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**NORSKE SKOG**  
**Q1 REPORT**

*Future on Paper*



**Norske Skog**

New chair of Norske Skog

# Kim Wahl



## Positive first impression of Norske Skog

Kim Wahl (46), the new chair of Norske Skog, wants to help set the strategic and operational agendas

which will allow the company to

develop positively for all its stakeholders.

He believes in the future of publication paper.

The aim is to enhance the company's earnings, which in turn means better working conditions, more secure and attractive jobs and greater competitiveness. This is how Wahl defines the board's responsibility and principal job.

He has followed Norske Skog from the sidelines for some time, and likes what he has observed.

"The company has a fantastic platform – a global presence, able employees, long traditions in the business and technical capabilities on a par with the best," he says. "Add an enthusiastic management with a good and detailed strategic direction and you actually have the recipe for success."

He will now devote time to becoming more familiar with Norske Skog, in part by visiting some of the business units.

Wahl emphasises the importance of sharpening the focus of the business – a subject he knows a lot about through his own company. Industri Kapital is one of Europe's leading private equity compa-

nies, which currently manages about NOK 31 billion and owns 24 companies with a combined turnover of roughly NOK 65 billion.

A fundamental problem for Norske Skog is that it operates in an industry which has a far greater need for consolidation than the company does. Working on this will accordingly be important. Wahl has seldom seen a more focused enterprise than Norske Skog.

"We must ensure that competitiveness is created," he says. "This makes it particularly important for the future that everyone in Norske Skog, including the directors, support the management in implementing its plans."

Wahl believes in paper-based media. While he sees some decline for newspapers in mature markets, he expects a continued strengthening in emerging markets such as Eastern Europe, Asia and South America.

"It's also positive that magazines are actually a sign of prosperity," he notes. "The stronger an economy, the larger the number of magazines and the more specialised they are. So I'm quite sure that publication paper is interesting in the long term."





**Kim Wahl** studied economics at San Diego in the USA and worked as an international fellow at the Norwegian Chamber of Commerce in New York before taking an MBA at Harvard. He then joined Goldman Sachs as an investment banker in New York and London. Together with Björn Savèn, his Swedish partner, he established Industri Kapital in 1989 with an initial capital of NOK 764 million and its head office in London.

## BOARD OF DIRECTORS

Kim Wahl is elected as the new chair of the board in succession to Lars W Grøholt, and Kari Broberg is elected as a new director to replace Annette Brodin Rampe. Directors serve for one year.

Following the elections, Norske Skog's governing bodies have the following composition:

### Board of directors – shareholder-elected directors

Kim Wahl, chair, Øivind Lund, deputy chair, Halvor Bjørken, Kari Broberg, Gisèle Marchand and Ingrid Wiik

### Board of directors – worker directors

Kåre Leira, Stein Roar Eriksen and Trond Andersen

### Corporate assembly – shareholder-elected members

Helge Evju, chair, Idar Kreutzer, deputy chair, Emil Aubert, Ole H Bakke, Øyvind Birkeland, Ann Kristin Brautaset, Kirsten C Idebøen, Birgitta Rødstøl Næss, Christian Ramberg, Tom Ruud, Turid Fluge Svenneby and Halvard Sæther

### Corporate assembly – employee-elected members

Øystein Bruce, Roy Helgerud, Bjørn Inge Hoem, Paul Kristiansen, Randi Nesseemo and Stig A Stene

### Corporate assembly – employee-elected observes

Thor Granaune, Inge Myrlund and Martin M Petersen

# Report for the first quarter of 2007

- Operating revenues: NOK 6 726 million (Q4 06: NOK 7 704 million), a reduction largely attributable to seasonal fluctuations as well as somewhat lower average prices measured in NOK
- Gross operating earnings before special items: NOK 1 175 million (Q4 06: NOK 1 267 million); net operating earnings before special items NOK 440 million (Q4 06: NOK 538 million)
- Newsprint prices increased in Europe, but magazine paper and newsprint prices fell in most other markets
- Costs increased for recovered paper and to some extent for wood pulp
- Measured against the 2005 base year, the turnaround programme yielded an effect of about NOK 200 million in the first quarter of 2007

## Key Group figures - IFRS

		Q1/07	Q4/06	Q1/06	2006
Operating revenues	NOK mill	6 726	7 704	7 144	28 812
Gross op earnings	NOK mill	792	1 296	1 039	3 932
Gross operating margin	%	11.80	16.80	14.50	13.60
Net op earnings/(loss)	NOK mill	57	567	172	(2 527)
Net operating margin	%	0.80	7.40	2.40	(8.80)
Pre-tax earnings/(loss)	NOK mill	(135)	318	194	(3 480)
Net earnings/(loss)	NOK mill	(94)	245	213	(2 809)
Earnings per share	NOK	(0.50)	1.30	1.13	(14.84)
Cash flow	NOK mill	607	673	251	2 763
Cash flow per share	NOK	3.21	3.56	1.35	14.60
Return on capital employed	%	4.60	6.20	1.60	3.70
Deliveries	1 000 t	1 427	1 589	1 481	6 106
Production	1 000 t	1 504	1 520	1 503	6 087

## Operating profit before IFRS-related changes in value, provisions, write-downs and other special items:

	Q1/07	Q4/06	Q1/06	2006
Gross operating profit (EBITDA)	1 175	1 267	1 034	4 704
Net operating profit (EBIT)	440	538	167	1 478

## Profit and loss account

The first quarter result is unsatisfactory. Price rises implemented for newsprint in Europe were offset by unfavourable price developments in other markets, cost increases and negative currency developments. Nevertheless, effects achieved from the turnaround programme offset the cost increases to a large extent.

Special items included in unadjusted operating earnings under IFRS for the first quarter is a cost of NOK 383 million, which consists in its entirety of a change in the value of embedded derivatives in Norske Skog's long-term electricity contracts. The amount has not been included in the results of the individual segments and has no cash effect. A specification of this and other types of special items is included elsewhere in this quarterly report.

### COMPARISON BETWEEN Q1 07 AND Q4 06

The comparable gross operating earnings (before IFRS-related value adjustments and other special items, provisions and impairment charges) was NOK 92 million lower in the first quarter of 2007 than in the fourth quarter of 2006. The average product

price measured in NOK declined slightly as a result of price pressure in most markets except for newsprint in Europe, and of a somewhat stronger Norwegian krone. This had a negative effect of about NOK 80 million on the result. The cost of recovered paper and wood pulp increased by 6-7%, but this has largely been offset by positive effects from the turnaround programme.

### COMPARISON BETWEEN Q1 07 AND Q1 06

The comparable gross operating profit was NOK 141 million higher than in the first quarter of 2006. Overall, prices measured in NOK were roughly the same in the two quarters. Costs were significantly lower as a result of a restructuring of the mill portfolio, the turnaround programme and the restructuring in Australasia last year. Gross operating earnings were somewhat higher for the Europe newsprint, Asia and Australasia segments and somewhat weaker for Europe magazine paper and South America.

Norske Skog changed its estimates for the remaining useful life of its facilities as from the fourth quarter of 2006. As a result, depreciation in the first quarter of 2007 was NOK 132 million lower than in the same period of last year.

### Financial items (NOK mill.)

	Q1/07	Q4/06	Q1/06	2006
Net interest paid	(258)	(254)	(254)	(982)
Interest hedging	2	14	30	7
Gains/losses currency	83	98	86	(17)
Other financial items	(31)	(107)	(23)	(163)
Total financial items	(205)	(249)	(161)	(1 155)

### FINANCIAL ITEMS

The reduction in financial items from the fourth quarter of 2006 largely reflects a one-off item of NOK 84 million under other financial items last year. The gain on currency hedging results from the Norwegian krone at 31 March 2007 being stronger against most other currencies compared with the level of exchange rates at 31 December 2006.

### ASSOCIATED COMPANIES

The amount of NOK 13 million for the first quarter relates almost wholly to Norske Skog's share of net earnings after tax at

Malaysian Newsprint Industries. An income of NOK 146 million was included in the first quarter of 2006, which was the proportion of group equity deriving from conversion differences in the former associated company Catalyst Paper.

### NET LOSS

The net loss after tax and minority interests for the first quarter was NOK 94 million. When the change in value of embedded derivatives in electricity contracts is excluded, net earnings were about NOK 180 million.

## Cash flow

Cash flow from operations was NOK 607 million for the first quarter. As in previous years, this period saw a significant build-up in the inventory of finished products. Cash flow nevertheless remained almost on a par with the fourth quarter of 2006, since that quarter included several items with a negative effect on cash flow. Low cash flow in the first quarter of 2006 was due to a negative one-off effect on current interest-free debt in Asia.

## Balance sheet

Total assets at 31 March 2007 were NOK 44.5 billion, a reduction of almost NOK 700 million from 31 December. The reduction relates almost exclusively to the fact that depreciation was higher than capitalised investments, and that the Norwegian krone was stronger at 31 March 2007 than at 31 December. This currency effect reduced the value of the facilities outside of Norway. Capitalised investments were NOK 199 million in the first quarter of 2007.

During the quarter, Norske Skog took out a new bond loan of just over NOK 1 billion in the Norwegian market. This has a maturity of five years and will be used to refinance debts falling due in 2007.

Net interest-bearing debt was NOK 16.6 billion at 31 March 2007, a reduction of NOK 700 million from 31 December. The change appears as NOK 400 million in cash flow after investments and NOK 300 million of currency changes to the debt. The average maturity of the long-term debt was 5.3 years at 31 March 2007, and available liquidity – including unused lines of credit – was NOK 6.8 billion. Gearing (net interest-bearing debt/equity) was 0.93 at 31 March, but will increase to pro forma 0.98 after the dividend is paid at the end of April.

In April, Moody's rating agency changed Norske Skog's outlook to "Negative" from "Stable". According to a press release from Moody's, this change reflected the fact that price and cost developments has so far not resulted in the profit improvements required by the agency. The actual rating for Norske Skog's long-term debt remains at "Ba1".

The annual general meeting on 12 April approved the payment of NOK 5.50 per share as dividend. The dividend amounted to just over NOK 1 billion and was paid on 26 April.

## Changes to the board and corporate assembly

Following elections during the corporate assembly meeting on 12 April, Kim Wahl has become the new chair of Norske Skog in succession to Lars Wilhelm Grøholt, who had announced that he would not stand for re-election. Kari Broberg replaced Annette Brodin Rampe as a shareholder-elected director. Helge Evju is the new chair of the corporate assembly in succession to Idar Kreutzer.

## Health and safety

The H-1 value (frequency of losses per million working hours) was 1.6 in the 12-month period from 1 April 2006 to 31 March 2007. Four of the mills had no lost-time injuries during the period. Norske Skog has generally experienced low injury figures, but some increase has been seen over the past half-year. Great attention is being devoted to bringing the H-1 value down to earlier levels.

## Performance-based remuneration

The annual general meeting of Norske Skog adopted the board's proposal for a new long-term incentive scheme for the corporate management. The principle of the new scheme is that the chief executive and other members of the corporate management will receive a payment if the return from Norske Skog's shares is in the top half of a defined group of listed paper manufacturers, which includes Norske Skog. Any payments will increase in steps from 30% and reach 100% if Norske Skog is in the best quartile. An additional requirement is that Norske Skog must show a positive return in the calculation period.

Development is measured over three-year periods, with a new period starting each year. The first period runs from the first quarter of 2007 to the first quarter of 2010. The maximum annual payment will be the value of 35 000 shares before tax for the chief executive and 17 500 shares before tax for other members of the corporate management. An upper limit is also set, with the maximum payment in any given year being limited to 1.25 times the annual salary. At least 50% of the bonus paid from this programme must be used to

acquire shares, which are held until the total shareholding equals gross annual salary.

Under the previous incentive programme, the corporate management received synthetic options in 2006 and previous years. These options will remain unchanged until they fall due, in accordance with existing agreements.

## Demerging properties

The annual general meeting of Norske Skog adopted the recommendations from the board and the corporate assembly to demerge properties in Norway not related to operations, to a wholly owned subgroup. The group balance sheet will not be affected by the transaction. The most important properties are Klosterøya in Skien, the head office with surrounding land in Bærum, and a residential and agricultural area in Trondheim.

For legal reasons, Norske Skog cannot hold its own shares at the demerger date, which is expected to be towards the end of the second quarter. The holding of the company's own shares will accordingly be sold in advance, on condition that an equal number of shares are repurchased after the transaction has been carried out.

## Plan to improve earnings

The plan aims to achieve an increase of NOK 3 billion in gross operating earnings for the Norske Skog group by the end of 2008, compared with the 2005 level and 2005 market and cost conditions. All other things being equal, this should result in an 11% return on capital employed. Roughly speaking, the plan contains the following main elements:

- Cost reductions based on a restructuring of the mill portfolio. The measures were mainly implemented during 2006.
- Demanning, with a target reduction of 1 000 employees, in addition to about 600 employees who have left as a result of completed shut-downs. The reduction in staffing at head office and the regional offices has been carried out, and the process is under implementation in the various business units for completion during 2008.
- Measures to improve productivity and cost reductions in purchasing, energy optimisation, sales and logistics. Implementation of this part of the programme has been delegated to the individual business unit, with the corporate management coordinating their efforts. All business units have undertaken to set improvement targets. Measures were originally identified in more than 40 areas, but a number of proposals for improvement have been put forward as the process has developed. There are accordingly about 150 initiatives at present. To the extent that improvement measures require investments, this will fall within the framework of normal capital spending by the group.

A realised earnings improvement of NOK 400 million was achieved under the programme in 2006. This amount derived mainly from restructuring the mill and machine portfolio. The estimated effect of the programme in the first quarter of 2007 is about NOK 200 million measured against the base year of 2005. The targeted improvement is NOK 750 million per quarter at the end of 2008 (NOK 3 billion on an annual basis).

A team of experts established in the productivity area during 2006 carried out a design study at Norske Skog Jeonju followed by a pilot project at Norske Skog Golbey, with good results. Similar expert teams are currently working at Norske Skog Skogn and Norske Skog Albury, and will cover all the business units in the group by the end of 2008.

## Share developments

The foreign shareholding at 31 March 2007 was 67%, roughly on a par with 31 December. Sixty-eight million shares were traded in the first quarter of 2007, giving a turnover rate of 1.4 on an annual basis.

A total of 784 employees participated in this year's share sale to employees, buying 187 295 shares. Employees at the mills in Korea and Thailand took part for the first time. The number of both purchased shares and participating employees was on a par with last year. Following the sale, the company held 444 436 of its own shares.

## Operations and market

Total deliveries from Norske Skog's mills in the first quarter were about 10% lower than in the fourth quarter of 2006. This was primarily a seasonal reduction. Deliveries declined by 3.5% from the first quarter of 2006. In this time horizon, markets were affected by increased deliveries from Canada to Europe and reduced European exports. Total production from Norske Skog's mills in the first quarter did not differ significantly from the four quarters of 2006.

### EUROPE – NEWSPRINT

Average prices achieved in the segment were somewhat higher than in the previous quarter, but the price increase in local currency was offset by a stronger NOK. Costs increased, primarily for recovered paper. The quarterly result was negatively affected by a contribution margin recognised in the balance sheet for the seasonal increase in inventory, while this had the opposite effect in the fourth quarter of 2006.

The European newsprint market is still good, with demand in the first quarter almost in line with last year. Prices measured in local currencies were almost 5% higher than in 2006. However, the market balance was weakened by larger imports of newsprint from Canada and less scope for export tonnage to Asia.

### EUROPE – MAGAZINE PAPER

Results for this segment were very weak, reflecting lower prices, cost increases and reduced production in connection with a rebuilding shut at Norske Skog Saugbrugs.

European demand for magazine paper was 4% higher in the first quarter than in the same period of 2006. Despite this, prices fell by 2-3% owing to aggressive pricing in several markets.

#### Key figures:

		Q1/07	Q4/06	Q1/06	2006
Operating income	NOK mill.	2 190	2 446	2 272	9 072
Gross operating earnings	NOK mill.	446	466	421	1 742
Net operating earnings	NOK mill.	266	244	148	768
Gross operating margin	%	20.4	19.1	18.5	19.2
Deliveries	1000 t	497	567	550	2 176
Production	1000 t	536	537	556	2 151
Production/capacity	%	97	99	96	97

#### Key figures:

		Q1/07	Q4/06	Q1/06	2006
Operating income	NOK mill.	1 624	1 855	1 674	6 748
Gross operating earnings	NOK mill.	149	226	254	933
Net operating earnings	NOK mill.	-10	80	86	282
Gross operating margin	%	9.2	12.2	15.2	13.8
Deliveries	1000 t	304	338	310	1 247
Production	1000 t	308	328	324	1 279
Production/capacity	%	89	96	95	93

## ASIA

The Asian segment improved earnings and margins from last year, mainly as a result of higher production volumes and cost reductions after closing down two machines at Norske Skog Jeonju, in addition to other effects achieved in the turnaround programme.

Asian demand is still growing strongly, rising by 11% in China and 2% in Korea during January-February. For the region as a whole, demand rose by about 2.5%. Price levels in Korea and China are stable, but have fallen in most other markets.

## AUSTRALASIA

The Australasian segment showed good earnings in the first quarter. When comparing with the first quarter of 2006, account must be taken of the fact that Norske Skog Albany had a rebuilding shut in that quarter, and also that energy costs in New Zealand were very high.

Newsprint demand was somewhat higher in the region during January-February compared with the same period of 2006. Prices increased in New Zealand from 1 January, but a risk of falling prices exists in Australia for the second half of the year because of the price formula employed.

Drought problems in Australia mean

## SOUTH AMERICA

When comparing with last year, account must be taken of the fact that the fourth quarter included NOK 60 million recognised as income from a previous provision for electricity grid charges at Pisa. Corrected for this, the gross operating margin was 32% in the fourth quarter and 29.2% for the whole of 2006. Even when excluding these factors, earnings in the first quarter were weaker than in the fourth quarter of 2006. The main reasons were lower sales prices, which have been influenced by the market balance in North America.

Lysaker, 3 May 2007

The Board of Directors of  
Norske Skogindustrier ASA

### Key figures:

		Q1/07	Q4/06	Q1/06	2006
Operating income	NOK mill.	1 381	1 577	1 538	6 096
Gross operating earnings	NOK mill.	301	290	242	997
Net operating earnings	NOK mill.	137	110	50	252
Gross operating margin	%	21.8	18.4	15.7	16.4
Deliveries	1000 t	364	397	364	1 562
Production	1000 t	389	376	370	1 553
Production/capacity	%	97	94	83	89

### Key figures:

		Q1/07	Q4/06	Q1/06	2006
Operating income	NOK mill.	969	1 048	887	3 897
Gross operating earnings	NOK mill.	277	246	66	719
Net operating earnings	NOK mill.	102	88	-105	68
Gross operating margin	%	28.6	23.5	7.4	18.5
Deliveries	1000 t	194	211	187	827
Production	1000 t	198	203	181	798
Production/capacity	%	90	90	80	89

that production restrictions at Norsk Skog Albany cannot be excluded. It is too early to estimate their scope, which will depend on rainfall volumes being normal for this time of the year. If a production shut-down

proves necessary, the company will meet customer requirements with deliveries from Norske Skog's other mills globally.

### Key figures:

		Q1/07	Q4/06	Q1/06	2006
Operating income	NOK mill.	312	375	339	1 399
Gross operating earnings	NOK mill.	70	180	89	469
Net operating earnings	NOK mill.	26	131	42	289
Gross operating margin	%	22.4	48.0	26.3	33.5
Deliveries	1000 t	68	76	70	294
Production	1000 t	73	76	72	297
Production/capacity	%	94	98	93	96



## PROFIT AND LOSS ACCOUNT

NOK MILLION	JAN - MAR 07	JAN - MAR 06	2006
<b>Operating revenue</b>	<b>6 726</b>	<b>7 144</b>	<b>28 812</b>
Distribution costs	(592)	(648)	(2 521)
Cost of materials	(3 872)	(4 000)	(15 498)
Change in inventory	306	95	(102)
Employee benefit expenses	(919)	(1 012)	(3 800)
Other operating expenses	(474)	(545)	(2 187)
Restructuring expenses	-	-	(484)
Other gains and losses	(383)	5	(288)
<b>Gross operating earnings</b>	<b>792</b>	<b>1 039</b>	<b>3 932</b>
Depreciation and amortisation	(735)	(867)	(3 226)
Impairments	-	-	(3 233)
<b>Operating earnings</b>	<b>57</b>	<b>172</b>	<b>(2 527)</b>
Share of profit in associated companies	13	183	202
Financial items	(205)	(161)	(1 155)
<b>Profit before tax</b>	<b>(135)</b>	<b>194</b>	<b>(3 480)</b>
Income tax expense	36	12	463
<b>Net profit</b>	<b>(99)</b>	<b>206</b>	<b>(3 017)</b>
Attributable to minority interests	(5)	(7)	(208)
<b>Attributable to equity holders of the company</b>	<b>(94)</b>	<b>213</b>	<b>(2 809)</b>
Earnings per share	(0.50)	1.13	(14.84)

## CASH FLOW STATEMENT

NOK MILLION	JAN - MAR 07	JAN - MAR 06	2006
<b>Cash flow from operating activities</b>			
Cash generated from operations	6 727	7 096	28 905
Cash used in operations	(5 896)	(6 575)	(24 608)
Cash from net financial items	(247)	(231)	(1 365)
Taxes paid	23	(39)	(169)
<b>Net cash flow from operating activities</b>	<b>607</b>	<b>251</b>	<b>2 763</b>
<b>Cash flow from investing activities</b>			
Investments in operational fixed assets	(199)	(333)	(1 722)
Sales of operational fixed assets	1	-	11
Net cash from sold shares in other companies	-	1 213	1 213
<b>Net cash flow from investing activities</b>	<b>(198)</b>	<b>880</b>	<b>(498)</b>
<b>Cash flow from financing activities</b>			
Net change in long-term liabilities	(18)	(1 004)	(3 977)
Net change in current liabilities	(282)	68	2 343
Dividend paid <sup>1</sup>	-	-	(1 046)
<b>Net cash flow from financing activities</b>	<b>(300)</b>	<b>(936)</b>	<b>(2 680)</b>
Translation difference	(2)	4	(1)
<b>Total change in liquid assets</b>	<b>107</b>	<b>199</b>	<b>(416)</b>

<sup>1</sup> The amounts include dividend paid to minority shareholders in PanAsia.

## BALANCE SHEET

NOK MILLION	31-03-07	31-03-06	31-12-06
<b>ASSETS</b>			
Deferred tax asset	221	293	216
Other intangible assets	3 046	4 845	3 056
Property, plant and equipment	32 489	34 545	33 547
Investments in associated companies	343	314	333
Other non-current assets	420	508	425
<b>Total non-current assets</b>	<b>36 519</b>	<b>40 505</b>	<b>37 577</b>
Inventory	2 970	2 894	2 688
Receivables	3 918	4 235	3 999
Cash and cash equivalents	537	399	397
Other current assets	596	1 320	569
<b>Total current assets</b>	<b>8 021</b>	<b>8 848</b>	<b>7 653</b>
<b>Total assets</b>	<b>44 540</b>	<b>49 353</b>	<b>45 230</b>
<b>Shareholders' equity and liabilities</b>			
Paid-in equity	12 309	12 309	12 309
Retained earnings	5 583	9 254	5 791
Minority interests	432	690	450
<b>Total equity</b>	<b>18 324</b>	<b>22 253</b>	<b>18 550</b>
Pension obligations	537	443	530
Deferred tax	1 619	2 626	1 804
Interest-bearing non-current liabilities	14 552	17 771	14 712
Other non-current liabilities	1 772	768	1 756
<b>Total non-current liabilities</b>	<b>18 480</b>	<b>21 608</b>	<b>18 802</b>
Interest-bearing current liabilities	2 683	865	3 114
Trade and other receivables	3 832	3 854	3 833
Tax payable	159	155	123
Other current liabilities	1 062	618	808
<b>Total current liabilities</b>	<b>7 736</b>	<b>5 492</b>	<b>7 878</b>
<b>Total liabilities</b>	<b>26 216</b>	<b>27 100</b>	<b>26 680</b>
<b>Total equity and liabilities</b>	<b>44 540</b>	<b>49 353</b>	<b>45 230</b>

## FINANCIAL KEY FIGURES

	DEFINITIONS:	JAN - MAR 07	JAN - MAR 06	2006
Net operating margin	1	0.8	2.4	(8.8)
Gross operating margin	2	11.8	14.5	13.6
Return on capital employed		4.6	1.6	3.7
Equity ratio %	3	41.1	45.1	41.0
Equity ratio excl. minority interests %	4	40.2	43.7	40.0
Net interest bearing debt	5,8	16 605	17 515	17 320
Net interest-bearing debt/equity	5,8	0.91	0.79	0.93
Net interest-bearing debt/equity excl. minority interests	5,8	0.93	0.81	0.96
Earnings per share after taxes	6	(0.50)	1.13	(14.84)
Cash flow per share after taxes	7	3.21	1.35	14.60

### 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 taxes = net earnings / average number of shares
- 7 : Cash flow per share after taxes = net cash flow from operating activities / average number of shares
- 8 : Fair value hedge = a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss.

## REVENUE AND PROFIT BY SEGMENT

## Operating revenue

NOK MILLION	JAN - MAR 07	JAN - MAR 06	2006
<b>Europe</b>			
Newsprint	2 190	2 272	9 072
Magazine paper	1 624	1 674	6 748
<b>Total Europe</b>	<b>3 814</b>	<b>3 946</b>	<b>15 820</b>
<b>Asia</b>			
Newsprint	1 381	1 538	6 096
<b>Australasia</b>			
Newsprint	969	887	3 897
<b>South America</b>			
Newsprint	312	339	1 399
<b>Other items</b>			
Other industry in Norway	2	107	110
Other revenues	394	432	1 943
Staff/eliminations	(146)	(105)	(453)
<b>Total other items</b>	<b>250</b>	<b>434</b>	<b>1 600</b>
<b>Total group</b>	<b>6 726</b>	<b>7 144</b>	<b>28 812</b>

## Gross operating earnings

NOK MILLION	JAN - MAR 07	JAN - MAR 06	2006
<b>Europe</b>			
Newsprint	446	421	1 742
Magazine paper	149	254	933
<b>Total Europe</b>	<b>595</b>	<b>675</b>	<b>2 675</b>
<b>Asia</b>			
Newsprint	301	242	997
<b>Australasia</b>			
Newsprint	277	66	719
<b>South America</b>			
Newsprint	70	89	469
<b>Other items</b>			
Other industry in Norway	-	11	11
Staff/eliminations	(68)	(49)	(167)
Other gains and losses	(383)	5	(288)
Restructuring expenses	-	-	(484)
<b>Total other items</b>	<b>(451)</b>	<b>(33)</b>	<b>(928)</b>
<b>Total group</b>	<b>792</b>	<b>1 039</b>	<b>3 932</b>

## Operating earnings

NOK MILLION	JAN - MAR 07	JAN - MAR 06	2006
<b>Europe</b>			
Newsprint	266	148	768
Magazine paper	(10)	86	282
<b>Total Europe</b>	<b>256</b>	<b>234</b>	<b>1 050</b>
<b>Asia</b>			
Newsprint	137	50	252
<b>Australasia</b>			
Newsprint	102	(105)	68
<b>South America</b>			
Newsprint	26	42	289
<b>Other items</b>			
Other industry in Norway	-	6	6
Staff/eliminations	(81)	(60)	(187)
Other gains and losses	(383)	5	(288)
Restructuring expenses	-	-	(484)
Impairments	-	-	(3 233)
<b>Total other items</b>	<b>(464)</b>	<b>(49)</b>	<b>(4 186)</b>
<b>Total group</b>	<b>57</b>	<b>172</b>	<b>(2 527)</b>

## REVENUE AND PROFIT BY SEGMENT

### Production

(1,000 TONS)	JAN - MAR 07	JAN - MAR 06	2006
<b>Europe</b>			
Newsprint	536	556	2 151
Magazine paper	308	324	1 279
<b>Total Europe</b>	<b>844</b>	<b>880</b>	<b>3 430</b>
<b>Asia</b>			
Newsprint	389	370	1 553
<b>Australasia</b>			
Newsprint	198	181	798
<b>South America</b>			
Newsprint	73	72	297
<b>Total newsprint</b>	<b>1 196</b>	<b>1 179</b>	<b>4 799</b>
<b>Total magazine paper</b>	<b>308</b>	<b>324</b>	<b>1 279</b>
<b>Total publication paper</b>	<b>1 504</b>	<b>1 503</b>	<b>6 078</b>

### Deliveries

(1,000 TONS)	JAN - MAR 07	JAN - MAR 06	2006
<b>Europe</b>			
Newsprint	497	550	2 176
Magazine paper	304	310	1 247
<b>Total Europe</b>	<b>801</b>	<b>860</b>	<b>3 423</b>
<b>Asia</b>			
Newsprint	364	364	1 562
<b>Australasia</b>			
Newsprint	194	187	827
<b>South America</b>			
Newsprint	68	70	294
<b>Total newsprint</b>	<b>1 123</b>	<b>1 171</b>	<b>4 859</b>
<b>Total magazine paper</b>	<b>304</b>	<b>310</b>	<b>1 247</b>
<b>Total publication paper</b>	<b>1 427</b>	<b>1 481</b>	<b>6 106</b>



## QUARTERLY COMPARISONS GROUP

NOK million	1Q07	4Q06	3Q06	2Q06	1Q06	4Q05	3Q05	2Q05	1Q05
Operating revenue	6 726	7 704	7 192	6 772	7 144	7 107	6 425	6 433	5 761
Restructuring expenses	-	(45)	(376)	(63)	-	(270)	-	-	-
Gross operating earnings	792	1 296	765	832	1 039	813	1 059	1 062	1 016
Depreciation and amortisation	(735)	(729)	(827)	(803)	(867)	(828)	(740)	(748)	(756)
Impairments	-	-	(3 190)	(43)	-	(179)	-	(58)	(11)
Operating earnings	57	567	(3 252)	(14)	172	(194)	319	256	249
Profit before tax	(135)	318	(3 779)	(213)	194	(1 127)	177	31	(85)
Attributable to equity holders of the company	(94)	245	(3 087)	(180)	213	(997)	193	(8)	(42)

## QUARTERLY COMPARISON SEGMENTS

NOK million	1Q07	4Q06	3Q06	2Q06	1Q06	4Q05	3Q05	2Q05	1Q05
<b>Operating revenue</b>									
Europe	3 814	4 301	3 907	3 666	3 946	3 962	3 990	3 924	3 602
Asia	1 381	1 577	1 572	1 409	1 538	1 107	658	636	561
Australasia	969	1 048	989	973	887	1 019	1 028	1 056	919
South America	312	375	364	321	339	339	320	300	271
Other activities	396	504	475	535	539	780	505	597	544
Staff/eliminations	(146)	(101)	(115)	(132)	(105)	(100)	(76)	(80)	(136)
<b>Total operating revenue</b>	<b>6 726</b>	<b>7 704</b>	<b>7 192</b>	<b>6 772</b>	<b>7 144</b>	<b>7 107</b>	<b>6 425</b>	<b>6 433</b>	<b>5 761</b>
<b>Gross operating earnings</b>									
Europe	595	692	742	566	675	529	663	579	639
Asia	301	290	197	268	242	170	119	132	101
Australasia	277	246	240	167	66	164	215	196	229
South America	70	180	108	92	89	43	77	74	75
Other activities	-	-	-	-	11	25	12	12	16
Staff/eliminations	(68)	(81)	(40)	(12)	(49)	(56)	(15)	(23)	(20)
Other gains and losses	(383)	14	(106)	(186)	5	208	(12)	92	(24)
Restructuring expenses	-	(45)	(376)	(63)	-	(270)	-	-	-
<b>Total gross operating earnings</b>	<b>792</b>	<b>1 296</b>	<b>765</b>	<b>832</b>	<b>1 039</b>	<b>813</b>	<b>1 059</b>	<b>1 062</b>	<b>1 016</b>
<b>Operating earnings</b>									
Europe	256	324	329	163	234	130	241	148	201
Asia	137	110	9	83	50	23	43	56	27
Australasia	102	88	73	12	(105)	(39)	39	22	48
South America	26	131	68	48	42	(5)	29	26	29
Other activities	-	-	-	-	6	17	4	4	8
Staff/eliminations	(81)	(55)	(59)	(28)	(60)	(79)	(25)	(34)	(29)
Other gains and losses	(383)	14	(106)	(186)	5	208	(12)	92	(24)
Restructuring expenses	-	(45)	(376)	(63)	-	(270)	-	-	-
Impairments	-	-	(3 190)	(43)	-	(179)	-	(58)	(11)
<b>Total operating earnings</b>	<b>57</b>	<b>567</b>	<b>(3 252)</b>	<b>(14)</b>	<b>172</b>	<b>(194)</b>	<b>319</b>	<b>256</b>	<b>249</b>

## CHANGE IN EQUITY

	SHARE CAPITAL	OTHER PAID-IN EQUITY	RETAINED EARNINGS	TOTAL
Total equity excluding minority interests 1 January 2007	12 309	785	5 006	18 100
Currency translation adjustments and other	-	-	(114)	(114)
Share issues	-	-	-	-
Change in holding of own shares	-	-	-	-
Dividend paid	-	-	-	-
Net profit for the period	-	-	(94)	(94)
<b>Total equity excluding minority interests 31 March 2007</b>	<b>12 309</b>	<b>785</b>	<b>4 798</b>	<b>17 892</b>

### Accounting principles

The interim financial statements for the first quarter of 2007 are presented in accordance with IAS 34. The interim financial statements, including comparative figures, are based on today's IFRS standards and interpretations.

The accounting principles applied in these interim financial statements are the same as those applied in the financial statements at 31 December 2006 and for the year ending at that date.

### Accounting estimates, judgements and assumptions

The group prepares estimates and makes judgements and assumptions about the future. Accounting estimates derived from these will by definition seldom accord fully

with the final outcome.

Estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognised in the period in which the estimates are revised. If the change in estimates also has an effect on future periods, these effects are recognised in the period in which the estimates are revised and in the future periods in which the changes in estimates have an effect.

The same judgements and assumptions have been made when applying accounting policies and preparing estimates in preparing these interim financial statements as when preparing the financial statements at 31 December 2006 and for the year ending at that date.

## GROSS AND NET OPERATING EARNINGS

These tables show gross and net operating earnings under IFRS, adjusted for impairments, changes in the value of power contracts, and restructuring costs (- equals gain, + equals loss).

NOK MILLION	JAN-MAR 07	OKT - DES 06	JAN-MAR 06	2006
<b>Gross operating earnings, IFRS</b>	<b>792</b>	<b>1 296</b>	<b>1 039</b>	<b>3 932</b>
Reversals:				
Reversal of prov. for energy cost S.America	-	-60	-	-60
Other gains and losses	+383	-14	-5	+273
Restructuring expenses	-	+45	-	+484
Accrual for bad debt	-	-	-	+75
<b>Gross operating earnings, adjusted</b>	<b>1 175</b>	<b>1 267</b>	<b>1 034</b>	<b>4 704</b>
Gross operating margin, adjusted %	17.5	16.4	14.5	16.3
<b>Net operating earnings, IFRS</b>	<b>57</b>	<b>567</b>	<b>172</b>	<b>-2 527</b>
Reversals:				
Reversal of prov. for energy cost S.America	-	-60	-	-60
Other gains and losses	+383	-14	-5	+273
Restructuring expenses	-	+45	-	+484
Accrual for bad debt	-	-	-	+75
Impairments	-	-	-	+3 233
<b>Net operating earnings, adjusted</b>	<b>440</b>	<b>538</b>	<b>167</b>	<b>1 478</b>
Net operating margins, adjusted %	6.5	7.0	2.3	5.1

## SPECIAL ITEMS

The table below shows special items which have influenced net earnings over the past five quarters.

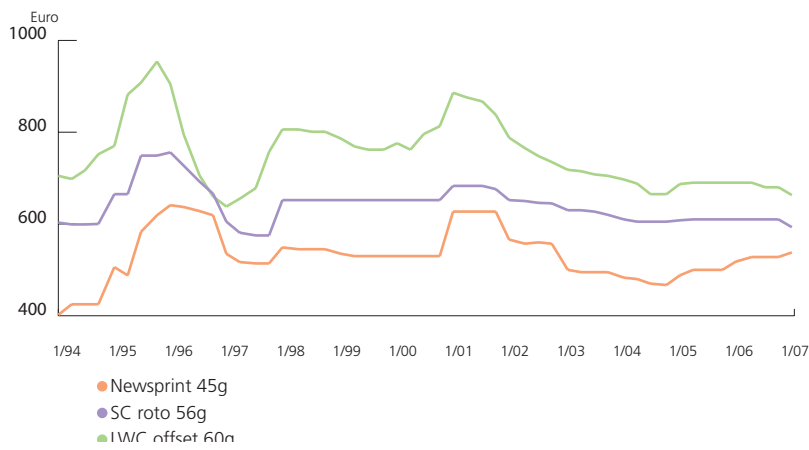
NOK MILLION	1/07	4/06	3/06	2/06	1/06
Restructuring provision (op earnings)	-	(45)	(376)	(63)	-
Accrual for bad debt (op earnings)	-	-	(75)	-	-
Impairments (op earnings)	-	-	(3 190)	(43)	-
Translation effects on accounts receivable and payable (op earnings)	(12)	(36)	30	(33)	(21)
Change in market value of interest rate derivatives (financial items)	2	14	(17)	11	30
Currency hedging gain/(loss) (financial items)	81	30	(232)	47	44

## THE NORSKE SKOG SHARE

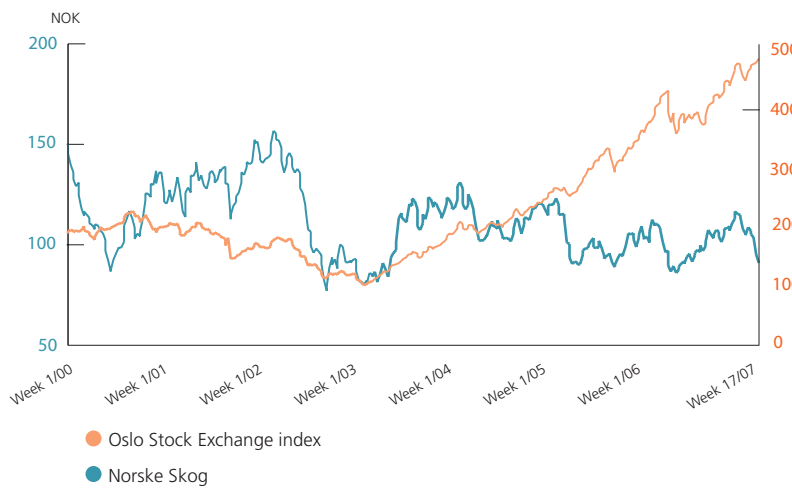
### KEY FIGURES

Norske Skog A	JANUARY - MARCH 2007				Earnings per share	Booked equity per share	AT 30.04.2007	
	02-01-07	31-03-07	High	Low			Share price	Market value
	109,25	104,00	118,50	101,50	-0,50	94,51	91,70	17 418

## PRICE DEVELOPMENT NEWSPRINT, SC, LWC - GERMANY



## SHARE PRICE DEVELOPMENT 2000-2007

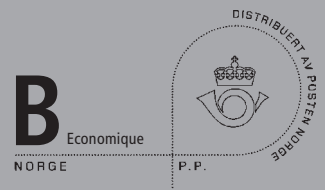


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