walsum) was reported according to the routines referred to above and the data reported are consistent with the underlying documentation submitted to us.
- For all practical purposes, Norske Skog's environmental reporting practice complies with GRI's reporting principles and the GRI Index table referred to on page 110 suitably reflects where information relevant for elements and indicators in the GRI Sustainability Reporting Guidelines can be found in Norske Skog's Annual report for 2008. The table with the UN Global Compact principles, referred to on page 110, suitably reflects where relevant information pertaining to the individual principles can be found in Norske Skog's 2008 annual report.

Oslo, 11 March 2009
Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised Public Accountant
Corporate Responsibility Services

ENVIRONMENT AND CORPORATE RESPONSIBILITY REPORTING

The environment report contains information which Norske Skog believes covers the material environmental aspects of the value chain of the company's activities. Environmental data for 2008 includes wholly owned paper mills which were part of the group as of 31 December 2008. Mills sold in 2008 are not included in the figures for 2008, but they are represented in the historical data unless otherwise stated. Environmental data have been collected from the mills using established reporting routines. These include monthly standardised reporting for the key environmental data as well as a standardised collection of supplementary information on an annual basis. The monthly reporting includes production, consumption of raw materials, energy consumption, emissions and discharges and waste. Data from this reporting is collated by the environment manager on the group level in standardised monthly reports to the corporate management and to the board quarterly. Basis and methodology for the reporting on greenhouse gas emissions and the Environmental Index is described on pages 101 and 103 respectively. The figures in the environmental report are collated and processed with a view towards an as uniform and practical presentation of data as possible. Although great emphasis is being placed on ensuring completeness and correctness, there are uncertainties in relation to some of the figures.

In order to maintain open communication on environmental matters, we want our environmental report to be as correct as possible and hold the highest quality possible. The environmental report has therefore, over a number of years, been audited by the accountancy firm Deloitte. It is our belief that such an audit raises the credibility of the report. In addition, the audit gives us, internally in Norske Skog, greater surety that the data and statements in the environmental report are based on information which has been collected and processed systematically, and that the necessary documentation is available.

Norske Skog also supports the work to develop a global standard for reporting of sustainable development. We therefore use the Global Reporting Initiative's (GRI) guidelines for reporting relating to sustainability as a tool in our work to report environmental and corporate responsibility. Our reporting practice is, in our view, for all practical purposes in line with the GRI reporting routines. On our website, (www.norskeskog.com/gri.aspx), there is a GRI table containing references to where in the annual report relevant information about the various elements and key indicators in GRI can be found. In our opinion, our reporting for 2008 meets with the Level B requirements in accordance with the guidelines.

Norske Skog is committed to contribute to sustainable development. We have signed the UN Global Compact , are members of Global Compact Nordic Network (GCNN), where participants from Denmark, Finland, Norway and Sweden discuss common challenges and the implementation of the ten principles in the UN Global Compact. There is a UN Global Compact table, with reference to where in the annual report relevant information about the ten principles can be found, on our website (www.norskeskog.com/globalcompact.aspx.

MILL FIGURES 2008

		Bruck	Follum	Golbey	Parenco	Saugbrugs	Skogn
Production							
Paper	1 000 tonnes	383	305	593	456	527	510
Consumption							
Roundwood	1 000 m^3	197	561	273	53	681	746
Sawmill chips	1 000 m^3	0	112	365	284	88	174
Recovered paper	1 000 tonnes	223	0	481	429	0	171
Purchased pulp	1 000 tonnes	34	7	0	0	55	4
Pigments and fillers	1 000 tonnes	95	41	6	19	177	2
Electric power	MWh/tonne	1.12	2.91	1.82	1.50	2.76	2.51
	GWh	429	886	1 079	682	1 455	1 281
Thermal energy [1]	GJ/tonn	4.76	6.53	5.18	4.96	5.27	5.93
	TJ	1 825	1 991	3 074	2 262	2 778	3 027
Discharge to water							
Water consumption	m^3/tonne	12.4	15.1	9.5	10.8	16.0	13.2
	1 000 m^3	4 800	4 600	5 600	4 900	8 400	6 700
Organic material (COD)	kg/tonne	3.4	10.3	1.9	3.1	4.8	4.5
	tonnes	1 311	3 152	1 127	1 396	2 536	2 297
Suspended solids (SS)	kg/tonne	0.3	0.7	0.1	0.1	0.2	0.6
	tonnes	96	213	47	36	127	291
Phosphorus (tot-P)	g/tonne	3.5	3.7	16.5	7.8	8.3	15.2
	tonnes	1.0	1.0	10.0	4.0	4.0	8.0
Air emissions							
CO2-e (fossil) (direct)	tonne/tonne	0.58	0.00	0.04	0.43	0.02	0.01
CO2-e (fossil) (indirect)	tonne/tonne	0.02	0.02	0.13	0.44	0.02	0.01
CO2-e (fossil) (total)	1 000 tonnes	228	6	101	398	19	13
Waste [2]							
Waste to landfill	kg/tonne	1.0	11.4	13.8	0.0	13.3	34.1
	tonnes	371	3 484	8 167	0	6 991	17 400
Management systems							
Environmental MS [3]	Certificate	ISO	ISO	ISO	ISO	ISO	ISO
CoC-systems	Certificate	PEFC	PEFC	PEFC	PEFC	PEFC	PEFC
Forestry certification [4]							
Certified (PEFC or FSC)	%	86	100	59	48	69	71

[1] Includes heat recovered from the production process.
[2] Production waste (organic and inorganic)
[3] ISO = ISO 14001 EMAS = EU Eco management and audit scheme
[4] Of the quantity roundwood + sawmill chips + purchased pulp


Walsum	Albury	Boyer	Tasman	BioBio	Pisa	Singburi	HNLC	SNP
403	319	290	291	120	177	125	230	140
0	428	548	214	297	388	0	0	0
418	105	26	463	0	127	0	0	0
0	173	0	0	0	0	160	299	187
65	0	50	3	8	10	0	0	0
156	0	8	6	0	0	0	0	0
1.95	2.32	2.31	3.26	2.29	3.11	0.86	0.95	0.93
783	741	670	949	274	550	108	217	131
6.53	5.81	7.85	9.00	4.37	7.50	4.55	4.06	5.38
2 629	1 853	2 279	2 616	524	1 326	568	932	753
13.6	7.4	31.4	52.1	36.2	24.8	11.5	10.7	16.1
5 500	2 400	9 100	15 100	4 300	4 400	1 400	2 500	2 300
3.8	1.9	24.5	7.8	15.5	5.3	3.3	1.9	0.8
1 518	596	7 119	2 256	1 860	937	414	438	111
0.2	0.1	3.9	2.1	2.1	0.0	0.6	0.4	0.7
64	29	1 135	602	252	7	69	90	95
5.5	1.8	48.1		92.0	10.6	10.2		
2.0	1.0	14.0		11.0	2.0	1.0		
0.06	0.24	0.80	0.19	0.02	0.00	0.35	0.22	0.39
1.17	2.07	0.28	0.52	0.94	0.15	0.46	0.86	0.74
495	736	313	204	114	29	102	247	158
0.0	8.8	103.8	25.4	32.3	0.0	0.0	4.9	11.6
3	2 809	30 151	7 376	3 880	0	0	1 129	1 624
ISO/EMAS	ISO	ISO	ISO	ISO	ISO	ISO		
PEFC	PEFC	PEFC	FSC	PEFC	FSC			
78	63	29	56	3	79	n.a.	n.a.	n.a.

//From Norske Skog Follum

NORSKE SKOG'S CORPORATE SOCIAL RESPONSIBILITY

Norske Skog's vision is to become a world leader in paper production. This is an ambitious vision. This is not just about making paper and money, it is about how we do that. This is why we formulate visions and set targets for a number of areas which are affected by Norske Skog's paper production.

We care about what social responsibility means for our employees, customers, suppliers and the environment. Only by continuously striving for improvement in all areas can we aspire to become the best in the world at what we do. This is something we work on every day.

We have chosen three core values which are meant to make it easier for us to achieve our vision in the daily work: Openness, honesty and cooperation. This report is just one of our many approaches to communicating with everyone with a vested interest in Norske Skog. We know that we are an important part of many communities, we know that we mean a lot to many families in different parts of the world.

In order to manage our conduct, we have prepared an overall set of guidelines, Global policies and ethical guidelines, for everyone who works in Norske Skog. This document does not answer every detail but explains what we believe is right and wrong and where our priorities lie. In addition, we have prepared a set of ethical and legal rules for the different aspects of our activities. All details pertaining to this can be found on our website. www.norskeskog.com

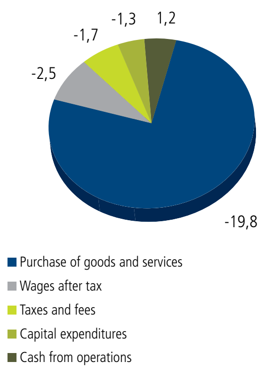
There is no denying that it is a tall order for a company operating on four continents, where different cultures and languages create barriers for cooperation and understanding, to act in accordance with one common set of guidelines.

The purpose of an overall set of guidelines is to ensure that all employees understand what we expect from their conduct. These are not things you can simply decide; they must be converted into actions and these actions must be tested and corrected, time and time again. If such guidelines are to become practical tools, then they must be used in our daily discussion of dilemmas we face, when we are unsure of whether we are doing the right thing in our actions and deliberations.

CONTRIBUTIONS AND DISTRIBUTION BETWEEN EMPLOYEES, OWNERS AND COMMUNITIES

Norske Skog has wide-ranging activities, creating income for many different parties. The most common approach is to consider the distribution of wealth between employees and owners, but the activities generate income for the community and other parties which far exceeds what the employees and owners receive.

Distribution of sales revenue in Norske Skog, 2008 (NOK billion)



The illustration shows that out of NOK 26.5 billion in sales revenue, almost NOK 20 billion was spent on various goods and services. In addition, NOK 1.3 billion was invested in production facilities. Taxes and fees from the employees' wages and tax on the company's earnings was NOK 1.7 billion.

The employees received NOK 2.5 billion after tax. The operations generated NOK 1.2 billion income after investments.

That calculation only includes the operations per se, not sale of properties or the mills in Korea or financial costs.

The calculation shows why large industrial companies are often mainstays of the local community. Should Norske Skog disappear from the economy, demand for NOK 21 billion in goods and services would also disappear. This means a lot to suppliers of goods and services such as wood and pulp, transport services, chemicals and energy, as well as contractors.

The impact for the public authorities is both the direct tax income from employees and the earnings of Norske Skog, but also the tax income from all activities which Norske Skog's purchases generate.

The overall importance of Norske Skog for society as a whole is therefore huge.

HEALTH AND SAFETY 24/7 – TAKE CARE 24 HOURS

Health and safety is a 24/7 issue in Norske Skog. This mentality has yielded good results in 2008 as in earlier years. Good results which will be further developed into new activities, which will then improve the working environment. Our group program, called Take Care 24 hours, is continuously being further developed on the mill level to ensure adaptation to local requirements and needs.

The Take Care 24 hours program will of course have to be adapted to different cultures, but shall always meet the requirements of our health and safety standards for global activities, says director of health and safety in Norske Skog, Jens Borge.

It is through the activities in the Take Care 24 hours program that the company promotes the same attitudes and conduct, both during working hours and free time, for our employees and their families.

Our goal is a safe working environment where health and safety get equal attention in planning and in the daily operations of the company. All employees shall be involved in the improvement of their own, their colleagues', visitors' and sub-contractors' working environment.

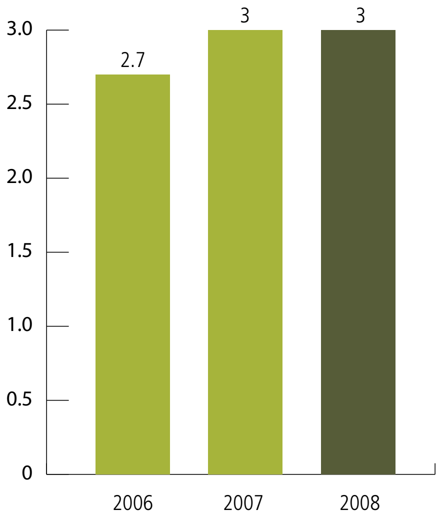
The mills' activities and results are continuously monitored to find new adapted preventive measures which reduce risk and improve the working environment.

In 2008, Norske Skog had an absence due to illness rate of 3%. This is a low figure with variations when comparing all the reporting units.

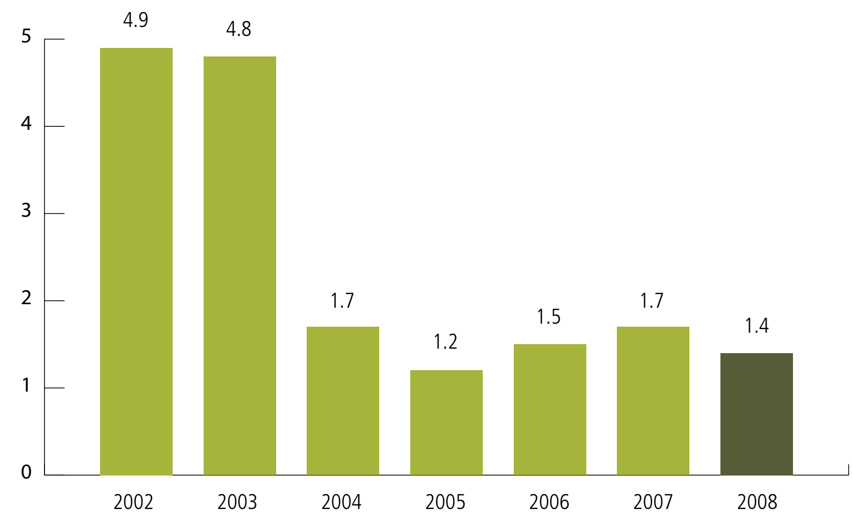
The H1 figure, lost-time injuries, was 1.4 (injury) per million working hours in 2008. The H2 frequency, total number of injuries with and without lost time, was 35 per million working hours in 2008. The risk factor based on analyses of all reported undesirable incidents also shows a clear decline in 2008. Nine of the mills had no lost-time injuries in 2008.

Several years of work to shift the focus from reactive indicators to pro-active initiatives have yielded good results which all employees have contributed to. We are, however, not satisfied with the results and have planned new activities and initiatives for the coming years.

Absence rate developement (per cent)



Lost-time injuries developement (H1)
(Number of lost-time injuries per 1 million working hours)



PEOPLE IN FOCUS

Norske Skog's goal is to develop an organisation with business-oriented, international and highly competent people. We want to give our employees good opportunities for development in an environment that rewards achievements and hard work. Norske Skog emphasises that the best among us shall have the opportunity to develop as employees and individuals regardless of gender or nationality.

Our leaders have a special responsibility for developing and coaching the talents and, through visible leadership demonstrate what is expected from a leader in Norske Skog. This is encapsulated in Norske Skog's management principles. The training program "Spirit of Norske Skog" has been prepared to develop our own managers and employees in accordance with the management principles and core values of the company.

"Norske Skog strives towards a working environment characterised by employees taking responsibility for continuous improvement on a par with the best in the world," says SVP HR & organisation, Kristin Slyngstad Klitzing.

OPENNESS, HONESTY AND COOPERATION

"Norske Skog has processes in place which ensure that all employees have regular development conversations with their supervisors and that regular and constructive feedback is given to our employees," says Klitzing. Norske Skog's core values: openness, honesty and cooperation are deeply embedded values in our organisation.

Norske Skog has an organisation which emphasises the value of cultural diversity; where it is considered unacceptable to discriminate on the basis of race, gender, religion, political beliefs, nationality, cultural background or similar factors. This applies to everyone we meet in our work with each other, customers, suppliers and other stakeholders.

Norske Skog is serious about employee participation and open co-determination. We have a comprehensive cooperation with the employees' representatives on various levels – departments, mills, countries and continents. We believe that, by involving our employees, we ensure good decision processes and a good basis for making decisions. This rationale supports our core values; openness, honesty and cooperation.

NOTIFICATION OF BREACH OF GUIDELINES

Norske Skog's core values are openness, honesty and cooperation. Norske Skog is a company with high integrity and high standards as regards business ethics, the environment and our fellow human beings, and the employees shall notify the management if they discover any deviations.

The whistle-blower rules were formulated in 2007 and implemented in the entire group in 2008. These rules apply to local laws and regulations, as well as business policy.

Should employees or others working for Norske Skog discover cases where laws or guidelines (code of conduct) are breached, they are strongly urged to report this. This could apply to cases of illegal accounting practices, corruption or bribery, unreasonable gifts or kickbacks, embezzlement, insider trading or unacceptable use of inside information or breach of the competition regulations.

All notifications relating to unethical conduct must be subject to documentation. Whistleblowers should give their name, but can in certain instances appear anonymously. The anonymity of the whistleblower will in any case be maintained.

Punishing a whistleblower who reports unethical behaviour in good faith will never be tolerated. This also applies to treatment which can be perceived as punishment, such as dismissal, transfer to another position, suspension, changes in wage terms or issuing warnings.

All notification shall be to the immediate supervisor. If this is not possible, the employee can notify the Norske Skog Compliance TEAM on email compliance.team@norskeskog.com.

LEGAL AND ETHICAL REQUIREMENTS PERTAINING TO SALES

Norske Skog has established group standards for how Norske Skog's employees shall relate to competition law matters all over the world. Explicit rules relating to gifts and entertaining customers are also in place.

Norske Skog's "Global Competition Law Compliance Manual" was updated in March 2007 and provides a detailed description of how sales personnel and other employees in Norske Skog shall relate to national, regional and global competition rules.

The following policy forms the basis for this:

"No employee or anyone else acting on behalf of Norske Skog can enter into an agreement or arrangement which violates competition law in the country where the transaction was entered into."

Norske Skog has established some requirements for its employees in connection with competition matters:

- Do not communicate, discuss or agree on anything in connection with prices, price changes, price methods, discounts, reimbursements, margins, costs or other competition factors with any of Norske Skog's competitors.
- Do not communicate, discuss or agree on anything in connection with market areas, market sharing, customers or suppliers with Norske Skog's competitors.
- Do not discuss or agree on anything in connection with shut-downs, temporary production curtailments, build-ups, conversions, lower utilisation rates or only producing certain paper grades, volumes or quotas.

The same applies to anything which can be perceived as sales or marketing plans.

Nor is it acceptable to refuse to deliver to customers which act in accordance with commercial terms, or discriminate between similar customers. Nor is it permitted to sell paper at prices which are unreasonably high or low

Should an employee in Norske Skog participate in a meeting in an industry organization or similar where sensitive competition-related topics are raised, then the employee must immediately protest against the topic being discussed. Should the discussion not cease, the employee shall immediately leave the meeting.

The purpose of these strict rules is to remove any suspicion that Norske Skog, as a major producer, especially of newsprint, exploits its position to make illegal gains for the company.

HOSPITALITY AND GIFTS

Norske Skog is very conscious that questions relating to bribery or corruption must not arise, and new guidelines relating to gifts and entertaining were therefore laid down in June 2008:

- Gifts received or given must be of a symbolic value, always given or received in a transparent setting and never given or received to achieve any sort of advantage.
- All hospitality towards others must be kept at a moderate level and expensive events must always be agreed on in advance with a director or another member of the company's management.

Gifts or entertaining must never be in violation of national legislation. Money or objects easily converted into cash must never be given.

//CEO Christian Rynning-Tønnesen, chair Kim Wahl and board member Wenche Holen visits Norske Skog Walsum in Germany

//Norske Skog at the Drupa traid fair in 2008

GENDER EQUALITY

Norske Skog wants to facilitate an increase in the percentage of female employees in general and not least in leading positions.

The group belongs to a traditionally male-dominated industry sector with far more male than female employees. There is still just one female mill director among our 15 mills.

2008 STATISTICS

Number of women on the board of directors: 3 out of 10
Number of women among shareholder-elected board representatives: 3 of 7
Number of women among group employees: 14.5%

CODE OF CONDUCT

The first rule for all employees in Norske Skog is to abide by all national laws and regulations. Employees must comply with Norske Skog's regulations as regards competition legislation. (See separate article.)

All transactions, payments, income and assets must be correctly recorded in Norske Skog's accounts.

Norske Skog has developed special guidelines for gifts and entertaining. It is important that gifts and entertaining are not used for the purpose of getting a specific favour in return. (See separate article.)

All employees must ensure that their own interests do not conflict with the company's interests.

Sponsorships must not be given as camouflaged political support or bribes, and emphasis shall be placed on verifying that the funds have been correctly spent.

All forms of corruption will be considered unacceptable and in violation of the company's rules and policy.

Employees must exercise caution when accessing sensitive or confidential information. No employee shall reveal confidential information to anyone outside the company, for instance the media.

Those that receive inside information shall desist from trading in Norske Skog shares or encourage others to do so. Abuse of such information may result in prosecution.

NORSKE SKOG EXPORTS THE NORWEGIAN COOPERATION MODEL

Norske Skog is committed to good and close cooperation with the employees worldwide. A research report prepared by the Institute of applied social science (Fafo) documents this.

The Norwegian working life model is characterised by strong employee and employer organisations, close cooperation between them, and close cooperation between employees and management in the companies.

Espen Løken, Geir Falkenberg and Torunn Kvinge of Fafo, the Institute of applied social science, were tasked with looking at whether Norwegian companies brought elements of the Norwegian model with them when establishing activities abroad, (FAFO report: 2008:32).

Their method was primarily interviews with managers and employee representatives in Norway and the selected countries.

The study shows that Norwegian companies and groups exercise relatively little influence on relations between management and employees locally. The local management has a great degree of freedom to make decisions as regards management style and daily operations, while decisions relating to investments and similar mattes are made centrally

The study looked at major Norwegian companies such as Norsk Hydro, Orkla, StatoilHydro, Telenor and Yara, and found that Norske Skog had the best record.

For example, Norske Skog has signed the UN Global Compact, which includes guidelines for companies' responsibility as regards corruption, freedom of association, human rights, discrimination, the external environment and social development. Norske Skog has reinforced its commitment to these topics by entering into a group agreement with trade unions and Norske Skog is the company which most clearly signals its focus on cooperation with trade unions on its website and in its public policy documents.

Norske Skog is also the only company to explicitly state that cooperation with trade unions and employee representatives is part of its philosophy. This has also been made a binding commitment through the global agreement.

Norske Skog's agreement also includes contractors and suppliers. The agreement states that the parties want to promote basic human and employee rights throughout the supplier chain.

Norske Skog is also the only company with global and regional meetings where employee representatives from all the companies participate.

"The parties believe that every employee has the right to a healthy and safe working environment. Norske Skog is committed to providing this. To achieve industry best practice the company will involve and work with the employees, their representatives and trade unions, to continually improve the company's health and safety performance." (Norske Skog Global Agreement)

The global agreement in Norske Skog has two articles related to wages and conditions. These articles state that the wage shall, as a minimum, cover the basic needs of the employee and his/her family, and that temporary employees shall have the terms as permanent employees.

This agreement was applied in Brazil when the mill in Pisa was acquired. A large percentage of the workers were hired through a contractor company, with poorer terms than the permanent employees. This was put to rights with reference to the global agreement, and everyone got the same terms.

Furthermore, the articles state that all employees shall have access to relevant education and training.

Norske Skog is pointed to as an example of a company where the dialogue between trade unions and the management is very good. One example is Jaguariaiva in Pisa, Brazil. Both employees at the trade union office are Norske Skog employees, and 22 employees are on the trade union board. The company holds meetings with the trade union twice monthly, and the union has free access to the mill area. The union holds its meetings there, so that it can maintain good communication with the employees. All important issues, such as restructuring, reorganisations and possible curtailments, are discussed with the trade unions.

RESPONSIBILITY FOR THE SUPPLY CHAIN

Norske Skog assumes the responsibility for the input factors the company uses in its production satisfying the requirements we set in our own production. The control of the supply chain is an important factor in achieving recognition for the leading position we strive for among the world's paper producers.

Norske Skog purchased goods and services for almost NOK 20 billion in 2008. The requirements we set for our suppliers are therefore of great social importance. Norske Skog has its own policy for purchase of energy, timber and transport services. In addition, all purchases are subject to general guidelines and our environmental policy.

TIMBER

All timber purchased by Norske Skog shall be from sustainably managed forests. This requirement applies to all units, all over the world. This is a requirement with a basis in Norske Skog's environmental policy.

This means that Norske Skog only purchases timber certified through FSC or PEFC or corresponding schemes, or if there is a written guarantee that the forest is managed in line with national rules and regulations. Norske Skog does not accept illegally logged timber.

TRANSPORT

Transport is a very large and important part of Norske Skog's activities. Large amounts of raw materials – timber, chips, recovered paper, chemicals and energy - are transported to the mills and 5.4 million tonnes of paper are transported to the customers. The paper is often transported long distances. The choice of transport carrier is therefore is therefore of great environmental importance.

Norske Skog has policies for the choice of transport carrier:

- Always fully utilise the capacity of the chosen transport carrier.
- Look for efficient intermodal transport solutions (transferring from boat to rail to road).
- Minimise emissions and discharges when choosing the supplier
- Look for vehicles with the most recent environmental standards
- Use boats with environmentally friendly fuel and cleaning equipment
- Use electric trains where they exist and are efficient

The rules apply to all business units in Norske Skog and the company will work to ensure that all transport suppliers employ the same environmental standards as Norske Skog.

ENERGY

Norske Skog's energy policy sets high standards for consumption, production and purchase of energy (electricity and heating) in the company's operations. High energy utilisation and ambitious environmental goals reflect the fact that energy is a scarce resource and that energy production can harm the environment.

Energy is part of the mills' recognised management systems and improvements will be continuously assessed and implemented to the extent technically and financially acceptable.

Norske Skog has set the following goals for consumption, production and purchase of energy:

- High energy utilisation in the production is the basic goal.
- The mills will be continuously improved to minimise energy consumption and emissions.
- Each mill shall have its own goals for reducing energy consumption with associated annual plans.
- The responsibility for reducing consumption and emissions must be clearly defined and the employees must be given training so that they know and understand the energy policy and the resulting expectations.
- Organic waste from the production processes will primarily be used in energy production, and using renewable energy is a priority.
- The objective is to produce energy in the most efficient manner.
- When purchasing energy, priority shall be given to energy produced with the lowest possible emissions of greenhouse gases, given that the terms are commercially acceptable.

KEY PEOPLE FIGURES - BY END 2008

Mill - Unit *)	Number of employees (FTE) End of December 2008**) Ordinary	Temporary	Other employees	Total	Average age of ord. employees End 2008	Average seniority of ord. employees End 2008	Male and femal employees in % of ord. employees Male End 2008	Female End 2008	Turnover ***) of people in % (incl. retirement) YTD 2008	% of employees covered by trade union collective agreements End 2008	Average training hours for training/development per. employee ****) YTD 2008
Albury	232	21	8	261	44,6	13,9	94,4	5,6	1,5	70,0	19,9
Boyer (incl BSC and TFM)	334	39	-	373	44,5	19,0	90,0	10,0	10,0	78,0	48,0
Tasman	355	18	10	383	48,1	21,0	91,5	8,5	15,5	70,9	121,0
Sydney+RFD	30	-	5	35	41,0	11,5	73,1	26,9	-	-	5,6
AA Total	**951**	**78**	**23**	**1 052**	**45,8**	**18,3**	**91,1**	**8,9**	**9,7**	**70,9**	**67,1**
BioBio	232	19	-	251	44,0	17,0	8,1	91,9	1,3	64,5	46,0
Pisa	308	14	1	323	41,3	13,3	91,0	9,0	0,8	95,2	6,9
SA Total	**540**	**33**	**1**	**574**	**42,5**	**14,9**	**55,4**	**44,6**	**1,0**	**82,0**	**23,7**
Follum	414	27	4	445	44,0	19,5	88,0	12,0	14,1	91,0	32,0
Saugbrugs	595	47	18	660	46,0	23,0	93,0	7,0	10,0	94,0	33,0
Skogn	495	42	-	537	47,2	21,8	95,0	5,0	7,4	91,6	55,0
Corporate+Corp.Func.+ Union	133	1	45	179	45,6	11,6	71,0	29,0	21,0		25,0
Norway total	**1 637**	**117**	**67**	**1 821**	**45,8**	**20,8**	**90,6**	**9,4**	**11,1**	**84,9**	**38,7**
Bruck	440	43	13	496	38,0	16,0	91,0	9,0	7,3	100,0	33,0
Golbey	427	18	15	460	42,0	11,5	87,5	12,5	4,4	100,0	51,0
Parenco	420	-	5	425	46,0	20,0	97,0	3,0	2,0	99,0	12,4
Walsum	523	44	2	569	48,0	23,0	94,0	6,0	8,0	92,0	16,0
Sales offices Europe+US	121	1	-	122	44,7	8,4	47,2	52,8	6,4	14,0	48,9
Antwerp (BSCE, LOG, RP)	42	9	2	52	41,9	7,7	40,0	60,0	17,0	-	24,0
Reparco	52	19	-	71	42,0	12,0	79,0	21,0	6,0	6,0	1,0
Europe Total	**2 026**	**133**	**37**	**2 196**	**43,7**	**17,0**	**88,3**	**11,7**	**5,9**	**88,1**	**28,1**
China - SNP	239	-	-	239	36,9	10,1	90,2	9,8	4,9	95,3	20,0
China - Sales	24	-	-	24	36,1	5,4	50,0	50,0	12,5	-	32,0
China - HNLC	249	-	-	249	31,3	3,2	89,6	10,4	16,4	-	41,0
Thailand - Singburi/Bangkok	258	2	-	260	41,0	12,0	73,1	26,9	3,8	78,0	38,9
Singapore - NSPA	15	-	1	16	40,1	5,0	31,3	68,8	0,1	-	40,0
Asia Total	**785**	**2**	**1**	**788**	**36,5**	**8,3**	**82,0**	**18,0**	**8,3**	**54,7**	**33,6**
Totals	**5 938**	**363**	**130**	**6 430**	**43,5**	**16,9**	**85,5**	**14,5**	**7,8**	**79,5**	**37,6**

//The children participating in Young Reader are eagerly reading newspapers

YOUNG READER

The cooperation between the World Association of Newspapers (WAN) and Norske Skog reached its sixth year in 2008, and the program has achieved noteworthy results. The number of participating students, teachers, schools and nations is rising steadily, as is the interest and commitment from newspaper publishers all over the world. Young Reader activities have been initiated in several new countries in 2008.

SOCIAL OBJECTIVES

- Encourage children to become good citizens, improve their reading skills and stimulate their interest in newspaper reading.
- Contribute to promote freedom of expression and the development of new democracies.
- Strenghten the educational role of newspapers.

COMMERCIAL GOALS

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

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