

Report for the third quarter of 2005

- Agreement reached on buying the remaining 50% of PanAsia
- Share issue raised approximately NOK 4 billion
- Successful start-up period for Hebei mill in China
- Decision to close Norske Skog Union
- Third quarter: Operating results in line with second quarter and with 2004, but still unsatisfactory

Results for the third quarter of 2005

Key figures, group – IFRS:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Operating revenues NOK mill	6 425	6380	6 433	18 619	18 694
Gross op earnings NOK mill	1 059	1072	1 062	3 137	3 200
Gross operating margin %	16.5	16.8	16.5	16.8	17.1
Net op earnings NOK mill	319	287	256	824	666
Net operating margin %	5.0	4.5	4.0	4.4	3.6
Pre-tax earnings/(loss) NOK mill	177	160	31	123	(109)
Net earnings/(loss) NOK mill	193	224	(8)	143	76
Earnings per share NOK	1.46	1.69	(0.06)	1.08	0.57
Cash flow NOK mill	923	507	587	2 034	2 063
Cash flow per share NOK	6.96	3.83	4.43	15.35	15.57
Return on capital employed %	3.6	3.0	3.4	3.2	3.1
Deliveries 1 000 t	1 380	1 386	1 350	3 964	4 019
Production 1 000 t	1 387	1 390	1 350	4 075	4 083

Operating earnings under International Financial Reporting Standards (IFRS) include value changes to such items as power contracts as well as various other items which could affect comparison between the quarters. Such items were negative NOK 12 million in the third quarter, compared with a positive NOK 34 million for the second quarter. PM 2 at Norske Skog Follum,

with an annual capacity of 125 000 tonnes of standard newsprint, was shut down on 1 July and remained out of operation throughout the third quarter.

Comparison with Q3 04

The positive effect of higher prices in local European currencies was offset by increased energy costs and a strengthening of about 5.5% in the Norwegian krone against Norske Skog's trade-weighted basket of currencies. The negative effect of currency changes is estimated at NOK 75 million in the third quarter, and more than NOK 200 million in the first nine months. Increased energy costs amount to approximately NOK 130 million in Q3 and approximately NOK 350 million year to date.

Comparison with Q2 05

The results in Q3 were a little better owing to higher volumes in most regions and small but positive cost effects. Currency changes had no substantial significance for the comparison between these two quarters.

Financial items (NOK mill)

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Net interest exp	(190)	(212)	(173)	(545)	(601)
Interest hedging	1	–	(29)	(1)	–
Gain/(loss) currency	8	56	28	(92)	(37)
Other financial items	(19)	(12)	(17)	(48)	(63)
Total financial items	(200)	(168)	(191)	(686)	(701)

The increase in interest expenses compared with the second quarter relates to higher rates on debt denominated in USD.

Affiliated companies

Norske Skog's share of the net result in Catalyst Paper (formerly NorskeCanada) accounted for NOK 53 million of an overall NOK 58 million for the third quarter, while the share of net earnings from Malaysian Newsprint Industries was NOK 8 million. Net earnings for Catalyst

Paper showed a marked improvement from the second quarter, largely because the continued strengthening of the CAD against the USD has yielded conversion gains on long-term debt. Operating earnings were also slightly better.

Tax

The tax item for the quarter was a positive figure of NOK 18 million, owing to a reassessment of deferred tax as well as a number of minor corrections.

Net result

Net earnings were NOK 193 million in the third quarter and NOK 143 million for the first nine months. The corresponding figures for 2004 were NOK 224 million and NOK 76 million.

Cash flow

Norske Skog generates a substantial cash flow even in periods with low paper prices. Cash flow from operations was NOK 923 million in the third quarter and just over NOK 2 billion for the first nine months, similar to last year.

Balance sheet

Currency changes during the third quarter had no significant effect on balance sheet values at 30 September compared with 30 June. Net interest-bearing debt declined by NOK 464 million during the quarter, and gearing – net interest-bearing debt divided by equity – was reduced to 0.91.

Equity per share was NOK 143.30 at 30 September, calculated by the number of shares before the share offering.

Investment and financing

Acquisition of Pan Asia Paper

Norske Skog reached agreement in early September on acquiring the remaining 50% of the shares in Pan Asia Paper from Abitibi- Consolidated. The agreed purchase price is USD 600 million for the shares, plus a possible earn-out of up to USD 30 million which depends on EBITDA in 2006. Norske Skog will also take over the other 50% of PanAsia's net interest-bearing debt, which

totalled USD 275 million at 30 June 2005. The overall value comes to about USD 1 000 per tonne of capacity, which is a favourable price considering that it involves modern, highly efficient plants in the part of the world with the strongest growth in consumption. PanAsia has five mills in all and a total annual production capacity of 1.8 million tonnes of newsprint and other publication paper.

This acquisition places about 25% of Norske Skog's overall production capacity in Asia, and puts 30% of the company's newsprint capacity in this part of the world. All formal requirements are expected to be in place for finalising the acquisition before 31 December. The purchase has been financed through a rights issue which raised approximately NOK 4 billion. Shares corresponding to 97.4% of the total amount were subscribed during the subscription period. The remaining shares were subscribed by the coordinators and thereafter sold on the market. The issue was carried out in October and had no accounting effect in the third quarter.

Changed outlook from Moody's

The Moody's rating agency assessed all the pulp and paper companies in the Nordic region during October and changed the rating outlook for four of them. This action was prompted by the continued weak market for the paper industry. The outlook on Norske Skog's credit rating was amended to Negative from Stable, but the actual rating remains Baa3 underpinned by the company's global structure with strong market positions in various parts of the world and decisive management. The acquisition of PanAsia is also a positive feature. The change in outlook has no consequences for interest rates on Norske Skog's existing debt or lines of credit.

Other investment

Capitalised investment was NOK 400 million in the third quarter and NOK 1.4 billion for the first nine months. The latter sum includes NOK 260 million related to the 50% holding in the new Hebei mill. This facility began commercial production in early July and the running-in period has been successful, with high productivity and stable good quality.

NOK 500 million was capitalised in the first nine months for the restructuring project in Australasia, which includes capacity increases for PM2 and PM3 at Norske Skog Tasman in New

Zealand and at the Albury mill in Australia. These expansions replace PM1 at Norske Skog Tasman, which will be shut down next year.

Closure of Norske Skog Union

The board of Norske Skog resolved at its meeting on 2 August to initiate a process for the possible closure of Norske Skog Union at Skien south of Oslo. This proposal was prompted by Norske Skog's need to improve earnings by closing down mills with high fixed costs and transferring production to other mills with excess capacity. The closure was given final approval by the corporate assembly on 4 October. Production will cease at Norske Skog Union during the first quarter of 2006, and the accounting effect of the closure is due to be booked in the fourth quarter this year.

An agreement has been concluded between the company and the workforce on a package of measures for Norske Skog Union employees. Developed in cooperation with the unions, this package will cost roughly NOK 190 million. The measures will protect employees financially during a transitional phase. In addition to an extended period of notice, severance payments of four to 12 months pay will be made on the basis of seniority and age.

Norske Skog is collaborating closely with the Aetat employment service and a career advice consultancy to ensure that all employees receive personal advice and support relating to job-seeking, finance, pensions and legal rights.

Personnel at Norske Skog Union will be given priority for job vacancies in other parts of the group. Special measures will be established for older employees, and everyone aged 55 or above is assured continued work with Norske Skog if they so wish.

To help ensure stable operation until the final shutdown, an extra compensation has been given. This applies from the decision to close the mill on 4 October until the planned date for the shutdown on 1 March 2006.

The decision by the corporate assembly gives weight to the creation of new jobs in connection with subsequent use of the mill site. A separate steering group has been established under the leadership of chief financial officer Christian Rynning-Tønnesen for this purpose. The group is broadly based, with representatives from Norske Skog, local government, Norske Skog

Union employees and Innovation Norway. It is working to identify opportunities for new and forward-looking activities on the site.

Share development

Because of the rights issue at a price of NOK 70 per share, the share price prior to 23 September has been adjusted by a factor of 0.9048 in order to provide a comparison with today's share price. The adjusted price on 30 September was NOK 96.75 compared with an adjusted NOK 121.25 on 1 January. A total of 125 million Norske Skog shares were traded during the first nine months of this year. The proportion owned by foreigners was 46% at 30 September.

The new shares from the rights issue were traded with effect from 26 October. After the issue, Norske Skog has 189 945 626 shares with a par value of NOK 10. The foreign shareholding at 28 October was 53%.

Health and safety

The lost-time injury frequency per million working hours was 1.3 for the 12 months from 30 September 2004 to 30 September 2005. Seven mills had zero injuries during this period. In October, a tragic accident occurred at Norske Skog Golbey, when a contracted mechanic died from injuries resulting from a fall.

Operations and market

General comments

No significant changes have occurred in the markets since the previous quarter. In general, prices for newsprint in Europe are substantially lower than in most other markets. The price for newsprint in the USA has increased because producers have adjusted capacity to the reduced demand over a long time. Since 1997, newsprint capacity has decreased by 3.3 million tonnes or 20% in North America. Norske Skog's overall deliveries for the first nine months were marginally lower than in the same period of last year, primarily because of the weak Korean market.

Europe – newsprint

Key figures:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues NOK mill	2 164	2 107	2 152	6 408	6 106
Gross op earnings NOK mill	337	340	311	1 012	927
Net op earnings NOK mill	82	84	53	237	161
Gross op margin %	15.6	16.1	14.5	15.8	15.2
Deliveries 1 000 t	569	554	563	1 667	1 622
Production 1 000 t	572	568	566	1 699	1 640
Production/capacity %	94	98	93	93	94

Production and sales volumes were up from earlier quarters, despite the closure of PM2 at Norske Skog Follum. Earnings in the third quarter were similar to the same period last year, and slightly better than in the previous quarter.

Overall European demand for standard and upgraded newsprint in the first nine months was 1.5% higher than in the same period of 2004. Progress during the third quarter was best for standard newsprint.

Europe – magazine paper

Key figures:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues NOK mill	1 826	1 844	1 772	5 108	5 393
Gross op earnings NOK mill	326	323	268	869	951
Net op earnings NOK mill	159	116	95	353	326
Gross op margin %	17.9	17.5	15.1	17.0	17.6
Deliveries 1 000 t	348	358	334	966	1 005
Production 1 000 t	340	356	337	1 005	1 038
Production/capacity %	97	95	97	96	93

Lower volumes compared with 2004 largely reflect the conversion of Norske Skog Parenco's magazine paper output to newsprint from January.

European demand for magazine paper during the first nine months was unchanged from the same period of 2004. For the third quarter alone, demand was up by 3% from last year and developments were better for lightweight coated (LWC) than super-calendared (SC) paper.

South America

Key figures*:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues NOK mill	320	313	300	891	831
Gross op earnings NOK mill	77	99	74	226	232
Net op earnings NOK mill	29	49	26	84	79
Gross op margin %	24.1	31.6	24.7	25.4	27.9
Deliveries 1 000 t*	73	71	68	210	220
Production 1 000 t	74	73	70	216	220
Production/capacity %	95	94	90	93	95

* Only from mills in the region.

Gross margins remain high in the South America region. Prices are increasing, but this has largely been offset by a strengthening of the BRL and CHP. The BRL has strengthened by 6% against the NOK in Q3, and by 30% year to date. The demand for newsprint in South America has increased by 2% this year, and prices are increasing.

Australasia

Key figures:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues NOK mill	1 028	1 065	1 056	3 003	3 179
Gross op earnings NOK mill*	215	221	196	640	874
Net op earnings NOK mill*	39	35	22	109	307
Gross op margin %*	20.9	20.8	18.6	21.3	27.5
Deliveries 1 000 t	217	233	224	639	654
Production 1 000 t	218	221	211	650	660
Production/capacity %	97	98	94	96	98

* Q2/05: before changes to the value of forest properties. 2004: before impairments and depreciation.

Operating earnings increased from the previous quarter, when production was low because of stops in connection with maintenance and the restructuring project in the region. However, results for the first nine months were significantly down from last year because newsprint prices in Australia declined by 7% from 1 July 2004.

Demand for standard and improved newsprint in Australasia declined marginally over the first nine months compared with the same period of 2004. This was mainly due to a slightly weaker market in New Zealand. Publication paper as a whole experienced a 2.6% increase in demand over the period. Newsprint prices in Australia were increased by 1% from 1 July 2005.

Pan Asia Paper

Key figures (Norske Skog's 50% share):

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues NOK mill	658	640	636	1 855	1 953
Gross op earnings NOK mill	119	110	132	352	334
Net op earnings NOK mill	43	39	56	126	120
Gross op margin %	18.1	17.2	20.8	19.0	17.1
Deliveries 1 000 t	173	170	161	482	518
Production 1 000 t	183	172	166	505	525

PanAsia's new Chinese newsprint mill in Hebei province began commercial production at the beginning of July, and produced just over 40 000 tonnes during the quarter. Start-up has proceeded very well, but as expected, lower operating rates than full capacity have had a negative effect on net operating results.

The estimated increase in demand for newsprint over the first nine months was 3.5% in China and almost 10% in India. Developments were also good in Thailand. For Asia as a whole, the overall estimate is a marginal reduction in demand because markets in Korea and Taiwan remained weak.

Catalyst Paper (formerly NorskeCanada)

Key figures:

	Q3/05	Q3/04	Q2/05	YTD 05	YTD 04
Op revenues CAD mill*	450.2	466.8	439.0	1351.9	1400.9
Gross op earnings CAD mill*	47.9	56.3	25.4	106.9	107.5
Net op earnings/(loss) CAD mill*	2.8	10.0	(19.5)	(27.4)	(30.2)
Net earnings/(loss) CAD mill*	34.2	28.0	(30.0)	(17.6)	(42.3)
Gross op margin %*	10.6	12.1	5.8	7.9	7.7
Share net result NOK mill**	53	42	(47)	(28)	(68)

* Catalyst Paper's official accounts on a 100% basis, presented in accordance with Canadian GAAP.

** Recorded under associated companies in Norske Skog's consolidated accounts.

Operating earnings for Catalyst Paper in the third quarter were better than in the previous three-month period as a result of higher volumes and favourable cost developments. This was partially offset by the continued strength of the CAD against the USD. A strengthened CAD also provides the main explanation for a weaker operating result than in the third quarter of 2004, despite higher prices.

No significant changes occurred in North American market developments. Demand for standard newsprint declined by about 6% over the first nine months, but good demand for improved qualities and coated magazine paper was maintained.

Lysaker, 1 November 2005

The board of directors of Norske Skogindustrier ASA

NORSKE SKOG GROUP ACCOUNTS

Profit and loss account

<i>NOK million</i>	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Operating revenue	6 425	6 380	18 619	18 694	25 302
Distribution costs	(600)	(598)	(1 733)	(1 717)	(2 294)
Other operating expenses	(4 766)	(4 710)	(13 749)	(13 714)	(18 705)
Provision for restructuring costs	-	-	-	(63)	(63)
Gross operating earnings	1 059	1 072	3 137	3 200	4 240
Depreciation and amortisation	(740)	(785)	(2 244)	(2 367)	(3 093)
Impairments	-	-	(69)	(167)	(110)
Operating earnings	319	287	824	666	1 037
Earnings/(loss) from affiliated companies ¹	58	41	(15)	(74)	(44)
Financial items	(200)	(168)	(686)	(701)	(783)
Earnings/(loss) before taxation	177	160	123	(109)	210
Taxation	18	67	29	190	419
Net earnings/(loss)	195	227	152	81	629
Minority's share of net earnings/(loss)	2	3	9	5	8
Majority's share of net earnings/(loss)	193	224	143	76	621
Earnings per share	1.46	1.69	1.08	0.57	4.69
Earnings per share fully diluted	1.46	1.69	1.08	0.57	4.69

¹ Earnings/(loss) from affiliated companies are included after taxation

Balance sheet

<i>NOK million</i>	30.09.2005	30.09.2004	31.12.2004
ASSETS			
Intangible fixed assets	4 776	4 771	4 745
Biological assets	254	251	252
Operational fixed assets	29 307	30 262	29 753
Investments in affiliated companies	2 066	1 965	1 858
Deferred tax asset	93	54	58
Other long-term receivables	709	408	391
Interest rate swaps fair value hedge	209	-	-
Total fixed assets	37 414	37 711	37 057
Inventory	2 668	2 597	2 299
Receivables	4 151	3 856	4 050
Current investments	510	471	470
Cash and cash equivalents	225	477	419
Total current assets	7 554	7 401	7 238
Total assets	44 968	45 112	44 295
EQUITY			
Equity	18 980	18 781	19 009
Minority interests	186	201	186
Total equity	19 166	18 982	19 195
LIABILITIES			
Deferred tax	2 334	2 794	2 419
Interest-bearing long-term debt	17 543	17 270	17 291
Interest-free long-term liabilities	1 021	1 017	1 032
Total long-term liabilities	20 898	21 081	20 742
Interest-bearing current debt	678	1 152	469
Tax liabilities	90	82	31
Trade and other payables	4 136	3 815	3 858
Total current liabilities	4 904	5 049	4 358
Total liabilities	25 802	26 130	25 100
Total liabilities and shareholders' equity	44 968	45 112	44 295

NORSKE SKOG GROUP ACCOUNTS

Revenue and profit by area

Operating Revenue

<i>NOK million</i>	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Europe					
Newsprint	2 164	2 107	6 408	6 106	8 319
Magazine paper	1 826	1 844	5 108	5 393	7 287
Total Europe	3 990	3 951	11 516	11 499	15 606
South America					
Newsprint	320	313	891	831	1 146
Australasia					
Newsprint	1 028	1 065	3 003	3 179	4 194
Asia					
Newsprint	658	640	1 855	1 953	2 603
Other activities					
Other industry in Norway	133	132	429	417	596
Other revenues	372	398	1 217	1 183	1 637
Total other activities	505	530	1 646	1 600	2 233
Staff/eliminations	(76)	(119)	(292)	(368)	(480)
Total group	6 425	6 380	18 619	18 694	25 302

Gross operating earnings

<i>NOK million</i>	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Europe					
Newsprint	337	340	1 012	927	1 239
Magazine paper	326	323	869	951	1 221
Total Europe	663	663	1 881	1 878	2 460
South America					
Newsprint	77	99	226	232	346
Australasia					
Newsprint	215	221	640	874	1 143
Asia					
Newsprint	119	110	352	334	443
Other activities					
Other industry in Norway	12	8	40	31	60
Other revenues	-	-	-	-	-
Total other activities	12	8	40	31	60
Staff/eliminations	(15)	(29)	(58)	(86)	(149)
Gain on power trading and energy hedging	(12)	-	56	-	-
Restructuring costs	-	-	-	(63)	(63)
Total group	1 059	1 072	3 137	3 200	4 240

NORSKE SKOG GROUP ACCOUNTS

Revenue and profit by area

Operating earnings

<i>NOK million</i>	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Europe					
Newsprint	82	84	237	161	222
Magazine paper	159	116	353	326	425
Total Europe	241	200	590	487	647
South America					
Newsprint	29	49	84	79	142
Australasia					
Newsprint	39	35	109	307	406
Asia					
Newsprint	43	39	126	120	165
Other activities					
Other industry in Norway	4	(1)	16	4	25
Other revenues	-	-	-	-	-
Total other activities	4	(1)	16	4	25
Staff/eliminations	(25)	(35)	(88)	(101)	(175)
Gain on power trading and energy hedging	(12)	-	56	-	-
Impairments	-	-	(69)	(167)	(110)
Restructuring costs	-	-	-	(63)	(63)
Total group	319	287	824	666	1 037

Production by product/area

(1 000 tonnes)	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Europe					
Newsprint	572	568	1 699	1 640	2 216
Magazine paper	340	356	1 005	1 038	1 386
South America					
Newsprint	74	73	216	220	296
Australasia					
Newsprint	218	221	650	660	881
Asia					
Newsprint	183	172	505	525	697
Norske Skog total:					
Total newsprint	1 047	1 034	3 070	3 045	4 090
Total magazine paper	340	356	1 005	1 038	1 386
Total publication paper	1 387	1 390	4 075	4 083	5 476

Deliveries by product/area

(1 000 tonnes)	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Europe					
Newsprint	569	554	1 667	1 622	2 241
Magazine paper	348	358	966	1 005	1 379
South America					
Newsprint	73	71	210	220	297
Australasia					
Newsprint	217	233	639	654	868
Asia					
Newsprint	173	170	482	518	695
Norske Skog total:					
Total newsprint	1 032	1 028	2 998	3 014	4 101
Total magazine paper	348	358	966	1 005	1 379
Total publication paper	1 380	1 386	3 964	4 019	5 480

NORSKE SKOG GROUP ACCOUNTS

Quarterly comparison¹

<i>NOK million</i>	3Q05	2Q05	1Q05	4Q04	3Q04	2Q04	1Q04	4Q03	3Q03
Operating revenue	6 425	6 433	5 761	6 608	6 380	6 239	6 075	6 571	6 115
Restructuring costs	-	-	-	-	-	(63)	-	135	-
Gross operating earnings	1 059	1 062	1 016	1 041	1 072	987	1 141	1 158	1 221
Depreciation and amortisation	(740)	(748)	(756)	(726)	(785)	(779)	(803)	(815)	(849)
Impairments	-	(58)	(11)	57	-	(167)	-	-	-
Operating earnings	319	(58)	249	372	287	41	338	478	372
Earnings/(loss) before taxation	177	31	(85)	320	160	(212)	(57)	44	173
Majority's share of net earnings/(loss)	193	(8)	(42)	545	224	(91)	(57)	255	45

¹ The quarterly figures for 2004 and 2005 are prepared according to IFRS. The quarterly figures for 2003 are under NGAAP.

Quarterly comparisons¹

<i>NOK million</i>	3Q05	2Q05	1Q05	4Q04	3Q04	2Q04	1Q04	4Q03	3Q03
Operating revenue									
Europe	3 990	3 924	3 602	4 107	3 951	3 875	3 672	4 087	3 810
South America	320	300	271	315	313	265	253	272	271
Australasia	1 028	1 056	919	1 015	1 065	1 046	1 068	1 100	1 078
Asia	658	636	561	650	640	703	610	637	587
Other activities	505	597	544	634	530	486	584	574	466
Staff/eliminations	(76)	(80)	(136)	(113)	(119)	(136)	(112)	(99)	(97)
Total operating revenue	6 425	6 433	5 761	6 608	6 380	6 239	6 075	6 571	6 115

Gross operating earnings

Europe	663	579	639	582	663	574	642	656	786
South America	77	74	75	114	99	73	61	87	53
Australasia	215	196	229	269	221	302	351	341	297
Asia	119	132	101	109	110	112	112	93	108
Other activities	12	12	16	29	8	9	14	30	13
Gain on power trading and energy hedging	(12)	92	(24)	-	-	-	-	-	-
Restructuring costs	-	-	-	-	-	(63)	-	-	-
Staff/eliminations	(15)	(23)	(20)	(62)	(29)	(20)	(39)	(49)	(36)
Total gross operating earnings	1 059	1 062	1 016	1 041	1 072	987	1 141	1 158	1 221

Operating earnings

Europe	241	148	201	160	200	117	170	206	324
South America	29	26	29	63	49	21	9	36	-
Australasia	39	22	48	99	35	116	156	143	112
Asia	43	56	27	45	39	40	41	41	25
Other activities	4	4	8	21	(1)	(1)	6	21	3
Impairments	-	(58)	(11)	57	-	(167)	-	-	-
Gain on power trading and energy hedging	(12)	92	(24)	-	-	-	-	-	-
Restructuring costs	-	-	-	-	-	(63)	-	135	-
Staff/eliminations	(25)	(34)	(29)	(73)	(35)	(22)	(44)	(104)	(92)
Total operating earnings	319	256	249	372	287	41	338	478	372

¹ The quarterly figures for 2004 and 2005 are prepared according to IFRS. The quarterly figures for 2003 are under NGAAP.

NORSKE SKOG GROUP ACCOUNTS

Financial key figures

	Definitions:	Jan-Sep 05	Jan-Sep 04	2004
Net operating margin	1	4.4	3.6	4.1
Gross operating margin	2	16.8	17.1	16.8
Return on capital employed		3.2	3.1	3.2
Equity ratio %	3	42.6	42.1	43.3
Equity ratio excl minority interests %	4	42.2	41.7	42.9
Net interest-bearing debt	5	17 277	17 474	16 871
Net interest-bearing debt/equity		0.90	0.92	0.88
Net interest-bearing debt/equity excl minority interests		0.91	0.93	0.89
Earnings per share after taxes	6	1.08	0.57	4.69
Earnings per share - fully diluted		1.08	0.57	4.69
Cash flow per share after taxes	7	15.35	15.57	22.04
Cash flow per share - fully diluted		15.35	15.57	22.04

Definitions:

- 1 : Net operating margin = operating earnings/operating revenue
- 2 : Gross operating margin = gross operating earnings/operating revenue
- 3 : Equity ratio = shareholders' equity/total assets
- 4 : Equity ratio excl minority interests = (shareholders' equity - minority interests)/total assets
- 5 : Net interest bearing debt = interest bearing debt - cash and cash equivalents - current investments - Interest rate swaps fair value hedge
- 6 : Earnings per share after taxation = net earnings/average number of shares
- 7 : Cash flow per share after taxes = net cash flow from operating activities/average number of shares

Cash flow statement

<i>NOK million</i>	Jul-Sep 05	Jul-Sep 04	Jan-Sep 05	Jan-Sep 04	2004
Cash flow from operating activities					
Cash generated from operations	6 614	6 417	18 560	18 703	25 312
Cash used in operations	(5 501)	(5 523)	(15 952)	(15 771)	(21 044)
Cash from net financial activities	(163)	(357)	(596)	(821)	(1 067)
Taxes paid	(27)	(30)	22	(48)	(69)
Net cash flow from operating activities	923	507	2 034	2 063	3 132
Cash flow from investment activities					
Investments in operational fixed assets	(404)	(385)	(1 423)	(1 101)	(1 981)
Sales of operational fixed assets	3	2	9	4	49
Net cash from sold shares in subsidiaries ¹	4	153	4	153	153
Taxes paid	-	-	-	-	(184)
Net cash flow from investment activities	(397)	(230)	(1 410)	(944)	(1 963)
Cash flow from financial activities					
Net change in long-term liabilities	(257)	(175)	(388)	(897)	(323)
Net change in current liabilities	(338)	(205)	400	584	(33)
Dividend paid ²	(10)	-	(807)	(807)	(817)
New equity ³	-	-	-	24	10
Net cash flow from financial activities	(605)	(380)	(795)	(1 096)	(1 163)
Translation difference	-	(8)	17	(7)	(47)
Total change in liquid assets	(79)	(111)	(154)	16	(41)

¹ In 2004 the amount consists of sale of forests in mid-Norway.

² The amounts include dividend paid to minority shareholders in PanAsia.

³ Minority-interest funding in Hebei Long Teng Paper.

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Change in equity

	Share capital	Other equity	Retained earnings	Total
Total equity excluding minority interests 31 December 2004	1 331	7 105	10 573	19 009
Effect of implementing IAS 39	-	-	165	165
Total equity excluding minority interests 1 January 2005	1 331	7 105	10 738	19 174
Currency translation adjustments and other	-	-	438	428
Share issues	-	-	-	-
Change in holding of own shares	2	15	13	30
Dividend paid	-	-	(795)	(795)
Net earnings/(loss) for the period	-	-	143	143
Total equity excluding minority interests 30 September 2005	1 333	7 120	10 537	18 980

Accounting principles

The consolidated accounts for the third quarter of 2005 are presented in accordance with IAS 34 on interim financial statements. The quarterly accounts, including comparable figures, are based on today's IFRS standards and interpretations. Changes in the standards and interpretations may lead to changes in the accounts.

For specifications of the effects of implementing IFRS, please refer to the company's annual report for 2004.

Compared with NGAAP, new accounting principles have been implemented in the following areas as a result of the adoption of IFRS:

Taxes

Tax cost consists of tax payable and change in deferred tax. Tax payable is calculated on the basis of taxable income, and change in deferred tax is calculated on the basis of the period's change in temporary differences. Deferred tax in the balance sheet is calculated on the basis of temporary differences between accounting values and tax values and losses carried forward at period end.

Tax-reducing temporary differences and loss carried forward will be netted against tax-increasing temporary differences where such netting is possible. Deferred tax is presented at nominal value.

The tax cost for the period is calculated on the basis of the best estimate for the average annual tax rate.

Pensions

As under NGAAP, net pension cost for the period under IFRS is included in payroll costs and consists of the present value of pensions earned in the period, interest costs for the pension obligations, anticipated returns on pension scheme funds, the effect included in the profit and loss account for changes in estimates and pension plans, the change included in the profit and loss account for the difference between actual and anticipated returns, and accrued payroll tax.

The effect of changes in estimates and pension plans and the difference between actual and anticipated returns are spread forward over the average remaining service life of employees when the calculated effect exceeds 10 per cent of whichever is higher of pension scheme funds or pension obligations. This is evaluated separately for each pension scheme.

Share-based payments

Norske Skog has an option programme which involves cash settlement if the options are exercised. The value of the options is recognised in the profit and loss account at the date when the options are issued. From the date of issue to the date when the options are exercised, changes in the value of the options are recognised in the profit and loss account as they occur.

Goodwill

Goodwill is not amortised periodically under IFRS. It will be evaluated for impairment at least annually.

Assets and liabilities in foreign currencies

Balance sheet items in foreign currencies which are hedged against fluctuations in exchange rates are valued at the rates prevailing on the closing date. Balance sheet items in foreign currencies which hedge each other are valued at the rates prevailing on the closing date. Gains and losses from exchange rate differences on debt in foreign currencies which hedge the value of independent subsidiaries in foreign currencies are recognised directly in the group's equity together with the exchange rate differences from the translation of the independent subsidiaries in foreign currencies. Gains and losses from exchange rate differences on current balance sheet items are recognised directly in operating earnings. Gains and losses from exchange rate differences on other balance sheet items are classified as financial items.

Goodwill arising from acquisitions of foreign entities is treated as a group asset when it relates to global synergies, and is reported at the exchange rate prevailing on the date of acquisition. Other goodwill is reported as part of the foreign entity's balance sheet and translated at the exchange rate prevailing on the balance sheet date.

Financial instruments in foreign currencies are valued at fair value.

All forward contracts and foreign currency options relate to hedging net investments in foreign entities, hedging future cash flow in foreign currencies or trade. Financial instruments used to hedge future cash flow in foreign currencies are not considered to qualify as hedge accounting for accounting purposes, and gains and losses are classified as financial items in the profit and loss account as they occur.

Financial instruments

Financial instruments are valued at fair value.

The different types of financial instruments used for hedging interest rate risk are valued at fair value. The underlying hedging objects are also valued at fair value as a result of fair value hedging. In cases of interrupted hedging, the hedging result is amortised over the remaining time to maturity for the hedging instrument. In cases where transactions are treated as hedging deals, the income and costs are recognised and classified in the same way as the underlying balance sheet items.

Shares, bonds and certificates

Shares, bonds and certificates classified as current assets are recognised at market value.

Biological assets

Biological assets are recognised at fair value.

Reconciliation of profit and loss account for the third quarter of 2004 under NGAAP against profit and loss account for the third quarter of 2004 under IFRS

<i>NOK million</i>	Profit and loss Q3 2004 NGAAP	Effect of transition to IFRS	Profit and loss Q3 2004 IFRS
Operating revenue	6 380	-	6 380
Distribution costs	(598)	-	(598)
Other operating expenses	(4 710)	-	(4 710)
Provision for restructuring costs	-	-	-
Gross operating earnings	1 072		1 072
Depreciation and amortisation ¹	(855)	70	(785)
Impairments	-	-	-
Operating earnings	217		287
Earnings/(loss) from affiliated companies ²	34	7	41
Financial items ²	(176)	8	(168)
Other items	-	-	-
Earnings/(loss) before taxation	75		160
Taxation ³	70	(3)	67
Net earnings/(loss)	145		227
Minority's share of net earnings/(loss)	3	-	3
Majority's share of net earnings/(loss)	142		224

¹ Goodwill is not amortised under IFRS. Goodwill amortisation under NGAAP amounted to NOK 70 million for Q3 2004.

² Under NGAAP, deferred tax on some acquisitions has been presented at net present value. Under IFRS, all deferred tax is presented at nominal value.

The effect on the Q3 2004 profit and loss account of restating the deferred tax from net present value to nominal value was NOK 7 million on earnings from affiliated companies and NOK 8 million on other financial items.

³ Effect on the tax cost for Q3 2004 of eliminating goodwill amortisation under IFRS.

Reconciliation of profit and loss account for the period 1 January to 30 September 2004 under NGAAP against profit and loss account for the period 1 January to 30 September 2004 under IFRS

<i>NOK million</i>	Profit and loss Jan-Sep 2004 NGAAP	Effect of transition to IFRS	Profit and loss Jan-Sep 2004 IFRS
Operating revenue	18 694	-	18 694
Distribution costs	(1 717)	-	(1 717)
Other operating expenses	(13 714)	-	(13 714)
Provision for restructuring costs	(63)	-	(63)
Gross operating earnings	3 200		3 200
Depreciation and amortisation ¹	(2 577)	210	(2 367)
Impairments	(167)	-	(167)
Operating earnings	456		666
Earnings/(loss) from affiliated companies ²	(96)	22	(74)
Financial items ²	(725)	24	(701)
Other items ³	142	(142)	-
Earnings/(loss) before taxation	(223)		(109)
Taxation ⁴	199	(9)	190
Net earnings/(loss)	(24)		81
Minority's share of net earnings/(loss)	5	-	5
Majority's share of net earnings/(loss)	(29)		76

¹ Goodwill is not amortised under IFRS. Goodwill amortisation under NGAAP amounted to NOK 210 million for the period 1 January to 30 September 2004.

² Under NGAAP, deferred tax on some acquisitions has been presented at net present value.

Under IFRS, all deferred tax is presented at nominal value. The effect on the profit and loss account for the period 1 January to 30 September 2004 of restating the deferred tax from net present value to nominal value was NOK 22 million on earnings from affiliated companies and NOK 24 million on other financial items.

³ The gain from the sale of the forests in mid-Norway was recognised in the profit and loss account for Q2 2004 under NGAAP. In the IFRS opening balance, biological assets are recognised at market value. With the market value recognised in the opening balance, the sale of the forests gave no profit and loss effect in 2004 under IFRS.

⁴ Effect on the tax cost for the period 1 January to 30 September 2004 of eliminating goodwill amortisation under IFRS.

Reconciliation of balance sheet and shareholders' equity at 30.09.04 under NGAAP against balance sheet and equity at 30.09.04 under IFRS

<i>NOK million</i>	Balance sheet 30.09.04 NGAAP	Effect of transition to IFRS	Balance sheet 30.09.04 IFRS
ASSETS			
Intangible fixed assets ¹	4 478	293	4 771
Biological assets ²	214	37	251
Operational fixed assets ³	30 288	(26)	30 262
Investments in affiliated companies ⁴	2 194	(229)	1 965
Deferred tax asset ⁵	(39)	93	54
Other long-term receivables	408	-	408
Total fixed assets	37 543		37 711
Inventory	2 597	-	2 597
Receivables	3 856	-	3 856
Current investments	471	-	471
Cash and cash equivalents	477	-	477
Total current assets	7 401		7 401
Total assets	44 944		45 112
EQUITY			
Equity ⁸	19 327	(546)	18 781
Minority interests	201	-	201
Total equity	19 528		18 982
LIABILITIES			
Deferred tax ⁶	2 216	578	2 794
Interest-bearing long-term debt	17 270	-	17 270
Interest-free long-term liabilities ⁷	881	136	1 017
Total long-term liabilities	20 367		21 081
Interest-bearing current debt	1 152	-	1 152
Tax liabilities	82	-	82
Trade and other payables	3 815	-	3 815
Total current liabilities	5 049		5 049
Total liabilities	25 416		26 130
Total liabilities and shareholders' equity	44 944		45 112

¹ Reversal of goodwill amortisation by NOK 210 million and reversal of negative goodwill of NOK 83 millions.

² Biological assets adjusted to fair value. Increases the value of biological assets by NOK 37 million.

³ Adjustment of the value of selected items of property, plant and equipment to fair value. Decreases the value of operational fixed assets by NOK 26 million.

⁴ Revaluation of deferred tax from net present value to nominal value. Decreases the value of investments in affiliated companies by NOK 229 million.

⁵ Deferred tax asset netted against deferred tax liabilities under NGAAP which cannot be netted under IFRS amounts to NOK 93 million.

⁶ Effects on deferred tax include the following:

Revaluation from net present value to nominal value	502
Tax effects from pensions	26
Deferred tax assets which can no longer be netted	93
Tax effects from reversal of negative goodwill	23
Tax effects from environmental provisions	(75)
Reversal of tax effects from goodwill amortisation	9
Total	578

⁷ The effect on interest-free long-term liabilities consists of a negative NOK 21 million from reversal of the equalisation reserve in Norske Skog Insurance, a negative NOK 93 million from resetting the corridor for defined benefit plans, and NOK 250 million in provision for environmental clean-up.

⁸ The net negative effect on shareholders' equity from the above changes amounts to NOK 546 million.

For further information on the effects of implementing IFRS, please refer to the annual report for 2004 and the press releases of 3 February 2005 and 19 April 2005.

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Special items

NOK million	3/05	2/05	1/05	4/04	3/04
Restructuring provision	-	-	-	-	-
Impairments in Australasia (op earnings)	-	(58)	(11)	57	-
Power trading gain (op earnings)	(2)	(11)	-	19	(2)
Translation effects on accounts receivable and payable (op earnings)	6	13	16	(55)	(19)
Change in value of embedded derivatives (op earnings)	18	17	(24)	-	-
Change in value of financial contracts (op earnings)	(21)	86	-	-	-
Change in market value of interest rate derivatives (financial items)	1	(29)	27	-	-
Currency hedging gain/(loss) (financial items)	8	28	(128)	165	56

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EBITDA / EBIT

NOK mill	3/05	3/04	2/05	YTD 05	YTD 04
Gross op earnings IFRS	1 059	1 072	1 062	3 137	3200
Reversals:					
Value changes power contracts	+ 12	-	-92	- 56	-
Restructuring costs	-	-	-	-	+ 63
Gross op earnings, corrected	1 071	1 072	970	3 081	3 263
Gross op margins, corrected	16.7	16.8	15.1	16.5	17.5

NOK mill	3/05	3/04	2/05	YTD 05	YTD 04
Net op earnings IFRS	319	287	256	824	666
Reversals:					
Value changes power contracts	+ 12	-	-92	-56	0
Restructuring costs	-	-	-	-	+63
Impairments	-	-	+58	+ 69	+167
Net op earnings, corrected	331	287	222	837	896
Net op margin, corrected	5.2	4.5	3.5	4.5	4.8