NORSKE SKOG 2004

Q1 report

CEO Jan Oksum:
Pursuing efficiency and growth

Customers in focus

Improvement 2003 on track

Proactive on environmental cooperation

Continued weak result in Q1

Norske Skog

Customers in focus

Trust between customer and supplier is important. In order to build this confidence, everyone's working day needs to focus on the customer. That applies as much to the receptionist in the sales office and the winding crew at the mill as to the CEO.

Customers notice when we understand their business, when we respond very quickly and when we deliver what we promise. Our customers must be assured that all their dealings with us are based on our key corporate values of openness, honesty and cooperation.

Ensuring customer satisfaction is part of the challenge in everyone's job. Since the leadership change on 1 January, a working group has been established to increase the focus on customers through an active interaction with different functional areas such as production, finance and supply and logistics. This team will initiate cross-departmental activities which encourage customer focus while meeting the goals of Improvement 2003.

The company's customer focus is monitored through customer surveys, development of market share and statistics on claims. We will continue to check the effectiveness and efficiency of our service to ensure that it meets customer expectations, and all employees are expected to help achieve our global standards of performance.

Our aim is a continuous improvement in our position as a competitive supplier, making sure that our business remains profitable. We want our customers to prefer doing business with us because we provide the best overall combination of product, service and support. Doing this will help to ensure that paper remains a vibrant and effective communication medium.

Jan-Hinrich Clasen
Senior vice president, sales and marketing

Pursuing effi

Efficiency improvements and enhanced results. Investment to exploit the company's advantages. Growth when the time is right. These were the unambiguous messages delivered by Jan Oksum to Norske Skog's AGM.

The new chief executive took a clear and optimistic view of the future: "We face another difficult year in 2004. But our ability to handle these conditions has been strengthened in comparison with the previous recession in the early 1990s. Gross margins in 2002 and 2003 were significantly better than in 1993 and 1984.

"The main reason for this is an extensive restructuring of the business and a rigorous focus on cost efficiency. When our Improvement 2003 programme concludes at the end of 2004, we will have improved our results by NOK 2 billion. This will provide us with a lasting competitive advantage in coming years."

Mr Oksum guaranteed that the group would not be relaxing its efforts to achieve ever greater cost efficiency. "The real price of paper is declining by an average of one-two per cent annually. At a minimum, we must achieve a corresponding reduction in costs."

New and old traditions meet at the Hebei construction site.

GROWTH

Jan Oksum
President and CEO

"When we talk about growth, it's important to be clear about the international picture," he said. "Asia and South America are future growth markets, with Asia in particular due to see a strong increase in paper consumption over coming years.

"Our 50 per cent interest in PanAsia Paper means we are well positioned in this part of the world, with substantial production capacity in Thailand, China and South Korea. This position will be further strengthened through PanAsia's involvement in building a new Chinese paper mill in Hebei. With an annual capacity of 330 000 tonnes of newsprint, this facility will come on stream in the second half of 2005."

Norske Skog is also strongly placed in Australasia (Australia and New Zealand), Mr Oksum noted. "Our three paper mills in this region operate in a growth market. Demand increased in 2003 by five per cent for newsprint and 11 per cent for publication paper as a whole.

"The market picture in western Europe and North America is more complex. There are no grounds for expecting any substantial growth in newsprint demand. However, the magazine paper market is developing

ciency and growth

The production line at PanAsia's new newsprint mill is already taking shape.

positively. If we include eastern Europe, the picture becomes more nuanced. This region is experiencing substantial growth in general paper consumption."

GLOBAL PRODUCER

Exploiting the advantages conferred by Norske Skog's position as a global producer of paper is important, the chief executive added. "Future investment must be channelled where it yields the highest return. Markets must be served from the mills with the lowest costs delivered to the customer. Development must build on our core competence and on giving priority to mills with good competitiveness in the long term. In mature markets, such as North America and western Europe, new investment will not normally lead to any increase in production capacity."

Mr Oksum said that the company is well prepared for the future. "The conversion to our present global structure has taken place over seven-eight years. We will now be exploiting our strong global position, and develop further competitiveness. We will build further on our strong positions in growth markets and in the southern hemisphere, with good access to low-cost fibre.

"Our ambitions and course are fixed. Our ability to take decisions and create opportunities have brought us where we are today. These qualities will continue to characterise our activities."

The annual general meeting and the meeting of the corporate assembly took place on 15 April. While the composition of the board remained unchanged, some changes were made to the membership of the corporate assembly. See www.norske-skog.com. The AGM elected a new auditor for the parent company, and a corresponding resolution will be made by the various group companies so that PWC becomes auditor for the whole of Norske Skog.

Continued weak result

- Increased revenue and volume in Q1 2004.
- EBITDA margin of 18.8 % - in line with Q1 2003 when gains from energy trading are excluded.
- Achieved NOK 415 million through the Improvement 2003 programme in Q1.

RESULTS Q1 2004

KEY FIGURES, GROUP:

		Q1 2004	Q1 2003	2003
Operating revenues	NOK mill	6 075	5 555	24 068
EBITDA	NOK mill	1 141	1 183	4 686*
EBIT	NOK mill	267	380	1 401*
(Loss)/gain currency hedging	NOK mill	(121)	(213)	(278)
Pre-tax earnings	NOK mill	(143)	710	770**
Net earnings	NOK mill	(140)	290	402
Cash flow	NOK mill	844	500	2 973
Earnings per share	NOK	(1.05)	2.19	3.04
Cash flow per share	NOK	6.37	3.78	22.45
EBITDA margin	%	18.8	21.3	19.5*
EBIT margin	%	4.4	6.9	5.8*
Deliveries	1 000 t	1 267	1 225	5 236
Production	1 000 t	1 336	1 285	5 238

** Before reversal of restructuring costs of NOK 135 million for 2003 as a whole.*
*** After restructuring costs.*

Group earnings

Operating revenues were nine per cent higher in the first quarter than for the same period in 2003. With the exception of South America and spot markets in Asia, prices measured in local currencies declined, but deliveries increased slightly more than three per cent. A weakening in the Norwegian krone against most currencies had a positive effect on operating revenues.

First-quarter operating earnings declined by NOK 113 million compared with the same quarter in 2003. When making this comparison, it should be kept in mind that Norske Skog had a gain of NOK 143 million on power trading in January-March 2003. Power trading gains in the first quarter of 2004 were NOK 18 million. Costs increased as a result of higher pulp prices, particularly in the European magazine paper sector, and a slight increase in energy charges. The weakening of the Norwegian krone had a negative effect on expenses when consolidating foreign currencies to the group accounts. Overall, operating earnings increased by approximately NOK 120 million as a result of currency changes. The gross operating margin was essentially unchanged from the first quarter of 2003 after adjusting for the gains on power trading.

The improvement programme continued as planned. The first-quarter effect was NOK 415 million, which corresponds to an annualised effect of NOK 1 660 million.

Operating revenues for the first quarter declined by eight per cent from the fourth quarter of 2003, and operating earnings were NOK 69 million lower. This largely reflects seasonal effects, particularly in Europe, and shutdowns for modification work at three of the mills.

Total financial expenses declined by NOK 197 million from

IMPACT OF SPECIFIC ITEMS

The table below shows how certain specific items have influenced pre-tax earnings over the past five quarters (figures in NOK million).

	Q1 04	Q4 03	Q3 03	Q2 03	Q1 03
Restructuring cost (op earnings)	-	135	-	-	-
Power trading gain (op earnings	18	-	11	37	143
Translation effects on accounts receivable and payable (op earnings)	36	9	(28)	50	32
Write-down MNI (affiliated co)	-	(38)	-	-	-
Currency hedging gain/(loss) (financial items)	(121)	(15)	77	(128)	(213)
Gain/(loss) on sale of power stations, etc (other items)	-	(96)	3	-	907

FINANCIAL ITEMS

		Q1 04	Q1 03	2003
Net interest exp	NOK mill	(182)	(247)	(897)
Gain/(loss) currency	NOK mill	(121)	(213)	(278)
Other financial items	NOK mill	(23)	(63)	(166)
Total financial items	**NOK mill**	**(326)**	**(523)**	**(1 341)**

Profit and loss account

NOK million	Jan-Mar 04	Jan-Mar 03	2003
Operating revenue	6 075	5 555	24 068
Distribution costs	(548)	(470)	(2 103)
Other operating expenses	(4 386)	(3 902)	(17 279)
Operating earnings before depreciation	1 141	1 183	4 686
Depreciation and amortisation	(874)	(803)	(3 285)
Operating earnings before provision for restructuring costs	267	380	1 401
Provision for restructuring costs	-	-	135
Operating earnings	267	380	1 536
Earnings from affiliated companies [1]	(84)	(54)	(239)
Financial items	(326)	(523)	(1 341)
Other items	-	907	814
Earnings before taxation	(143)	710	770
Taxation	4	(420)	(364)
Net earnings	(139)	290	406
The minority's share of net earnings	1	-	4
The majority's share of net earnings	(140)	290	402
Earnings per share	(1.05)	2.19	3.04
Earnings per share fully diluted	(1.05)	2.19	3.04

[1] Earnings from affiliated companies are included after taxation.

Statement of cash flow

NOK million	Jan-Mar 04	Jan-Mar 03	2003
Cash flow from operating activities			
Cash generated from operations	6 259	5 893	23 948
Cash used in operations	(5 236)	(5 088)	(19 731)
Cash from net financial items	(170)	(221)	(1 059)
Taxes paid	(9)	(84)	(185)
Net cash flow from operating activities	844	500	2 973
Cash flow from investment activities			
Investments in operational fixed assets	(277)	(187)	(1 200)
Sales of operational fixed assets	2	12	15
Other investments	-	-	(179)
Net cash from sold shares in subsidiaries [1]	-	1 268	1 294
Net cash flow from investment activities	(275)	1 093	(70)
Cash flow from financial activities			
Net change in long-term liabilities	(813)	(1 453)	(1 665)
Net change in short-term liabilities	432	(286)	(454)
Dividend paid [2]	(12)	-	(795)
New equity	-	-	59
Net cash flow from financial activities	(393)	(1 739)	(2 855)
Translation difference	6	22	14
Total change in liquid assets	182	(124)	62

[1] In 2003 the amount mainly consists of cash from sale of power stations in Norway.
[2] For Q1 2004 the amount relates to dividend paid to minority shareholders in PanAsia.

Balance sheet

NOK million	31-03-04	31-03-03	31-12-03
Intangible fixed assets	4 669	4 828	4 727
Operational fixed assets	32 087	32 032	31 870
Long-term receivables and affiliated companies	2 671	2 658	2 622
Fixed assets	39 427	39 518	39 219
Inventory	2 719	2 327	2 321
Receivables	3 724	3 501	3 868
Short term investments	499	403	596
Liquid assets	613	341	334
Current assets	7 555	6 572	7 119
Total assets	46 982	46 090	46 338
Paid in equity	8 464	8 424	8 445
Retained earnings	11 051	10 542	10 774
Minority interests	204	163	197
Shareholders' equity	19 719	19 129	19 416
Deferred taxes	2 493	2 802	2 497
Interest-free long-term liabilities and other obligations	862	914	872
Interest bearing long-term liabilities	17 831	17 313	18 033
Interest free current liabilities	5 056	5 067	4 864
Interest bearing current liabilities	1 021	865	656
Total liabilities and shareholders' equity	46 982	46 090	46 338

Financial key figures

	Definitions	Jan-Mar 04	Jan-Mar 03	2003
Net operating margin before restructuring costs %	1	4.4	6.9	5.8
Net operating margin after restructuring costs %	1	4.4	6.9	6.3
Gross operating margin before restructuring costs %	2	18.8	21.3	19.5
Gross operating margin after restructuring costs %	2	18.8	21.3	20.0
Equity ratio %	3	42.0	41.5	41.9
Equity ratio excl. minority interests %	4	41.5	41.1	41.5
Net interest bearing debt		17 740	17 434	17 759
Net debt/equity		0.90	0.91	0.91
Net debt/equity excl. minority interests		0.91	0.92	0.92
Earnings per share after taxes	5	(1.05)	2.19	3.04
Earning per share - fully diluted		(1.05)	2.19	3.04
Cash flow per share after taxes	6	6.37	3.78	22.45
Cash flow per share - fully diluted		6.37	3.78	22.45

Definitions:
1: Net operating margin = operating earnings : operating revenue
2: Gross operating margin = operating earnings before depreciation : operating revenue
3: Equity ratio = shareholders' equity : total assets
4: Equity ratio excl. minority interests = (shareholders' equity - minority interests) : total assets
5: Earnings pr. share = net earnings : average number of shares
6: Cash flow per share = cash flow from operating activities : average number of shares

Changes in equity

NOK million	31-03-04	31-03-03	31-12-03
Total equity excluding minority interests 1 January	19 219	17 764	17 764
Earnings	(140)	290	402
Provision for dividend	-	-	(795)
Change in own shareholding	33	-	14
Currency translation adjustments and other	403	912	1 834
Total equity excluding minority interests	**19 515**	**18 966**	**19 219**

the first quarter of last year, and interest costs were down by NOK 65 million. The loss on cash flow hedging in foreign currencies totalled NOK 121 million, which reflects a three per cent weakening of the Norwegian krone against Norske Skog's trade-weighted currency index during the quarter. Because of the relatively weak krone, the level of hedging was high and was 85 per cent at 31 March. Currency hedging losses will be more than offset over time by higher operating earnings if the Norwegian krone remains at its present exchange rate.

AFFILIATED COMPANIES

The net loss in the quarter contributed by affiliated companies was NOK 84 million. NorskeCanada, owned 29.4 per cent by Norske Skog, accounted for a loss of NOK 81 million. The remainder derived from Malaysian Newsprint Industries, owned 34 per cent by Norske Skog.

NET RESULT

The net result for the first quarter was a loss of NOK 140 million (NOK 1.05 per share). This loss compares with a profit of NOK 290 million (NOK 2.19 per share) in the same period of last year, which included NOK 465 million in net gains from the sale of power stations in Norway.

CASH FLOW

Cash flow in the first quarter increased by NOK 344 million from the same period of 2003. There was a seasonal increase in working capital of NOK 118 million over the quarter, compared with an increase of NOK 378 million in the first quarter of 2003. Cash flow per share was NOK 6.37 (2003: NOK 3.78).

Improvement 2003 programme

An improvement of NOK 415 million was achieved in the first quarter compared with the first quarter of the 2002 base year. This corresponds to an annual enhancement in competitiveness of NOK 1 660 million.

To calculate the accounting effect from the start of the programme until 31 March 2004, adjustments must be made for improvements achieved in the first quarter of 2003. These are calculated to total NOK 115 million, which gives an accounting effect of NOK 1 255 million since 1 January 2003 and NOK 300 million for the first quarter of 2004 alone.

	Baseline 2002 (NOK mill.)	Reduction target (NOK mill.)	Achieved since 1.1.03 (NOK mill.)
Mill operations			
Payroll costs, prodn and maintenance	2 800	450	199
Corporate and mill overhead			
Payroll costs	800	250	170
Other prodn and admin	1 200	200	108
Supply costs			
Raw materials	4 900	150	152
Other variable costs	4 800	250	202
Maintenance, etc	2 000	200	64
Distribution costs			
Logistics and distr costs	1 800	150	112
Sales and prodn optimisation		350	248
Total	18 300	2 000	1 255

The improvement in results is compared with the 2002 base year. To ensure genuine comparisons, external factors outside Norske Skog's control have been taken into account. These include changes in paper prices, exchange rates and prices for input factors – chemical pulp, recovered paper and energy.

At 31 March 2004, Norske Skog had reduced its workforce by 871 people compared with the figure for the third quarter of 2002. Seventy-three per cent of the total downsizing has so far been completed.

Active efforts to identify further improvement measures are on-going. Continuous improvement will remain an important element in Norske Skog's mode of working going forward, and will form part of its regular work on performance targets and budgets.

Financial position

Norske Skog has a good repayment profile on its loan portfolio, with an average term to maturity of 7.2 years. The repayment schedule ensures financial flexibility. The company secured, on competitive terms, a five-year revolving credit facility of USD 500 million on 2 April. This replaces an existing undrawn USD 450 million credit from 1998.

Standard and Poor's amended Norske Skog's credit rating in April to BBB- Stable Outlook from BBB Negative Outlook. This change has no significance for interest charges on the company's long-term debt. Moody's rating remains unchanged at Baa3.

Net interest-bearing debt was virtually unchanged during the first quarter. Gearing – net interest-bearing debt divided by equity – was 0.91 at 31 March, which is line with the company's target. The weakening of the Norwegian krone during the quarter had the following effects on the balance sheet: assets up by NOK 700 million, debt increased by NOK 300 million and equity increased by NOK 400 million. Equity per share at 31 March was NOK 144.40.

At 31 March, the group had NOK 7.5 billion in liquid reserves in the form of long-term drawing rights and cash.

INVESTMENT

Capital spending on fixed assets was NOK 277 million in the first quarter, which included modifications at Norske Skog Skogn, Norske Skog Bruck and Norske Skog Saugbrugs as well as Norske Skog's share in the new PanAsia newsprint mill under construction in China's Hebei province. Contracts covering 50 per cent of the total investment for this project have now been placed, and the mill buildings are currently under construction. All signs are that the work will be completed within the estimated budget of USD 300 million.

The modifications at Norske Skog Bruck and Norske Skog Saugbrugs were carried out to meet stricter quality standards, and the subsequent start-ups have been good.

Implementing IFRS

Norske Skog will present accounts in accordance with International Financial Reporting Standards (IFRS) from the first quarter of 2005. Among significant changes, amortisation of goodwill will no longer be permitted. For a more extensive description of possible changes following the conversion to IFRS, see note 1 to the accounts in Norske Skog's annual report for 2003.

Share development

A total of 243 440 shares were sold to 1 324 employees in the annual employee share sale, representing a 24 per cent increase in the number of shares, and a 28 per cent increase in the number of participants compared to last year. The shares were sold at NOK 104 each, representing a 20 per cent discount on the market price.

A total of 54 million Norske Skog shares were traded on the Oslo Stock Exchange in the first quarter, compared with 29 million in the same period of 2003. At 31 March, foreign investors owned 31.7 per cent of the company's shares compared with 37.6 per cent at 1 January. The share price at 31 March was NOK 133, corresponding to a return of 0.6 per cent so far this year, while the Oslo Stock Exchange's benchmark index increased by 11.7 per cent.

Norske Skog measures relative return over rolling two-year periods against a reference index consisting of its competitors, the Oslo exchange's benchmark index and Morgan Stanley's world index for forest industry companies. Over the two years from 31 March 2002 to 31 March 2004, the return on the Norske Skog share was 8.6 percentage points below the reference index. This primarily reflects the fact that the Oslo Stock Exchange has developed more positively than the international forest industry.

Operations and market

GENERAL COMMENTS

Demand is still developing well for newsprint in Australasia and south-east Asia, and in the European magazine paper market. Market developments elsewhere are otherwise largely unchanged from last year. As in previous years, demand in Europe during the first quarter was significantly lower than in fourth quarter of 2003.

Both delivery and production increased by three-four per cent from the first quarter of 2003, and average capacity utilisation was 92 per cent.

Production was virtually unchanged from the fourth quarter of 2003. Deliveries declined by 155 000 tonnes, which largely reflected normal seasonal factors.

EUROPE – NEWSPRINT

KEY FIGURES:

		Q1 04	Q1 03	2003
Op revenues	NOK mill	1 956	1 786	7 558
EBITDA	NOK mill	321	366	1 304
EBIT	NOK mill	56	124	313
EBITDA margin	%	16.4	20.5	17.3
Deliveries	1 000 t	512	490	2 051
Production	1 000 t	532	485	2 033
Production/capacity	%	91	85	89

First-quarter operating revenues from newsprint were up 9.5 per cent from the corresponding period in 2003. New annual contracts in Europe resulted in a three-four per cent price decline in local currencies, but the negative effects of this have been more than offset by a weaker Norwegian krone and higher volumes. This volume increase largely stems from increased exports to South America, resulting from the termination of the Klabin joint venture in March 2003. Average prices measured in Norwegian kroner were five per cent higher than in 2003.

EBIT declined by NOK 68 million, but was NOK 32 million higher than last year after adjusting for energy trading (2003: NOK 111 million, 2004: NOK 11 million). The gross operating margin increased by 1.6 percentage points when energy trading is excluded.

Compared with the fourth quarter of 2003, first-quarter EBIT improved by NOK 22 million.

European demand for standard newsprint remains low, even though deliveries increased by one per cent from the first quarter of 2003. Total deliveries for the west European newsprint industry in the first quarter were up by four per cent from the same period of 2003. Developments were better for improved newsprint, both in western Europe and other markets. However the volumes of these qualities are much lower than for the standard product.

EUROPE – MAGAZINE PAPER

KEY FIGURES:

		Q1 04	Q1 03	2003
Op revenues	NOK mill	1 716	1 561	7 226
EBITDA	NOK mill	321	383	1 533
EBIT	NOK mill	105	184	720
EBITDA margin	%	18.7	24.5	21.2
Deliveries	1 000 t	306	309	1 387
Production	1 000 t	335	349	1 408
Production/capacity	%	90	93	93

Operating revenues for magazine paper increased by 10 per cent in the first quarter compared with the same period of 2003. Despite good demand since the beginning of last year, prices have been under pressure because of excess capacity – particularly for coated magazine paper. Compared with the beginning of 2003, west European prices are down by three-four per cent measured in local currencies. This has been offset by higher prices for super calandered (SC) paper in the USA and the weaker Norwegian krone. Lower volumes for both deliveries and production reflect modification shut-downs at Norske Skog Bruck and Norske Skog Saugbrugs.

EBIT declined by NOK 79 million, compared with the first quarter of 2003. However last year's result was positively impacted by a NOK 32 million gain from energy trading compared with a gain of NOK 7 million in the first quarter of 2004. Higher pulp prices compared with last year had a negative effect of about NOK 30 million. A larger amount of regular maintenance was done for practical reasons during the modification shut-downs, which also impacted the results negatively.

EBIT for the first quarter declined by NOK 67 million from the fourth quarter of 2003, primarily because of lower volumes.

European demand for magazine paper was up by six per cent from the same quarter of last year. The increase was greatest for SC paper. Total deliveries from European magazine paper manufacturers also increased by six per cent.

SOUTH AMERICA

KEY FIGURES:

		Q1 04	Q1 03	2003
Op revenues	NOK mill	253	254	1 094
EBITDA	NOK mill	61	75	329
EBIT	NOK mill	5	13	113
EBITDA margin	%	24.0	29.9	30.3
Deliveries	1 000 t	76	77	307
Production	1 000 t	76	87	304
Production/capacity	%	98	93	93

The production decline from the first quarter of 2003 is due to the fact that Norske Skog's former 50 per cent holding in the Norske Skog Klabin joint venture was included in the earlier period. Demand in Brazil during the first quarter is estimated to have been one per cent higher than the same period of 2003, and there is a positive development in other markets too.

AUSTRALASIA

KEY FIGURES:

		Q1 04	Q1 03	2003
Op revenues	NOK mill	1 068	890	4 030
EBITDA	NOK mill	351	261	1 175
EBIT	NOK mill	156	97	455
EBITDA margin	%	32.9	29.4	29.2
Deliveries	1000 t	206	202	858
Production	1000 t	221	213	861
Production/capacity	%	98	95	96

Operating revenues in Australia, measured in Norwegian kroner, increased by 20 per cent from the first quarter of 2003 because of favourable exchange rates. Measured in local currencies, prices were lower than last year in both Australia and New Zealand. The region continued to deliver strong results, with EBITDA for the first quarter up by NOK 90 million from the same period of 2003, and by NOK 10 million from the fourth quarter of last year.

The positive market development experienced in 2003 continued this year, and demand for standard newsprint was four per cent higher than in 2003.

PANASIA PAPER

KEY FIGURES (NORSKE SKOG'S SHARE):

		Q1 04	Q1 03	2003
Op revenues	NOK mill	610	572	2 365
EBITDA	NOK mill	112	150	480
EBIT	NOK mill	40	81	200
EBITDA margin	%	18.4	26.2	20.3
Deliveries	1 000 t	167	147	633
Production	1 000 t	172	151	632
Production/capacity	%	94	83	87

Norske Skog owns 50 per cent of PanAsia. Its proportionate share of this company's operating revenues increased by seven per cent from the first quarter of 2003. Average prices measured in Norwegian kroner declined by six per cent, but that was more than offset by a substantial volume increase. The significantly poorer operating earnings reflect weaker markets in Korea and higher raw material costs. EBIT was unchanged from the fourth quarter of 2003. Demand declined in Korea at the start of 2004, but developments were relatively good in China and in some south-east Asian markets. Total deliveries to Asia for January and February are estimated to have increased marginally from the same period of last year.

NORSKECANADA*

KEY FIGURES:

		Q1 04	Q1 03	2003
Op revenues	CAD mill	399.2	385.8	1 591.2
EBITDA	CAD mill	5.7	11.8	78.3
EBIT	CAD mill	(39.4)	(35.5)	(111.6)
EBITDA margin	%	1.4	3.1	4.9

** NorskeCanada's official accounts on a 100 per cent basis.*

Norske Skog owns 29.4 per cent of NorskeCanada, and its share of the net loss totalled NOK 81 million for the first quarter compared with NOK 44 million for the same period in 2003. During the quarter, NorskeCanada had rebuild and maintenance shuts at two of its pulp mills which resulted in 30% less production than in the same period last year. The Canadian dollar has strengthened by about seven per cent against the Norwegian krone since last year, which has negatively impacted the results Norske Skog incorporates in its accounts.

Newsprint demand increased by one per cent from the first quarter of 2003, but some of this increase likely reflects stock-building by customers ahead of the price increase currently being implemented. The list price was USD 545 per tonne in April up from USD 530 per tonne at 1 January.

Health and safety

The H-factor (lost-time injury frequency per million working hours) was 3.2 for the 12-month period from 31 March 2003 to 31 March 2004. The corresponding figure for the 2003 calendar year was 3.6.

Outlook

As in earlier years, a seasonal upturn in European deliveries can be expected in the second quarter. It looks as if the strong demand in Australasia could also continue, and the volume trend is also positive in South America and some Asian markets. Macro-conditions and a stronger pulp market also indicate an increase in other regions, but Norske Skog is not expected to materially benefit from this until next year. Therefore 2004 will be a weak year for the company.

As before, developments in the Norwegian krone's exchange rate will be highly significant for results. Implementing the Improvement 2003 programme has the highest priority, and the goal remains a profit enhancement of NOK 2 billion by 31 December 2004 compared with the 2002 base year.

Lysaker, 4 May 2004
The board of directors of Norske Skogindustrier ASA

This quarterly report accords with the Norwegian accounting standard for interim financial reports, and the accounts have been prepared in accordance with the accounting principles specified in the annual report for 2003.

Revenue and profit per area

OPERATING REVENUE

NOK million	Jan-Mar 04	Jan-Mar 03	2003
Europe			
Newsprint	1 956	1 786	7 558
Magazine paper	1 716	1 561	7 226
Total Europe	3 672	3 347	14 784
South America			
Newsprint	253	254	1 094
Australasia			
Newsprint	1 068	890	4 030
Asia			
Newsprint	610	572	2 365
Other activities			
Other industry in Norway	150	128	533
Other revenues	434	442	1 613
Total other activities	584	570	2 146
Staff/eliminations	(112)	(78)	(351)
Total group	6 075	5 555	24 068

OPERATING EARNINGS BEFORE DEPRECIATION

NOK million	Jan-Mar 04	Jan-Mar 03	2003
Europe			
Newsprint	321	366	1 304
Magazine paper	321	383	1 533
Total Europe	642	749	2 837
South America			
Newsprint	61	75	329
Australasia			
Newsprint	351	261	1 175
Asia			
Newsprint	112	150	480
Other activities			
Other industry in Norway	14	4	53
Other revenues	-	-	-
Total other activities	14	4	53
Staff/eliminations	(39)	(56)	(188)
Total group	1 141	1 183	4 686

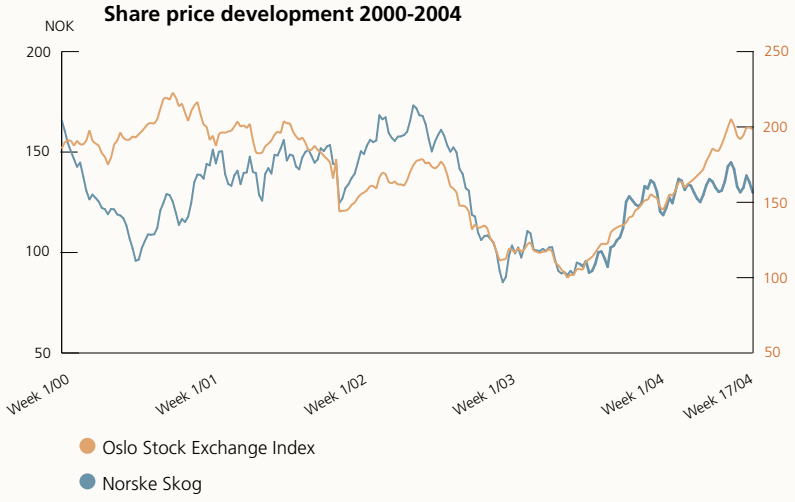
The Norske Skog share

Key figures	January - March 2004						Per 28.04.2004	
	Share price 02.01.04	Share price 31.03.04	high	low	Earnings per share	Booked equity per share	Share price	Market value NOK mill.
NOK	**132.25**	**133.00**	**146.50**	**126.75**	**(1.05)**	**144.40**	**129.25**	**17 208**

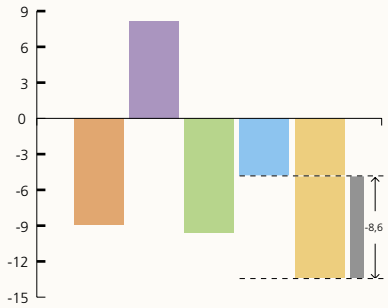
OPERATING EARNINGS

NOK million	Jan-Mar 04	Jan-Mar 03	2003
Europe			
Newsprint	56	124	313
Magazine paper	105	184	720
Total Europe	161	308	1 033
South America			
Newsprint	5	13	113
Australasia			
Newsprint	156	97	455
Asia			
Newsprint	40	81	200
Other activities			
Other industry in Norway	6	(6)	16
Other revenues	-	-	-
Total other activities	6	(6)	16
Staff/elimination	(101)	(113)	(416)
Restructuring costs	-	-	135
Total group	267	380	1 536

Share price development 2000-2004



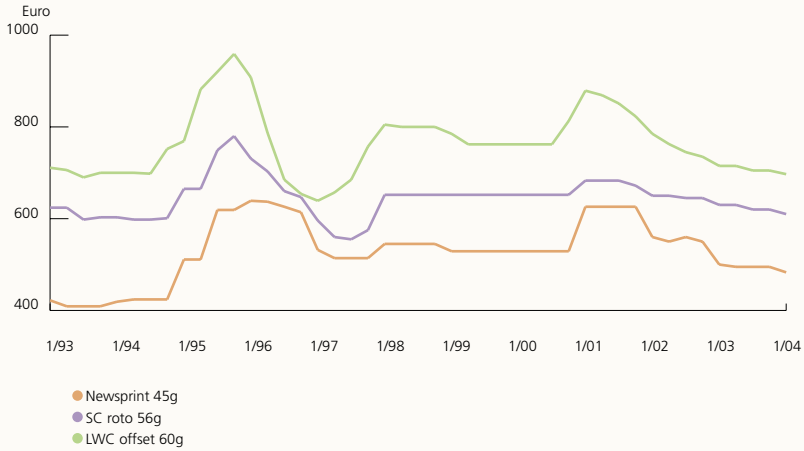
Relative TSR 31.03.2002-31.03.2004



1) Peer Group (50%) (A)
Oslo total index (25%) (B)
MS World F&P (25%) (C)
Weighted (A+B+C)
Norske Skog

Underperformance = -8,6 percentage points
1) Price increase + dividend paid in % of share price as of 31.03.2002

Price development newsprint, SC, LWC - Germany



PRODUCTION BY PRODUCT/AREA

1 000 tonnes	Jan-Mar 04	Jan-Mar 03	2003
Europe			
Newsprint	532	485	2 033
Magazine paper	335	349	1 408
South America			
Newsprint	76	87	304
Australasia			
Newsprint	221	213	861
Asia			
Newsprint	172	151	632
Norske Skog Total			
Total newsprint	1 001	936	3 830
Total magazine paper	335	349	1 408
Total publication paper	1 336	1 285	5 238

Quarterly comparison

NOK million	1Q04	4Q03	3Q03	2Q03	1Q03	4Q02	3Q02	2Q02	1Q02
Operating revenue	6 075	6 571	6 115	5 826	5 555	6 082	5 815	5 898	5 676
Op. earnings before depr.	1 141	1 158	1 221	1 123	1 183	1 194	1 134	1 468	1 401
Depreciation and amortisation	874	815	849	818	803	762	822	842	865
Op. earn. before restructuring costs	267	343	372	305	380	432	312	626	536
Restructuring costs	-	135	-	-	-	(600)	-	-	-
Operating earnings	267	478	372	305	380	(168)	312	626	536
Earnings before taxation	(143)	44	173	(160)	710	(52)	(62)	677	243
The majority's share of net earn.	(140)	255	45	(190)	290	374	182	465	141

QUARTERLY COMPARISON

NOK million	1Q04	4Q03	3Q03	2Q03	1Q03	4Q02	3Q02	2Q02	1Q02
Operating revenue									
Europe	3 672	4 087	3 810	3 538	3 347	3 654	3 563	3 522	3 348
South America	253	272	271	297	254	291	247	264	305
Australasia	1 068	1 100	1 078	963	890	942	911	1 000	954
Asia	610	637	587	569	572	681	698	691	618
Other activities	584	574	466	537	570	539	450	411	531
Staff/eliminations	(112)	(99)	(97)	(78)	(78)	(25)	(54)	10	(80)
Total operating revenue	6 075	6 571	6 115	5 826	5 555	6 082	5 815	5 898	5 676
Op. earn. before depreciation									
Europe	642	656	786	647	749	692	651	854	769
South America	61	87	53	115	75	81	56	45	98
Australasia	351	341	297	276	261	241	246	345	365
Asia	112	93	108	129	150	180	222	252	211
Other activities	14	30	13	6	4	40	16	18	31
Staff/eliminations	(39)	(49)	(36)	(50)	(56)	(40)	(57)	(46)	(73)
Total op. earnings before depr.	1 141	1 158	1 221	1 123	1 183	1 194	1 134	1 468	1 401
Operating earnings									
Europe	161	206	324	195	308	268	203	405	313
South America	5	36	-	63	13	16	(10)	(27)	12
Australasia	156	143	112	103	97	86	93	174	193
Asia	40	41	25	53	81	115	139	177	132
Other activities	6	21	3	(3)	(6)	26	1	3	17
Restructuring costs	-	135	-	-	-	(600)	-	-	-
Staff/eliminations	(101)	(104)	(92)	(106)	(113)	(79)	(114)	(106)	(131)
Total operating earnings	267	478	372	305	380	(168)	312	626	536

Always on the front page

The printers dance to the heavy rhythm of the press while the clock strikes midnight in Santiago Chile. And the front page is printed as always on paper from Norske Skog Bio Bio.

Every night it is the same routine: newsprint from Norske Skog Bio Bio takes the place of honour on the front page of El Mercurio.

El Mercurio is one of South America's oldest newspapers, with roots going back to 1870. It has lived through many changes and has learnt to be prepared for most eventualities. So a two-month supply of newsprint is always kept in stock.

This store includes reels from several suppliers, but paper from Norske Skog Bio Bio has a special place. It is always used for the front page and colourful weekend supplements.

PROUD

Alvaro Olmos, marketing manager at Norske Skog Bio Bio, is proud of this success, and certainly not afraid of the competition in divulging its secret.

"We've produced directory paper for more than 20 years," he explains. "This is a thin and very challenging grade, with a much larger risk of breakage than newsprint.

"Continuous improvement and challenges have taught us how to fine-tune our machines. Newsprint has also benefited from this process. That's our secret, and one which isn't easy to copy."

The process has resulted in improved runnability and better surface quality, which are especially valuable for colour printing.

"Norske Skog's paper has far fewer breaks and much better colour reproduction," confirms Marcelo Beas, team leader at El Mercurio. He adds that although this product also costs more, it pays off in the long run.

IN THE NEWS

El Mercurio prints in two editions, one national and one for the capital. They are often the same, but have different deadlines. Distribution requirements mean that the national edition prints first.

"The front page is sometimes remade entirely between the first and second editions, depending on what's happening in Chile and the rest of the world," says Beas.

Soon after midnight, the national edition is finished. A stream of dark blue lorries disappears into the night with its cargo, while the presses are replated for the next edition.

Spruced-up cooperation resolves conservation clash

The coastal spruce forest of mid-Norway is unique of its kind, although some areas of comparable woodland containing other tree species are found along the northern coasts of Canada. This type of forest is characterised by a moist, cool microclimate, a dense network of brooks, and a great variety of unique lichen and moss species on the trees. Norway's coastal spruce forest is reduced today to small, isolated pockets spread over a region 250 kilometres long and 40 wide to the west of Norske Skog Skogn.

Norway has an international responsibility to protect the special biological diversity in the coastal spruce forest. Most of these locations have been included in conservation plans, but have been removed through lack of official funding. However, Norske Skog has continued to specify that forest owners must take special precautions to protect biodiversity should they choose to plan any logging. The Storting (parliament), the government and landowners all are aware of the threat of devastation if the rest of this forest type is not protected.

Owners have been required to give advance notice of logging plans in the coastal spruce forest for the past eight years. Local authorities have issued logging permits in several areas. The environmental organisations have been very critical of the forest owners, and have appealed to Norske Skog to reject wood from this source. Conservationists have also contacted Norske Skog customer Axel Springer Verlag in Germany.

At Norske Skog's initiative, a dialogue was established with forest owners, local authorities and environmental organisations. Springer's environmental manager was invited to inspect the coastal spruce forest. In consultation with the company's procurement department and the forest owners' association, Norske Skog's corporate environmental department resolved that no wood should be purchased from the coastal spruce forest until the owners had improved their routines for protecting areas worthy of conservation.

New routines have now been put in place through dialogue and cooperation between forest owners, biologists, environmental organisations and Norske Skog. The company is assured that no wood will be supplied from the coastal spruce forest without detailed prior studies being carried out and a green light given by biologists acceptable to all stakeholders. This is an example of the way Norske Skog participates actively in and shows responsibility for safeguarding biological diversity, in line with its environmental policy.

The Norwegian Forest Owner's Federation has taken the initiative on voluntary efforts to conserve forests. By offering appropriate areas for protection, it aims to help reduce conflicts between conservation and forestry. Norske Skog's involvement in the coastal spruce forest has contributed to putting this resource at the top of the agenda in the work on voluntary protection of coniferous forests.

The coastal spruce forest has a dense network of brooks and a great variety of unique lichens.

Revolving credit facility

A five-year revolving credit facility of USD 500 million has been secured by Norske Skog from a syndicate of leading Nordic and international banks. Constituting part of the company's liquid reserves, the new facility replaces the existing undrawn USD 450 million credit originally secured on 10 December 1998. Competitive terms have been obtained. The credit facility was arranged by Citigroup, Danske Bank and HSBC.

Boyer bags the prize

Norske Skog Boyer mill manager Ernie Hacker and shop steward Chris Young with the H&S award 2003.

The president's health and safety award for 2003 went to Norske Skog Boyer. Among the key criteria for this prize are a good H&S performance over time and low absence figures. Norske Skog Walsum was the main rival for the award, but could not demonstrate the same long-term results as the winner. Jens Borge, vice president health and safety, said that the commitment shown by the whole Norske Skog Boyer workforce is one reason for its good performance.

"All our employees are actively involved in H&S improvements. That gives them a proprietary attitude to the process." Two units – Norske Skog Steti and Dutch recycling company Reparco – achieved a lost-time injury frequency of zero.

First jumbo reel from Walsum

A new step forward in the production of lightweight coated paper has been taken by Norske Skog Walsum with its first 4.32-metre-wide jumbo reel. Produced on the Top8 winder, the paper width is unparalleled.

The jumbo reel was a test run for the Maul-Belser printing company, which is constructing a larger and more efficient rotogravure machine. But it will not be long before 4.32-metre reels are business as usual at Norske Skog Walsum.

In the meantime, several challenges have to be met in production, wrapping and transport of the giant reels, which weigh about seven tonnes apiece. So the next project is the development of a suitable wrapping machine.

Testing the reel for printability proved very successful. The printers found that its quality was on a par with regular-width paper.

A normal reel width of 3.60 m and the new 4.32 m version.

Upgrading European PMs

Paper machine (PM) 6 at Norske Skog Saugbrugs, PM4 at Norske Skog Bruck and PM2 at Norske Skog Skogn have all undergone major upgrades this spring to improve quality and efficiency.

During a 10-day shut-down at Norske Skog Saugbrugs in March, PM6 had a new headbox and two new steam boxes fitted on the three super calanders. Costed at NOK 90 million, this project, will ensure better profiles and glossier paper, and thereby maintain the mill's position as a world leader for super calandered magazine paper.

PM2 at Norsk Skog Skogn has acquired a new control system costing about NOK 45 million, enhancing its user-friendliness and improving paper quality. Spare parts for many important components and external expertise for several of the systems were no longer available.

During the month-long shut-down at the mill, a series of minor improvements was also completed as well as extensive maintenance work. PM2 produces 175 000 tonnes of newsprint annually.

Built in 1989, Norske Skog Bruck's PM4 produces 240 000 tonnes of lightweight coated magazine paper annually. The upgrade for this machine comprises the wet end (wire section and head box) and is costed at NOK 260 million. The super calanders which ensure a smooth paper surface have also been upgraded, along with de-inking capacity.

More information on the Internet

Additional information about Norske Skog may be found on www.norske-skog.com, including;
• All financial reports • Press releases • Presentation to the stock market
• Basic information about the company's organisation, management and activities
• Information about the mills, products and markets • Information about environmental issues

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Sverre Thoresen
Irene MacCallum
Peggy Mendel

Front cover:
El Mercurio of Santiago Chile prints exclusively on newsprint from Norske Skog Bio Bio for its front cover and colourful weekend supplements.