ANNUAL REPORT 2010

NORSKE SKOG

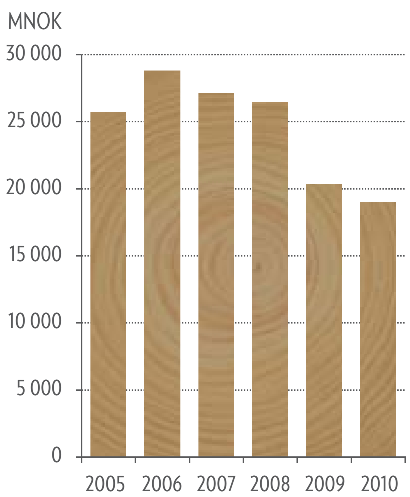
NORWEGIAN PAPER TRADITION

Norske Skog

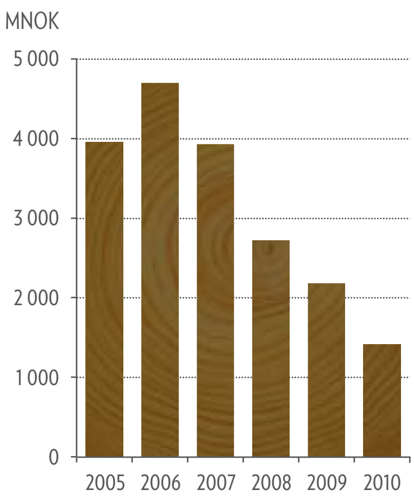
KEY FIGURES

	DEFINITIONS	2010	2009	2008	2007	2006	2005
INCOME STATEMENT							
Operating revenue		18 986	20 362	26 468	27 118	28 812	25 726
Gross operating earnings	1	1 413	2 185	2 723	3 932	4 704	3 957
Operating earnings		-2 379	-1 325	-1 407	677	-2 527	630
Net profit/loss for the year		-2 469	-1 400	-2 765	-683	-3 017	-848
Earnings per share (NOK)		-12.97	-6.36	-14.33	-3.26	-14.84	-5.98
CASH FLOW							
Net cash flow from operating activities		397	1 697	1 977	2 166	2 763	3 061
Net cash flow from investing activities		415	-587	2 289	-1 644	-498	-6 014
Cash flow per share (NOK)		2.09	8.95	10.43	11.43	14.60	21.42
OPERATING MARGIN AND PROFITABILITY (%)							
Gross operating margin	2	7.4	10.7	10.3	14.5	16.3	15.4
Return on capital employed	3	-3.1	-1.2	0.3	3.0	3.6	2.8
Return on equity	4	-22.2	-10.9	-18.7	-4.0	-14.6	-4.1
Return on assets	5	-7.5	-3.1	-2.8	1.8	-4.7	-0.1
PRODUCTION / DELIVERIES / CAPACITY UTILISATION							
Production (1 000 tonnes)		3 998	3 895	5 377	6 049	6 078	5 503
Deliveries (1 000 tonnes)		4 013	3 894	5 412	6 027	6 106	5 437
Production / capacity (%)		89	79	93	95	92	93
		31.12.2010	**31.12.2009**	**31.12.2008**	**31.12.2007**	**31.12.2006**	**31.12.2005**
BALANCE SHEET							
Non-current assets		19 271	23 546	26 980	29 307	37 577	43 740
Current assets		10 027	9 609	18 211	13 953	7 653	8 293
Total assets		29 297	33 155	45 191	43 260	45 230	52 033
Equity		10 183	12 015	13 632	15 957	18 550	22 679
Net interest-bearing debt	6	8 889	9 595	14 047	16 408	17 320	19 063
Gearing	7	0.87	0.80	1.05	1.05	0.96	0.84

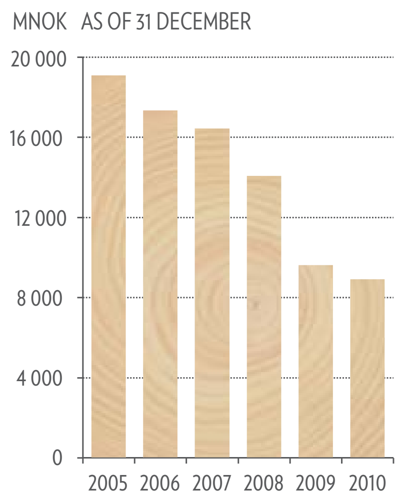
OPERATING REVENUE



GROSS OPERATING EARNINGS



NET INTEREST-BEARING DEBT



DEFINITIONS KEY FIGURES

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses + Other gains and losses + Impairments
2. Gross operating margin = Gross operating earnings : Operating revenue
3. Return on capital employed = Gross operating earnings after depreciation : Capital employed (average)
4. Return on equity = Net profit/loss for the year : Equity (average)
5. Return on total assets = Earnings before financial expenses : Total assets (average)
6. The calculation of net interest-bearing debt is presented in Note 26 to the annual accounts for the group
7. Gearing = Net interest-bearing debt : Equity

THE WORLD OF NORSKE SKOG

PRODUCTION CAPACITY

TONNES PER BUSINESS UNIT 31.12.2010

	NEWSPRINT (INCL. IMPROVED NEWSPRINT)	SC (MAGAZINE PAPER)	LWC/MFC (MAGAZINE PAPER)	TOTAL
Norske Skog Skogn, Norway	560 000			560 000
Norske Skog Saugbrugs, Norway		545 000		545 000
Norske Skog Follum, Norway	150 000		140 000	290 000
Norske Skog Golbey, France	620 000			620 000
Norske Skog Bruck, Austria	125 000		280 000	405 000
Norske Skog Walsum, Germany			435 000	435 000
Norske Skog Parenco, The Netherlands	125 000	140 000		265 000
Total Europe	**1 580 000**	**685 000**	**855 000**	**3 120 000**
Norske Skog Albury, Australia	280 000			280 000
Norske Skog Boyer, Australia	270 000			270 000
Norske Skog Tasman, New Zealand	315 000			315 000
Total Australasia	**865 000**			**865 000**
Norske Skog Pisa, Brazil	185 000			185 000
Norske Skog Bio Bio, Chile	125 000			125 000
Total South-America	**310 000**			**310 000**
Norske Skog Singburi, Thailand	130 000			130 000
Total Asia	**130 000**			**130 000**
Total capacity	**2 885 000**	**685 000**	**855 000**	**4 425 000**

During second half of 2010, and primarily due to a trend towards lower grammage, Norske Skog's production capacity has been re-assessed.

CONTENTS

NORSKE SKOG 2010

JANUARY

Sven Ombudstvedt became the new President and CEO after Christian Rynning-Tønnesen who became the new President and CEO of Statkraft.

FEBRUARY

Norske Skog presented weak results for the fourth quarter of 2009. The result was affected by low demand and record-low prices.

Norske Skog Bio Bio sustained some damage from the earthquake in Chile on 27 February, 2010. None of the employees at the paper mill were injured. Operations were halted until the end of April.

APRIL

Norske Skog held its annual general meeting. Tom Ruud was re-elected chair of the corporate assembly. Alexandra Bech Gjørv, Helge Evju and Einar J. Greve were elected new board members by the corporate assembly. Svein Erik Veie was elected new board member by the employees.

MAY

Norske Skog presented results for the first quarter of 2010. High prices on input factors together with a continued low price level in Europe contributed to a weak result.

Norske Skog Bio Bio was back to normal production following the earthquake in February.

JUNE

Norske Skog entered into an agreement with Elkem regarding sale of excess power for NOK 800 million. The agreement entailed annual delivery of 1.5 TWh until 2020 in southern Norway where Norske Skog no longer needs it.

AUGUST

Norske Skog presented results for second quarter. The results showed a moderate improvement compared with earlier quarters, but were still weak due to low prices in Europe

SEPTEMBER

IKEA named Norske Skog best supplier of paper to the IKEA catalogue, one of the world's biggest publications.

Norske Skog Tasman in New Zealand was awarded the most prestigious prize at the New Zealand Forest Industries Training and Education National Awards 2010 for its focus on improving the company's performance through employee development.

OCTOBER

The Carbon Disclosure Project named Norske Skog the best Norwegian company for climate reports and for transparency in connection with climate challenges.

Norske Skog decided not to invest additional capital in Xynergo AS which worked on development of synthetic biofuel from wood.

NOVEMBER

Norske Skog published results for the third quarter that were on the same level as the figures for second quarter. A small increase in volume and somewhat higher prices outside Europe contributed positively, but the results were still considered unsatisfactory.

DECEMBER

Norske Skog entered into a long-term agreement with Statkraft regarding delivery of 0.8 TWh electricity annually to Norske Skog Skogn until 2023.

DESIGN AND PRINT

Design and layout by: Design Container AS

Print: Ålgård Offset AS

Paper: Norset 60 g/m² – Cover Cyclus Print 200 g/m²

Photo: Norske Skog

RESPONSIBILITY FOR A SUSTAINABLE INDUSTRY

2010 clearly showed that major changes in the paper industry are required. Surplus capacity remained in the market throughout last year, and the need for consolidation in the industry is evident. Norske Skog looked again for additional potential to improve efficiency and cut costs. In the future, customers must also contribute, through shorter contracts and prices reflecting input factors for newsprint and magazine paper. All over the world, millions of people use paper as their only source of reading skills and information – every day. Norske Skog is proud to be a central player in this important value chain, and is prepared to do our part of the job to secure a sustainable paper industry.

New technology has contributed to changed media habits, but the demand for paper increased in 2010 in several parts of the world regardless of the continuing challenges in the European market. Paper newspapers are gaining ground in emerging economies, and printed advertising is still a much larger marketing channel than the internet. Paper is a simple, efficient and environmentally friendly channel for distribution of information.

Norske Skog positions itself for a stronger role in an industry with interesting prospects. In 2010, the group also implemented measures for reducing costs and debt. Capacity utilisation increased, in particularly towards the end of the year, and increased volumes were produced with fewer employees and at lower costs than during the preceding year. Nevertheless, we experienced quarter by quarter, that the effects of cost-saving initiatives were countered by continued high prices on input factors and currency-related challenges. However, Norske Skog produced paper of the same high quality throughout last year as the company has always been known for. IKEA chose magazine paper from Norske Skog for its large UK catalogue, and named our paper as the best among their suppliers.

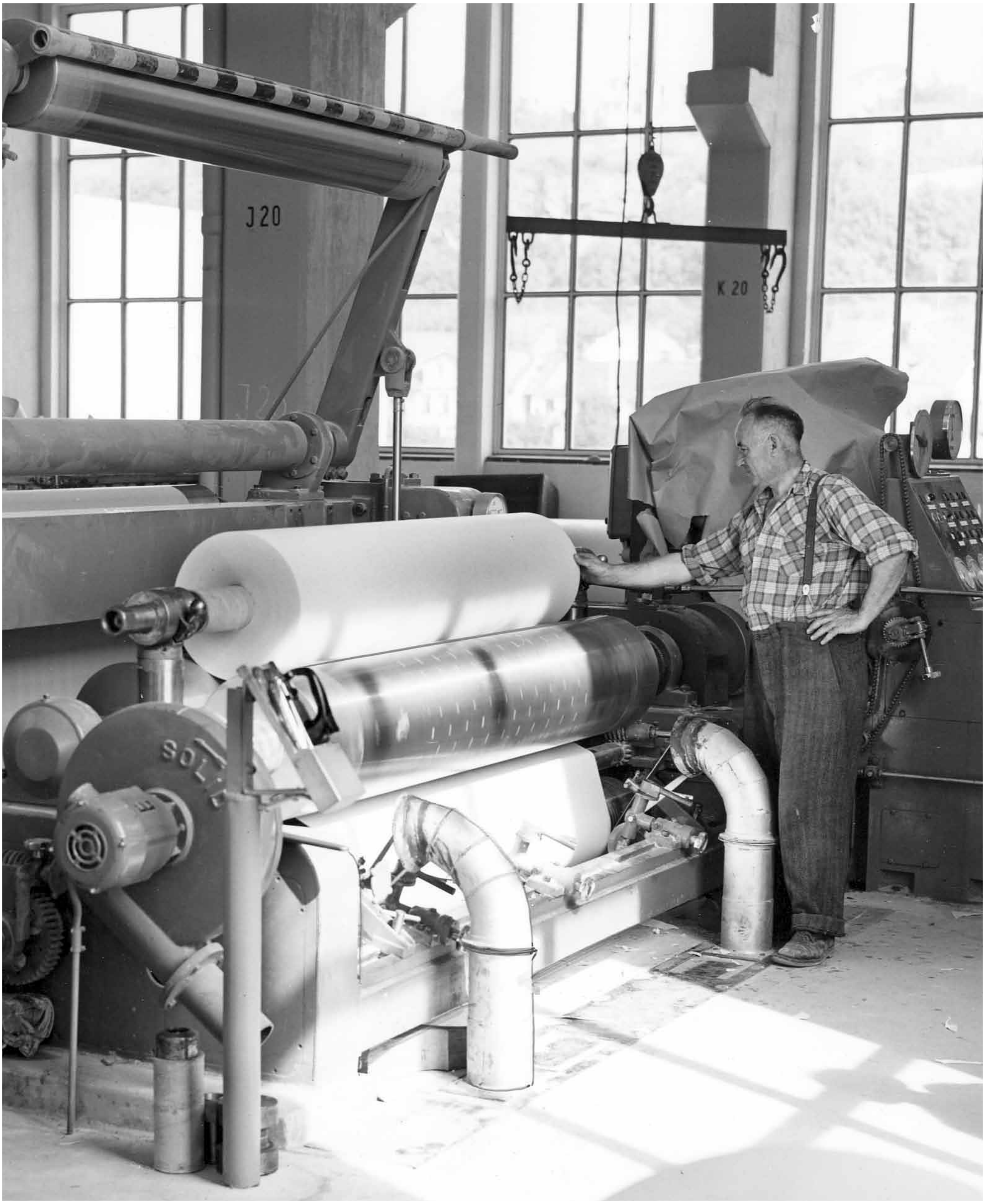
Sale of excess power in 2010 and cash flow from operations contributed to reducing the debt by more than NOK 700 million. Additional processes for selling assets outside our core activities, were initiated in 2010, and are expected to yield results in 2011. We enter the new the year in a strengthened financial position, and continue to work to achieve increased financial freedom.

The past years have been demanding for Norske Skog. The organisation has shown that we have the ability to reach ambitious goals without assistance from the market, and that we manage to maintain our corporate responsibility even in difficult times. In my first year as President and CEO, I have gotten to know an organisation highly characterised by expertise, professionalism and tirelessness – attributes that are necessary to ensure that we will come out of 2011 as an even stronger company.

FIVE MAIN PRIORITIES:

1 - Restructuring Europe
2 - Refinancing
3 - Sales of non-core assets
4 - Continuous improvements and cost reductions
5 - Legal restructuring

Sven Ombudstvedt
President and CEO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K 20

THE HISTORY OF NORSKE SKOG

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

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

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

Today, Norske Skog has 14 wholly and partly-owned mills in 11 countries and is one of the world's largest producers of publication paper to newspapers, magazines, periodicals and for advertising purposes. Norske Skog is listed on the Oslo Stock Exchange and had 5 257 employees at year-end 2010.

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

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

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

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

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

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

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

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

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

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

MARKET DEVELOPMENT IN 2010

In 2009, demand for newsprint and magazine paper dropped significantly in most countries due to the financial crisis and also due to more structural causes in several mature markets. To a large extent, this development turned in 2010, with the exception of the USA where newsprint demand continued to drop. For the world overall, the preliminary statistics show that newsprint demand increased by around 1.5 per cent.

The market balance in Europe, Norske Skog's most important market, improved significantly in 2010. This applied to both newsprint and magazine paper and is due to increased demand both locally and in export markets. For newsprint, closures of capacity were also implemented in addition to lower imports from North America in the region.

In the longer term, there is reason to believe that the newsprint consumption in mature markets such as western Europe and Australasia will stagnate and start falling. However, it is unlikely that the strong rate of decline seen through several years in the US will transmit to other parts of the world, neither in the short nor medium term. The US in many ways constitutes an exemption compared with other countries regarding media use, with newspapers to a large extent being used as a distribution channel for advertising and where content and layout has seen little modernisation. Furthermore, subscribing has little tradition in the US, unlike many European countries. In many of the countries in Asia, South America and eastern Europe, Norske Skog believes the growth potential for newsprint is good.

The applications for magazine paper, i.e. periodicals, magazines and advertising, are less exposed to structural decline than daily newspapers. There was a strong increase in demand for magazine paper in 2010, confirming that this type of paper to a larger extent than newsprint is directly connected to the macro-economic development and advertising budgets.

NEWSPRINT

Europe:
For standard newsprint, demand in 2010 was about 2 per cent higher than in 2009. Demand grew primarily in Germany and Italy, while it remained unchanged in the UK and other countries. Imports from Canada to Europe were 25 per cent lower than in 2009, and there has been a declining trend for this import in recent years. Exports from Europe increased, primarily from Russia to Asia. Combined with the shut-down of three newsprint mills, this resulted in higher capacity utilisation through 2010, and for Norske Skog an increase in capacity utilisation from 79 per cent in 2009 to 89 per cent in 2010.

Improved newsprint saw strong growth in demand in 2010, partly due to the low price level resulting in improved newsprint being used instead of the standard grade. In 2009, the demand for newsprint in Europe fell by about 14 per cent, and there was a lot of surplus capacity in the region towards the end of the year. However, due to annual contracts, prices in 2009 remained at a relatively high level in spite of the reduced demand. The price level and the surplus capacity in 2009 caused a considerable drop in prices at the beginning of 2010, around 20 per cent.

At the end of 2010 and beginning of 2011, there is relatively good balance between supply and demand. We therefore expect considerable price increases for 2011. To a large extent, Norske Skog has entered into quarterly price agreements for newsprint in Europe.

Norske Skog's production capacity in Europe is 1.36 million tonnes for standard newsprint and 0.22 tonnes for publishing paper and improved newsprint. In total, this amounts to 35 per cent of Norske Skog's overall production capacity. A new assessment of capacity in Europe has been made on the basis of reduced grammage, and Norske Skog Parenco will in 2011 produce newsprint and magazine paper.

Asia:
Most Asian countries with the exception of China and Japan saw increased demand for newsprint in 2010, and the increase was 10 per cent or more in many countries. For Asia as a whole, preliminary figures show that the demand increased by 3 per cent, but there is reason to believe that customer stocks have grown, making the underlying growth in consumption somewhat lower. Sales prices mostly increased in 2010.

Norske Skog's activities in the region consist of a mill in Thailand with a capacity of 130 000 tonnes, or 3 per cent of the total production capacity. In addition, Norske Skog owns 33.65 per cent of a mill in Malaysia.

Australasia:
Based on preliminary figures, demand for newsprint in Australasia increased by about 4 per cent in 2010, after a substantial reduction in 2009. With effect from July 2010, new contracts were entered into with a duration of five years with the largest customers, and price hikes were implemented in accordance with the contracts in the second half of the year. More than 70 per cent of Norske Skog's production volume in the region is sold through the new long-term contracts. Customer stocks have probably grown in 2010 in Australasia as well.

Norske Skog is the only producer of newsprint in Australasia. Total production capacity of the three mills is 865 000 tonnes, which amounts to 20 per cent of Norske Skog's total capacity.

South America:
The demand for newsprint in South America increased by around 11 per cent in 2010, after a reduction of 20 per cent in 2009. Like in other regions outside of Europe, there has been an increase in customer stocks. In Norske Skog's two main markets, Brazil and Chile, there was an increase in demand of 22 per cent in Brazil, while the situation in Chile was more or less unchanged. Due to large

imports from North America, the prices in South America mostly follow North America with some delay. Prices measured in USD increased in 2010.

Norske Skog has a total production capacity in South America of 310 000 tonnes, representing 7 per cent of ours total capacity.

MAGAZINE PAPER

After a considerable drop in demand of around 17 per cent in Europe in 2009, demand increased about 6 per cent in 2010. As in 2009, the development for the two main grades differed, with SC (uncoated paper) seeing a minor decline in demand and demand for LWC (coated paper) increasing by 11 per cent. The reason for the better development for LWC was that the traditional price difference between the two grades was gradually restored. During parts of 2009, we saw major price differences, making the customers convert to the cheaper SC grade to some degree. For both magazine paper grades, there were strong export markets, resulting in total volumes shipped from Europe increasing by around 11 per cent.

The price of magazine paper declined from the beginning of 2010, but this reduction was smaller than for newsprint, measured in per cent. Prices increased during second half of 2010, and further hikes are expected in 2011.

Norske Skog's magazine paper production capacity is 1.54 million tonnes, 35 per cent of the company's overall production capacity. As mentioned under the section on newsprint in Europe above, Norske Skog Parenco will from 2011 produce magazine paper to some extent.

BOARD OF DIRECTORS

EIVIND REITEN (57)

BOARD MEMBER AND CHAIRMAN SINCE 2009

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

GISÈLE MARCHAND (52)

BOARD MEMBER SINCE 2002, DEPUTY CHAIRMAN SINCE 2010

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

HALVOR BJØRKEN (56)

BOARD MEMBER SINCE 2000

Residence: Verdal
Education: Educated in agriculture and forestry
Position: Forest owner and farmer
Directorships: Chairman of the Board TGG. Board member Midt-Norsk Tømmerimport and The Ministry of Research and Development's Development Fund. General assembly member Skogbrand Insurance Company

HELGE EVJU (56)

BOARD MEMBER SINCE 2010

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

ALEXANDRA BECH GJØRV (45)

BOARD MEMBER SINCE 2010

Residence: Oslo
Education: Cand. jur., University of Oslo
Position: Partner of the law firm Hjort DA
Directorships: Deputy chairman of the board in Norsk Rikskringkasting AS. Board member in Eidsiva Vekst AS

PAUL KRISTIANSEN (55)

BOARD MEMBER SINCE 2009

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

INGE MYRLUND (41)

BOARD MEMBER SINCE 2009

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

SVEIN ERIK VEIE (38)

BOARD MEMBER SINCE 2010

Residence: Skogn
Education: Process operator and industry mechanist
Position: Chairman Fellesforbundet dept. 461
Directorships: Deputy chairman of Norske Skog Works Council Norway, member of EWC and GEF. Chairman of Fellesforbundets Avdelingslederforum Nord-Trøndelag

INGRID WIIK (66)

BOARD MEMBER SINCE 2005

Residence: Bærum
Education: Cand. pharm. University of Oslo, MSc biopharmacy, London University and MBA BI Norwegian School of Management
Position: Consultant
Directorships: Board member Biotech Pharmacon ASA, Algeta ASA and Diagenic ASA

EINAR JØRGEN GREVE (50)

BOARD MEMBER 2010-2011

Residence: Oslo
Education: Cand. jur., University of Oslo
Position: Managing direcor Cipriano AS
Directorships: Board member Eltek ASA, Saga Tankers ASA and chair of the board and board member in several unlisted companies

Resigned from the board March 1, 2011.

CORPORATE MANAGEMENT

SVEN OMBUDSTVEDT (44)

CEO
In Norske Skog since 2010

Background:

2010 –	CEO Norske Skog ASA
2008 – 2009	SVP SCD SAS
2006 – 2008	CFO and head of strategy Yara International ASA
2003 – 2006	SVP upstream operations Norsk Hydro ASA
2002 – 2003	SVP corporate strategy Norsk Hydro ASA
1999 – 2002	SVP commercial policy and industrial restructuring Hydro Agri
1995 – 1999	VP market strategy and planning Hydro Agri
1991 – 1995	Various positions Norsk Hydro (Hydro Data, Hydro Aluminium, Hydro Agri)
Education	Bachelor of Sc. of Business Adm, Pacific Lutheran University (USA), Master of Sc. of International Management, Thunderbird University (USA)

TERRY HAMILTON (48)

SENIOR VICE PRESIDENT FOR EUROPE
In Norske Skog since 2000

Background:

2010 –	SVP Europe
2009 – 2010	SVP Asia, Australasia and South America
2008 – 2009	SVP Asia and Australasia
2006 – 2008	VP Norske Skog Production System
2006	VP operations and strategy, Norske Skog PanAsia
2003 – 2005	Managing director PanAsia Paper, Thailand
2000 – 2003	CEO Malaysian Newsprint Industries
1996 – 2000	Mill manager Fletcher Challenge Crofton, Canada
1987 – 1996	Various operational and management positions Fletcher Challenge, Canada
Education:	Bachelor and Master of Sc. in Mechanical Engineering, University of British Columbia (Canada), Master of Business Adm, Simon Fraser University, Vancouver (Canada)

AUDUN RØNEID (54)

CHIEF FINANCIAL OFFICER (CFO)
In Norske Skog since 2008

Background:

2008 –	CFO NorskeSkog ASA
2007 – 2008	CFO Davie Yards Inc.
2002 – 2007	CFO Jotun A/S
1999 – 2002	SVP Finance Kværner Oil and Gas Field Development
1998 – 1999	CFO Aker Yards
1994 – 1998	SVP Kværner Ship Equipment
1992 – 1994	SVP Finance Kværner Eureka
1989 – 1991	Controller Mech. Eng. Div. in Kværner
1984 – 1989	VP accounting and finance Kværner Rosenberg Verft
Education:	Master of International Business, Norwegian School of Management (Norway)

JAN-HINRICH CLASEN (53)

SENIOR VICE PRESIDENT COMMERCIAL OPERATIONS
In Norske Skog 1992-1996 and from 1999 –

Background:

2010 –	SVP Commercial operations
2008 – 2010	SVP Europe
2006 – 2008	General manager Norske Skog Walsum
2004 – 2006	SVP Sales and marketing
2003 – 2004	VP Newsprint Norske Skog Europe
1999 – 2003	SVP and Chief Sales Officer Pan Asia Paper
1996 – 1998	General manager printing plant, Axel Springer Verlag AG
1992 – 1996	Sales director magazine
Education:	Chartered engineer with a Master of Engineering and Doktor-Ing., Technical University Clausthal (Germany)

RUNE GJESSING (48)

SENIOR VICE PRESIDENT SVP ASIA, AUSTRALASIA AND SOUTH AMERICA
In Norske Skog since 2002

Background:

2010 –	SVP Australasia, Asia and South America
2007 – 2010	SVP Strategy
2006 – 2007	Director strategic business analysis
2006 –	Director control functions
2002 – 2006	Director of investor relations, VP controlling
1998 – 2002	Share analyst National Bank Financial (Canada)
1992 – 1998	Finance and market analyst in Simons Consulting Group (Canada)
Education	Bachelor of Sc. in wood science, University of British Columbia (Canada), Master of BA in finance and marketing, Simon Fraser University (Canada).

GAUTE HJELMBREKKE ANDREASSEN (35)

SVP STRATEGY
In Norske Skog since 2010

Background:

2010 –	SVP Strategy
2007 – 2010	Director strategy and business development Yara International ASA
2007 –	Consultant The Boston Consulting Group
2005 – 2007	Project manager Yara International ASA
2001 – 2005	Consultant The Boston Consulting Group
2000 – 2001	Analyst Morgan Stanley
Education:	Master of Sc. of Economics and BA, Norwegian School of Economics and Business Adm. (NHH) (Norway), Elementary and intermediate subjects in psychology, University of Bergen (Norway)

CORPORATE SOCIAL RESPONSIBILITY IN NORSKE SKOG

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

Our three core values openness, honesty and cooperation guide our behaviour, decisions and daily work. In order to promote responsible decisions and activities, we practice open communication with various stakeholders. One important communication initiative is the publication of annual reports. In 2010 we reviewed our Steering Documents, laying out principles for our decisions and activities in the areas health and safety, environment, people, financial management and reporting, as well as corporate conduct. Corporate Standards support the application of the Steering Documents. Furthermore, we have procedures, routines, best practice documents, etc. to ensure that we provide clear and practical expectations to all employees. These documents are binding throughout Norske Skog. See the illustration on the next page, and find our Steering Documents at www.norskeskog.com.

ORGANISATION OF CSR WORK IN NORSKE SKOG

Norske Skog's Chief Executive Officer has the overall responsibility for the company's CSR performance. In order to achieve consistent and well-integrated efforts and results, Norske Skog coordinates activities and goals in the areas of corporate conduct, health and safety, people, environment and compliance, in a corporate coordination team.

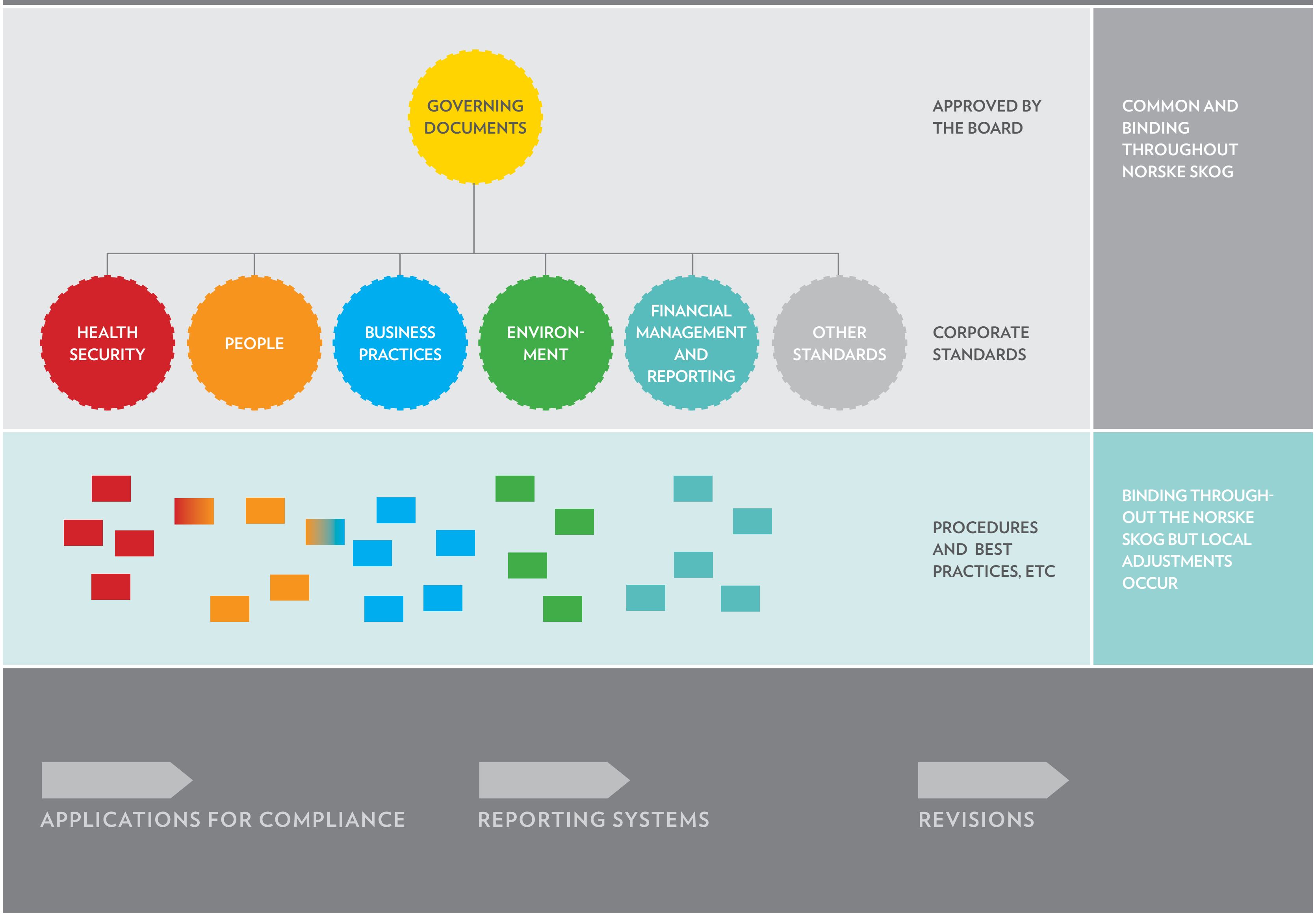
TARGETS FOR CORPORATE SOCIAL RESPONSIBILITY

Norske Skog measures a number of CSR elements, both short and long term. Below are some results for 2010. Some of the targets are long term targets. The results will be further discussed in the following pages.

Subject	Target	Result	Comments
	2010	2010	
Health and Safety			
- H1 [1]	0	0.7	Improved from 1.9 in 2009
- H2 [2]	22.2	12	Improved from 35 in 2009
- Absence due to sickness [3]	3	3.7	Improved from 4.0 in 2009
Environment			
- Certified fibre, %	100	76	Improved from 71 in 2009
- Environmental index	1.09	1.14	Improved from 1.15 in 2009
- Greenhouse gas reduction, %	25 (2020)	9.5	9.5% reduction compared to base year 2006, (6% increase in 2010 due to increased production)
People			
- Corporate Conduct [4]			
- Steering Documents	Update	Updated	Updated documents approved by the Board
- CSR survey	Carry out	Carried out	

[1] Lost time injuries per million working hours
[2] Total number of injuries with and without lost time per million working hours
[3] The target is for no business unit to have a higher absence due to sickness than 3%
[4] Based on the roll-out and implementation of revised Steering Documents, further targets for Corporate Conduct will be established in co-ordination with local business units.

DOCUMENT STRUCTURE NORSKE SKOG



LOCALLY

Most of Norske Skog's CSR-related activities take place locally. Each business unit manager has the responsibility for meeting the relevant CSR targets. All business units have dedicated people to facilitate and follow up CSR efforts and results. These supervisors report directly to the business unit manager, and maintain close contact with the relevant colleague at corporate level. Sales offices and other units are similarly bound by Norske Skog's requirements for responsible conduct and included in the corporate coordination.

CENTRALLY

Important tasks for the corporate CSR coordination team include:

- developing and maintaining corporate standards
- specifying and following up strategic corporate targets
- ensuring that the business units and other functional units set their own targets in line with the strategic corporate targets
- providing support and assistance to business units in order to enhance their performance

COMPLIANCE

To strengthen the continuous work towards compliance with relevant regulations, Norske Skog appointed a full-time Compliance Officer in March 2010. The Compliance Officer reports regularly to the corporate management and the board.

The risk of non-compliance has many aspects, including legal risk, financial risk, risk of unethical conduct and various consequences of reputational damage. The compliance work entails coordinated application of organisational instruments, such as documents, systems, training and management development, in order to reduce these risks.

Norske Skog updated its Steering Documents in 2010. Deployment and implementation will take place from early 2011. In its work to promote compliance, Norske Skog emphasises the responsibility of the line organisation. Compliance must take place where the risk lies, primarily in the production and commercial operations and their associated activities. The responsibility of the staff is to facilitate and follow up compliance through the company's managers.

The compliance work is based on Norske Skog' common standards for conduct for all business units and all employees. This strengthens the quality of our operations and promotes our predictability and credibility with customers, suppliers and other partners. In this manner, the compliance work strengthens the company's commercial position.

The Steering Documents underline that Norske Skog will not tolerate breaches of neither public nor internal regulations. As part of this, we emphasise that individual cases will be followed up. We encourage employees to raise issues that worry them or advise of practices that they believe are questionable. To strengthen the compliance work, Norske Skog has further developed its whistle-blowing system. The general rule is that all issues should be raised with the immediate superior. In cases where this is difficult, the employee can use our whistle-blowing channel, which will provide a thorough and safe process that takes into account the various interests in the issue. One way to blow the whistle is to send an email to compliance@norskeskog.com.

NORSKE SKOG AND LOCAL COMMUNITIES

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

AGREEMENT WITH THE MAORI

Early in the year a Memorandum of Understanding was signed between Norske Skog, Carter Holt Harvey and three local Maori tribes in New Zealand. This was done to create a formal body outside the Resource Management Act process (permit process) to address the effects of mill activities on the surrounding environment.

Distribution of 2010 sales revenues in Norske Skog:

- Purchase of goods and services: NOK 14.7 billion
- Capital expenditures NOK 0.4 billion
- Salaries NOK 1.5 billion
- Taxes and public fees NOK 1.2 billion
- Financial costs and working capital NOK 1.1 billion

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

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

HEALTH AND SAFETY

Health and Safety has the highest priority for Norske Skog, twenty four hours a day, seven days a week. This mindset yielded good results in 2010, results that would not have been possible without the contribution of all our employees. Good results will be further developed into new activities, which will improve the working environment. Norske Skog's health and safety program, called "Take Care 24 hours", is under continuous development at the business unit level to ensure adaptation to local requirements and needs.

The Take Care 24 hours program will of course have to be adapted to our different cultures, but shall always meet the requirements of our health and safety standards for international activities. Our goal is a safe working environment where health and safety receive equal attention in planning and in the daily operations of the company. All employees in Norske Skog must engage in improving their own, their colleagues', visitors' and sub-contractors' working environment. Internal cooperation with transfer of experience and sharing of best practice enables us to adapt preventive activities to all our mills.

Through the activities in Take Care 24 hours, the company stimulates and encourages the same attitudes and behaviour at work and during our spare time, for our own employees and their families. This was one of the experiences after the earthquake on 27 February 2010 at our Bio Bio mill in Chile. The attitudes and the go-ahead spirit of our employees enabled us to restart the mill after the destruction according to schedule and without personal injuries. The employees stood together during a difficult time and ensured the proper repair of the destruction caused by the earthquake.

Norske Skog had an absence rate due to illness of 3.7% in 2010, compared with 4% in 2009.

We had fewer lost-time injuries in 2010 than ever before, and achieved an H1-level (lost-time injuries per million working hours) of 0.7, compared with 1.9 in 2009. In total, this means we had seven lost-time injuries in 2010. This result creates a good basis for further efforts to reduce risk and manage residual risk. Ten of the Group's 13 mills had no lost-time injuries in 2010, compared to six in 2009.

The H2-rate, all injuries with and without lost time per million working hours, was 12 in 2010. The result in 2009 was 35.

Several years of work to shift the focus from reactive indicators to pro-active initiatives have yielded good results to which all employees have contributed. We will continue the work to implement new activities and have new initiatives ready for the coming years. Next in line is our revised behavioural-based observation (BBO) program, for all employees.

PEOPLE

Norske Skog has highly qualified and dedicated employees at all levels and in all units. Due to challenging developments in the paper industry, downsizing and restructuring have been an inevitable and regrettable consequence of cost-cutting over recent years. However, Norske Skog employees have managed to maintain their spirit and level of expertise. Our goal to develop an organisation with business-oriented, international and highly competent people still applies. Due to the company's situation, employees are given challenging tasks and significant responsibilities. Structured on the job training and rewarding achievements provide excellent career development opportunities and the best results for the company. This ensures mutual attractiveness for our employees and for Norske Skog as employer.

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

YOUNG READER

The cooperation between the World Association of Newspapers (WAN) and Norske Skog reached its eight year in 2010, and the program has achieved noteworthy results. The number of participating students, teachers, schools and nations is rising steadily, as is the interest and commitment from newspaper publishers all over the world. Young Reader activities have been initiated in several new countries in 2010.

AMONG THE INITIATIVES WERE:

-In Kenya, young refugees in a Somali refugee camp created a newspaper. While the aim of the project is to teach them basic journalism, ethics, freedom of expression and democracy, the newspaper is also an important source of information on the camp conditions

- At the 4th Arab Free Press Conference in Beirut, a group of teachers from Jordan and Lebanon spoke in front of publishers, editors, journalists and press freedom advocates from 25 countries to explain the importance of newspapers in education

- Brazilian school children have created a special newspaper about press freedom. This newspaper has been distributed to school mates, and won first prize in WAN-IFRA's World School Paper Prize for Press Freedom

To read more about the Young Reader and Newspaper in Education initiatives, please go to http://www.wan-press.org/nie/home.php.

SOCIAL OBJECTIVES

- Encourage children to become good citizens, improve their reading skills and stimulate their interest in newspaper reading
- Contribute to promote freedom of expression and the development of new democracies
- Strenghten the educational role of newspapers

COMMERCIAL GOALS

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

KEY FIGURES - EMPLOYEES 2010

Mill - Unit	Number of employees end of December 2010			Average age of ord.. employees	Average. seniority of ord. employees	Female in % of ord. employees
	Ordinary employees	Other employees	Total	End 2010	End 2010	End 2010
Albury	197	19	216	44.7	13.7	5.1
Boyer	271	46	317	46.0	21.0	7.0
Tasman	295	30	325	48.3	18.8	9.8
Australia, non mills	23	5	27	43.7	13.8	26.0
Singapore	7	-	7	42.4	8.5	86.0
Australasia total	**793**	**100**	**892**	**46.4**	**18.0**	**8.8**
Bio Bio	228	17	245	44.0	16.3	8.5
Pisa (incl Curitiba and Florestal)	275	67	342	39.0	19.0	10.0
South America total	**503**	**84**	**587**	**41.3**	**17.8**	**9.3**
Follum	336	28	364	45.6	21.2	10.5
Saugbrugs	544	78	622	46.0	23.0	8.0
Skogn	444	33	477	48.2	23.0	4.0
Corp.functions	88	39	127	45.7	11.3	29.8
Norway total	**1 412**	**178**	**1 590**	**46.6**	**21.8**	**8.7**
Bruck	427	57	484	39.8	15.2	9.6
Parec	21	-	21	48.7	22.5	-
Golbey	409	26	435	44.0	15.0	13.3
Parenco	247	11	258	47.0	21.0	5.0
Walsum	471	43	514	47.0	23.0	7.6
Sales offices Europe and USA	115	2	117	42.7	8.8	63.9
Antwerp	28	5	33	40.0	5.6	69.0
Europe total	**1 718**	**144**	**1 861**	**44.1**	**17.6**	**13.7**
Reparco	68	15	83	42.5	10.8	21.1
Europe and Reparco total	**1 786**	**159**	**1 944**	**44.1**	**17.4**	**14.0**
Thailand	244	-	244	42.0	14.0	27.1
Asia total	**244**	**-**	**244**	**42.0**	**14.0**	**27.1**
Total	**4 738**	**520**	**5 257**	**44.8**	**18.7**	**11.7**

EARTHQUAKE IN CHILE

In the morning of February 27, 2010, the inhabitants of several cities in Chile were abruptly awakened by one of the most powerful earthquakes ever registered in the world, measuring 8.8 on the Richter scale. This was followed by a tsunami. The epicentre of the earthquake was only a few kilometers away from the Norske Skog Bio Bio plant, south of the Bio Bio River, in the town of San Pedro de la Paz. The bridges over this river were severely damaged and just one bridge remained partially operational.

The mill employees rapidly established a team to respond to this emergency. The response team gathered information about every employee and their family's situation, and we were all very relieved when it was confirmed that none of the workers or their families had lost their lives.

Further, the response team assessed the damage to the plant facilities, a difficult task due to the many afterquakes. The main damage caused by the earthquake was to buildings, and repairs were hindered by the lack of construction materials and skilled manpower. Still, thanks to high ambitions and a strong effort, the repairs and cleaning activities could start on Monday, March 8. All workers participated with great enthusiasm and commitment, and progress was visible daily. It was with great pride that the goal was fulfilled and production resumed on April 30.

While the reconstruction and repair works were underway, no newspaper stopped circulation due to lack of paper. We kept in close contact with every customer to supply them with reasonable quantities of undamaged paper from the warehouses, as well as imports from other Norske Skog plants and third parties.

Norske Skog workers around the world collected money to help their partners in Norske Skog Bio Bio. These funds have been used to repair damage to the houses of workers and contractors and to help the local communities affected by the earthquake.

GLORIA PEREIRA LUARTE

Gloria Pereira Luarte, pictured above, is one of many who received help after the earthquake. For 15 years, she has held craft workshops for the wives of Norske Skog Bio Bio employees. She lives very close to the ocean and was surprised by the tsunami following the earthquake. She saved her life by clinging to a tree, but the first floor of her house, including her tools and craft materials, was destroyed. Norske Skog was happy to replace the sewing and embroidering machines and other destroyed items, and the craft workshop training has been resumed.

RESTORATION OF ATLANTIC RAINFOREST

ON NORSKE SKOG'S LAND, THE SERRA NATIVA PROJECT

The Atlantic Forest on the Brazilian coast, is a majestic repository of biodiversity and also important for supplies of fresh water, clean air and climate stability for millions of Brazilians. The Atlantic Forest has lost almost 93 % of its original area during the last 200 years due to economic and social development. Forest restoration is a key strategy to reverse the present forest fragmentation and promote the long term conservation of biodiversity. The restoration of an area covering 1,300 hectares in the State of Paraná, Southern Brazil is a major environmental initiative carried out by Norske Skog Pisa.

The restoration area at the heart of the Atlantic Forest is located approximately 300 kilometers from the city of Jaguariaíva, where the Norske Skog Pisa mill is located. The 10,000 hectare property was bought by Norske Skog in 2001 as part of Pisa's assets. The area is not suitable for re-establishment to plantation, given its irregular terrain and rich hydrographic features as well as its environmental significance. Federal forestry programs in the 1960s led to pine tree planting in the midst of the native forest. Without proper harvesting management and without the introduction of more restrictive environmental regulations, the non-native species grew out of control over the native vegetation, endangering the rich biodiversity of this very sensible biome.

The plans for the Serra Nativa Project was initiated in 2005 but was officially commenced in December 2009 following negotiations with environmental agencies and authorities securing the required permits. In the first phase of the project, expected to be completed by the end of 2011, all pine trees are to be removed from the area. According to the age and location of the trees, the most suitable harvest method is employed so as to cause the least damage possible to the native woods that remain or that have regenerated. The large amount of rainfall in the Atlantic Rainforest is the major challenge for this phase since it may cause delays in the schedule. In 2010 20 % of the pine trees were removed. In the second phase of the project, the pine-free area will be monitored for six years to make sure the species considered non-native and invasive have been completely eliminated.

The high logistic costs and the pine trees' advanced level of development prevent the viable use of this forest for paper manufacturing by Norske Skog Pisa. Pine lumber extracted from the Atlantic Forest is therefore sold to carefully selected clients that use it in sawmills and local furniture factories. The project team is looking into alternative use of the regenerated forest area after its recovery. The Serra Nativa Project is supported by agencies from the Brazilian government and the State of Paraná.

EVALUATION OF OUR ENVIRONMENTAL PERFORMANCE

We believe it is important to understand and continuously improve our environmental performance in all areas along our value chain and to report openly on our results.

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

Norske Skog only sources wood from sustainably managed forests and we do not source raw materials from high risk regions or controversial areas. In Europe the forest areas are increasing in every country where we source wood. In South America and Australasia only plantation forests are used to supply fresh fibre. In Asia only recovered paper is used as raw material.

All our mills have Chain of Custody certification for their wood supply. All our suppliers comply with local rules and regulations and where possible we source wood locally to minimise transport emissions. We also give preference to certified suppliers and our goal is to have a 100% certified wood supply. Norske Skog uses a combination of fresh fibre and recovered paper as a source of raw material depending on local conditions. Both sources are needed to make sustainable use of the global fibre resource.

In a world where increasing demands are being placed upon finite natural resources and the ecosystems which supply them, it is important that our production processes are efficient and continuously improving. In addition to environmental management systems, Norske Skog has developed an internal environmental index to set targets and review our work to improve our resource use efficiency and reduce our emissions on a continuous basis. Our long term goal is for all our mills to operate within what defines as best available technology. We have also implemented a water production profile tool to benchmark, optimise and reduce our water consumption.

Climate change is the environmental issue receiving the greatest attention today. In 2007, Norske Skog established a greenhouse gas reduction target of 25% in total emissions by 2020. Greenhouse gas emission rates differ considerably between our mills. The main reason for this lies in the different energy sources used both for externally purchased energy and for energy produced on-site. Purchased energy is mainly electrical energy used for fibre processing and to operate machinery. On-site produced energy is mainly used to dry paper on the production line. In many cases we use energy several times through heat recovery systems. The main strategies available to reduce greenhouse gas emissions involve reducing the consumption of energy and/or changing the source of the energy we use.

The forest-based industry has a unique position when it comes to the environment. The raw material is renewable, the products are highly recyclable and both raw materials and products store carbon. Sustainably managed forests will absorb the carbon dioxide from the combustion of forest-based material. At the end of their life cycle the products can be used to produce bioenergy, which is neutral with regard to climate change.

SUSTAINABLE RAW MATERIALS

Forestry and use of forest products play an important role in the combat of climate change. For the forest value chain to be a part of the climate change solution the forests must be managed sustainably. Norske Skog has several systems and processes to make sure that all wood used in Norske Skog's products comes from sustainably managed forests. All Norske Skog mills utilising fresh fibre have third party verified chain of custody certification systems in place. In 2010 average share of certified fresh fibre was 76%. This represents an increase of 5% from 2009.

FRESH FIBRE

In 2010, Norske Skog consumed 2.2 million tons of fresh fibre. Our goal is to have 100% certified fibre in our products. The main global challenges related to the management of forests are deforestation in developing countries (which is presently responsible for 20% of the world's greenhouse gas emissions) and forest biodiversity degradation through the logging of high conservation areas.

In order to meet these challenges we need to ensure that more of the world's forest areas are managed on a sustainable basis. Forest certification is an important tool in this context.

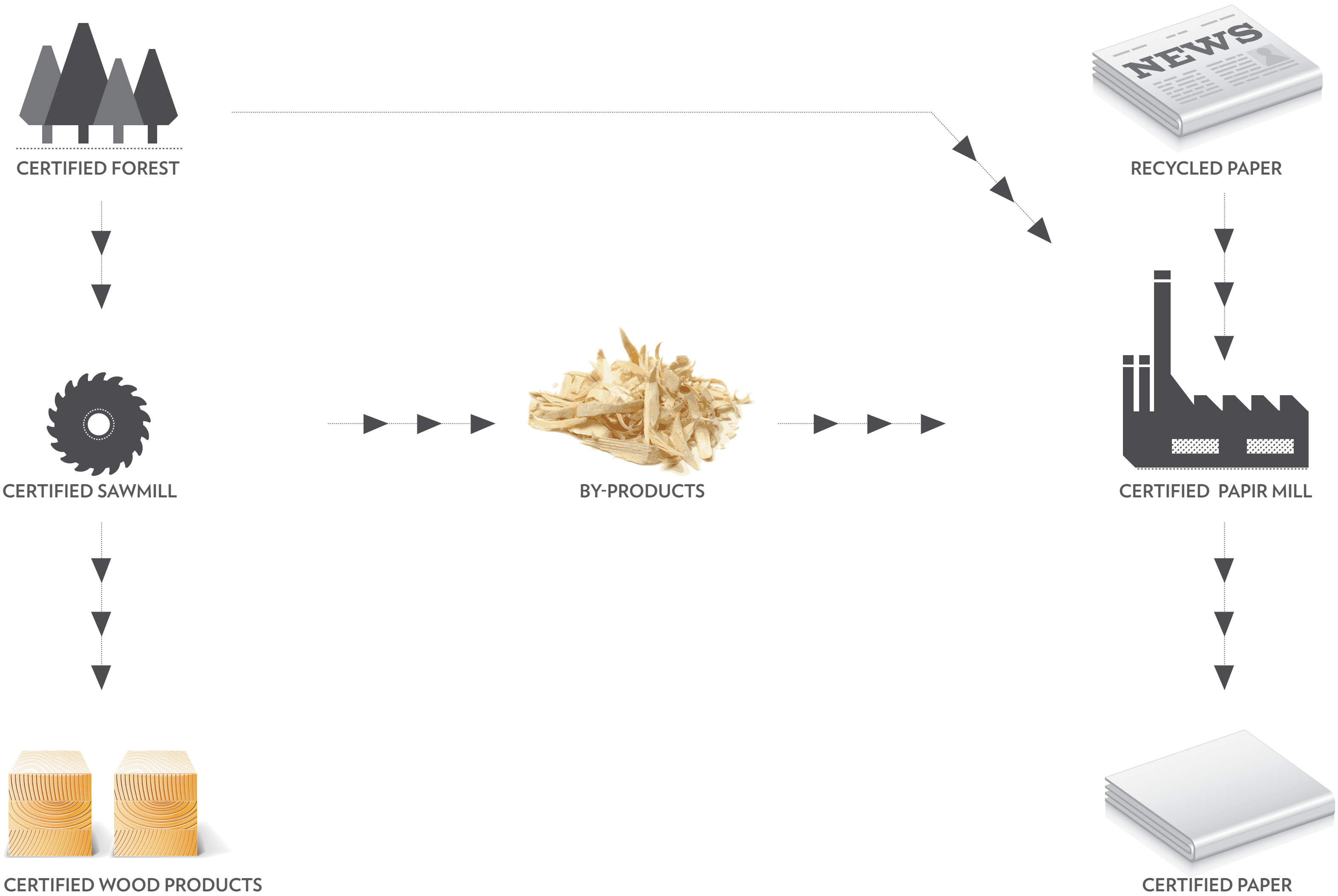
Today only a relatively small portion of the global forest area is certified. The two main global certification systems are the Forest Stewardship Council (FSC), and the Programme for the Endorsement of Forest Certification (PEFC). Today PEFC is the dominant global certification system, with a certified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

We recognise our responsibility as a wood purchaser through our global wood purchasing policy, which states that all wood used in our paper shall originate from sustainably managed forests. Such forests are defined as:

- Certified forests – we recognise the FSC and the PEFC systems
- Forests covered by a written declaration that they are managed according to national laws and regulations.

Norske Skog is not a significant forest owner. A very small proportion of the wood we consume originates from our own forests in Australia and Brazil. The ability to achieve increased certified wood percentages on an ongoing basis therefore depends to a large degree upon the decisions that forest owners make. The most environmentally friendly wood sourcing is supplied from locally certified wood sources. In the European countries where we operate, the certified amount of the forest areas is 64%, PEFC 62% and FSC 1.8%. Many customers want paper based only on FSC certified wood. In our opinion it is most important that the wood is certified.

All Norske Skog mills utilising fresh fibre have third party verified chain of custody certification systems in place. The choice of certification system (FSC, PEFC or both) is a local decision made by the mill based on a number of factors including the certification system used on the forests or plantations from which it purchases wood.



CERTIFICATION OF FRESH FIBRE THROUGH THE VALUE CHAIN

Forest managers have systems for sustainable forest management (SFM). Forest product traders rely on chain of custody (CoC) certification. Traceability is important in responsible purchasing and in efforts to halt illegal logging. CoC tools make it possible to control and report the share of certified raw materials through the value chain from forest to finished product. CoC systems also require responsible purchasing of non-certified wood.

Sawmill chips, a by-product from the sawmill industry, made up 31% of our total fresh fibre consumption in 2010. The roundwood component of our fresh fibre came from both forests (56%) and plantations (44%). In all countries where Norske Skog sources wood, except Brazil, the area of land under forest is increasing. In Brazil Norske Skog's wood supply comes only from plantations.

Norske Skog encourages both SFM and CoC certification from our suppliers. These certificates demonstrate our responsible purchase of wood fibre.

RECYCLED FIBRE

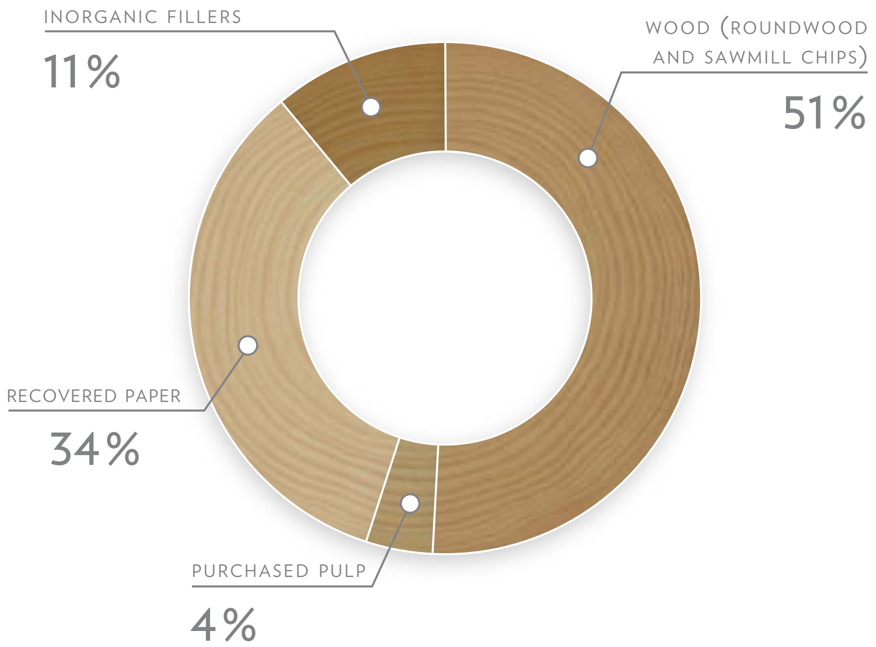
Recovered paper is an important fibre source for Norske Skog. In 2010 recovered fibre made up 34% of the raw materials in our products. Mills utilising recovered paper consumed 1.5 million tonnes in 2010.

Some customers want paper based entirely on recovered paper. However, a value chain based only on recovered paper is not sustainable. Up to one third of the paper may get lost in the recovered paper cycle. Factors such as consumer awareness, waste disposal and collection systems and alternative uses for used paper influence its collection rate. The structure and strength of the cellulose fibres of paper degrade with successive use. Recovered paper fibres that are no longer suitable for papermaking are rejected in our mill pulping processes and are generally used as a source of renewable energy. In Europe the recycling rate came to 70% in 2010, the target was 66%. To make the recovered paper value chain sustainable, fresh fibre from forests, plantations or sawmill by- products must be added.

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

CONSUMPTION OF RAW MATERIALS, 2010

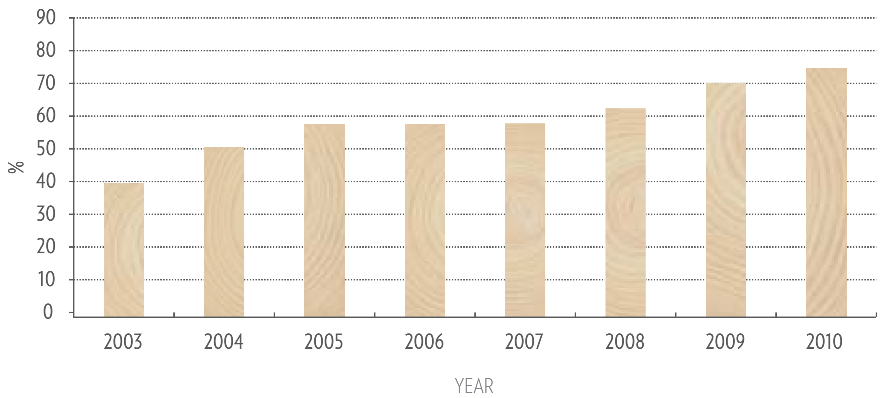
TOTAL OF 4.4 MILLION TONNES



RECOVERED PAPER IN NEWSPRINT PRODUCTION, 2010

Norske Skog Albury, Australia	33%
Norske Skog Bruck, Austria	92%
Norske Skog Golbey, France	62%
Norske Skog Parenco, Netherlands	100%
Norske Skog Skogn, Norway	33%
Norske Skog Singburi, Thailand	100%

CERTIFIED PROPORTION OF FRESH FIBRES 2003-2010 (%)



ENERGY CONSUMPTION

Norske Skog has a number of programmes in place to continuously reduce our energy consumption and to make our energy consumption more environmentally friendly. We are a large producer of bioenergy.

The production of paper is an energy intensive process. Energy is consumed mainly for two purposes:

- to separate, process and transport fibre and water (electrical energy)
- to provide process heat and to dry the paper (thermal energy).

The major use of electrical energy in mills which process fresh fibre is the process which converts woodchips into fibre mechanically. This process is called the thermo-mechanical pulping process (TMP). Paper production based on recycled paper consumes less energy than production from fresh fibre because the fibres from recycled paper are more easily separated than those within wood. The company average energy use per tonne of paper in 2010 is similar to that of 2009. Seven mills had lower or similar energy use per tonne of paper in 2010 compared to 2009.

Approximately half of the total energy consumed by the company is electricity. In 2010, the remaining energy sources were fossil fuel (16%), biofuel (14%), heat recovery from TMP (9%) and other sources such as geothermal energy and heat (steam) purchased from third parties (7%).

The majority of electricity used in our mills (92% in 2010) is purchased from the grid. Some mills have the capacity to generate a proportion of their own electricity requirements from biofuel, hydroelectric, natural gas or geothermal sources.

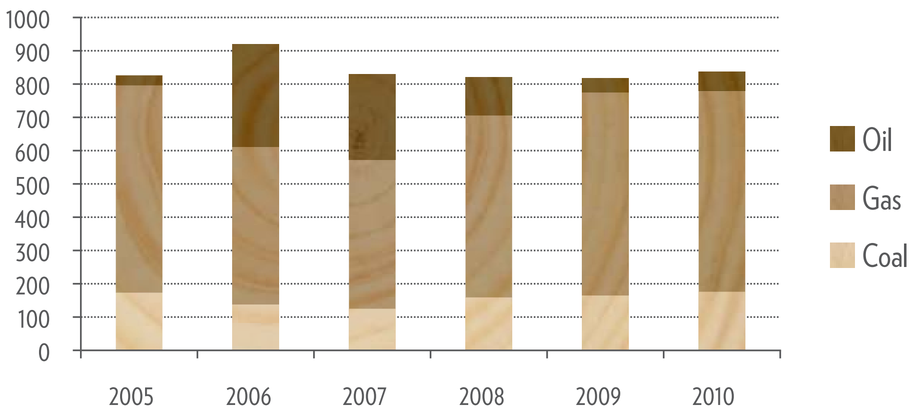
Norske Skog is a large producer of bioenergy. Organic waste from the production processes is used as biofuel where possible. Some mills also purchase biofuel from external suppliers.

The fossil fuel share of the total energy used in 2010 was at a similar level to 2009. Natural gas is still the most commonly used fossil fuel, with a share of 72%. Coal constitutes 21% of fossil fuel consumption while oil makes up 7%.

Thermal energy is used for heating and drying of paper. In contrast with electrical energy, thermal energy is mostly generated within the mill. The sources of this energy include recovered heat from the thermo-mechanical pulping or effluent treatment processes, combustion of mill residues, purchased biofuel, oil, gas or coal. In some cases the thermal energy is supplied by third parties located externally to the mill or in the form of geothermal energy.

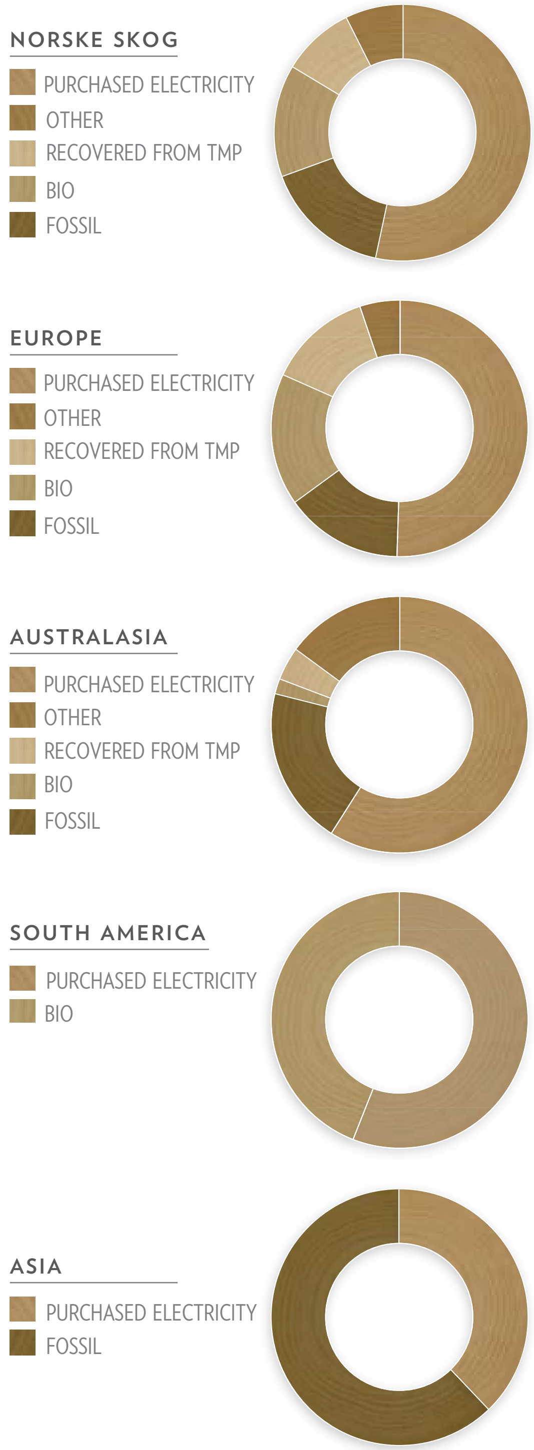
The share of purchased energy is approximately equal in all geographic regions. There is however significant variation in thermal energy sources used between different geographic regions. South American mills use bioenergy and very little fossil fuel. The Thai mill uses only fossil fuel. Australasian mills mainly use fossil and geothermal energy. In Europe the mills use similar amounts of biofuel, fossil fuel and heat recovered from the production of thermo-mechanical pulp from fresh fibre.

FOSSIL FUEL (kWh/TONNE OF PAPER) 2005-2010



NORSKE SKOG ENERGY CONSUMPTION BY SOURCE

Total 15400 GWh; 3,85 MWh/tonne of paper



NORSKE SKOG GREENHOUSE GAS EMISSIONS

According to the UN Panel on Climate Change there is a need for substantial and effective reductions in greenhouse gas emissions in order to avoid significant detrimental effects to nature and mankind. As a large industry player Norske Skog recognises its responsibility to reduce the greenhouse gas emissions in its value chain. Our goal is to reduce our greenhouse gas emissions by 25% by 2020 compared with emissions in 2006. As of 2010 our emissions were 9.5% below our 2006 base year.

The capacity to deal effectively with climate change has been identified as one of the greatest challenges facing nations, governments, businesses and citizens now and in future decades. In order to achieve reduction in greenhouse gas emissions there is a need for a global agreement. To negotiate a global agreement acceptable to both the developed and the developing countries has proven difficult. While waiting for political consensus on how to combat climate change, Norske Skog believes that industry must recognise its responsibility and play a leading role to reduce emissions. Norske Skog has integrated reduction of greenhouse gas emissions as a key part of our business strategy. Our decision to reduce company greenhouse gas emissions by 25% by 2020 was made in 2007. Our main reduction strategies are to reduce the consumption of energy, change the source of energy and to optimise the use of process chemicals and transport.

In our work to reduce our greenhouse gas emissions we report on a greenhouse gas reduction target and our carbon footprint. The reduction target is based on the WRI/WBCSD Greenhouse Gas Protocol. The carbon footprint is built on the Confederation of the European Paper Industries' (CEPI) tool developed in 2007.

The CEPI carbon footprint is related to the products we make and covers the whole value chain, whilst the Norske Skog reduction target is focused on the paper production process and covers only Scopes 1 and 2 as shown in the figure. Both the Norske Skog emission reduction target and the carbon footprint are based on greenhouse gas emission data from our 13 wholly owned mills.

In 2010, Norske Skog was named best Norwegian company by the Carbon Disclosure Project's (CDP) 2010 Nordic report which ranked companies based on their climate change strategy and reporting of greenhouse gas emissions. 2010 was the third year that Norske Skog participated in the Carbon Disclosure Project and was featured in the Carbon Disclosure Leadership Index.

OUR REDUCTION TARGET

Norske Skog's greenhouse gas reduction target covers:

- Direct emissions (referred to as 'Scope 1' in the Greenhouse Gas Protocol) from the combustion of fossil fuels in boilers, combined heat and power plants, infrared drying equipment, mobile machinery and other mill site based equipment, and
- Indirect emissions ('Scope 2') from the purchase of electricity and heat from external sources.

Based on the above scope and emission estimation processes, Norske Skog operations emitted 2.52 million tonnes of fossil fuel derived CO_2-equivalents (including CO_2, CH_4 and N_2O) in 2010. The greenhouse gas emissions per tonne of paper was reduced by 1%, but the total emissions from our mills increased by 6% in 2010 compared to emissions in 2009 due to increased paper production.

Approximately 70% of our greenhouse gas emissions came from externally purchased energy. The total emission reduction achieved to date compared to our revised 2006 base year emission is 9.5%.

The greenhouse gas emissions arising from the combustion of biofuels/organic residues are deemed to be 'carbon neutral'. Direct emissions of biologically sequestered CO_2 from the combustion of organic residues such as wood and bark are estimated to be 834 000 tonnes.

OUR CARBON FOOTPRINT

The carbon footprint covers the following sources:

- pulp and paper production
- puchased electricity and heat
- producing other raw materials and fuels
- forest and recycling operations
- transport- excluding transport to final customer which is calculated on a case by case basis
- carbon stored in forest products (biogenic carbon), is reported separatly

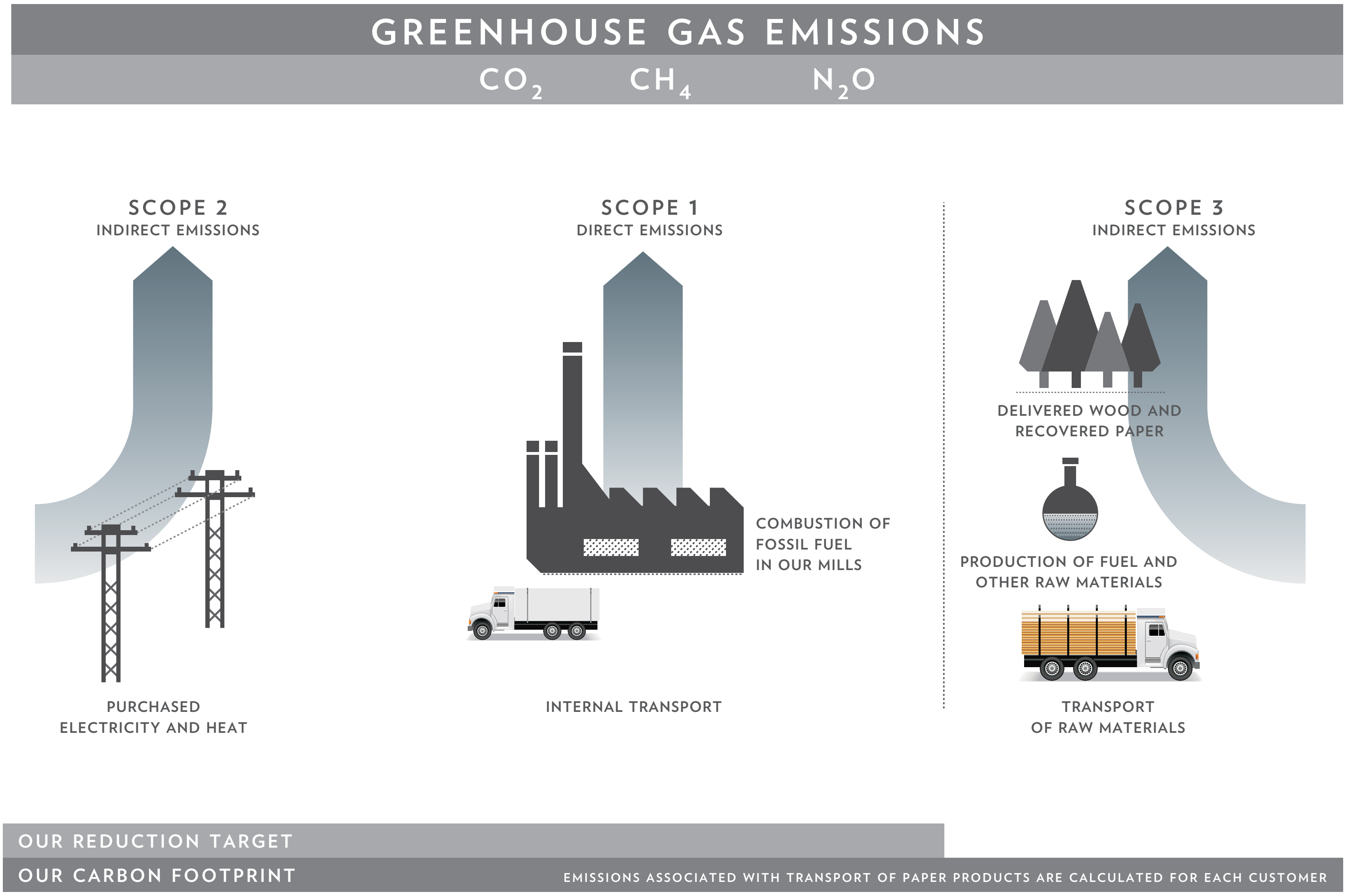
The average global carbon footprint for paper produced by the Norske Skog mills is 796 kg/tonne fossil CO_2 equivalents. This represents a reduction of 2.3% compared to 2009. 1 233 kg/tonne biogenic CO_2 is estimated to be contained in the product.

The carbon footprint varies considerably between the mills and regions depending on the source of electricity and the type of fuel used to produce process heat. The emissions per tonne of paper ranged between 557 kg CO_2-e/tonne of paper in Europe to 1 616 kg CO_2-e/tonne in Australasia.

NORSKE SKOG GREENHOUSE GAS EMISSIONS, 2010

Direct (Scope 1) emissions	CO_2	CH_4	N_2O	CO_2-ekviv.
	1 000 tons	1 000 tons	1 000 tons	1 000 tons
Direct emissions from production	762	26	4	764
Direct emissions internal transport	10	0	1	10
Total direct emissions	772	26	5	774
Indirect (Scope 2) emissions	CO_2	CH_4	N_2O	CO_2-ekviv.
	1 000 tons	1 000 tons	1 000 tons	1 000 tons
Indirect emissions from purchased electricity and heat	1 747	0	0	1 747
Total fossil-based sources (direct & indirect)	**2 519**	**26**	**5**	**2 521**
CO_2 emissions from combustion of biomass *	834			

* wood and bark waste



PAPER, E-MEDIA AND THE ENVIRONMENT

There is a current trend to move away from using paper to electronic media to "save the environment". But are electronic media really greener than paper? Any true comparison of these information carriers must be based on the facts for the entire value chain for both paper and electronic media.

The most important raw material for paper is wood obtained from renewable forests. All wood utilised by Norske Skog is sourced from sustainably managed forests and plantations. The wood fibre used to make paper can be recovered and reused many times. The paper recovery rate in Europe is 70%. When fibres can no longer be used for paper production, they can be used as bioenergy and replace fossil fuels. Local wood sourcing is important to reduce environmental impacts of transport.

The raw materials for electronic equipment are not renewable. Metal components come from mining activities and metal production. Plastic parts come from oil. The recovery rate of electronic equipment is low, and many components cannot be reused. We replace our electronic gizmos often. The low recovery and recycling rate associated with this technology is causing a major waste problem. In the US, somewhere between 30 and 40 million PCs are scrapped annually.

One common argument for using less paper is deforestation. However in Western Europe, forest volumes have increased by 30% since 1950 and the trend continues. Forest owners in Europe continue to plant trees because there are customers for the timber. Without the pulp and paper and the wood processing industries we would not have the forest areas we have today. Outside of Europe, Norske Skog uses timber from plantations or recovered paper as raw materials. We therefore make no contribution to deforestation.

Greenhouse gas emissions are also used as an argument in favour of using electronic media. Greenhouse gas emissions from the life cycle of paper come mainly from energy use in the paper production process. The emissions of greenhouse gases from electronic media come mainly from use, i.e. the production of electricity to run electronic equipment. A Swedish survey [1] compared the greenhouse gas emissions from daily reading of a printed newspaper with reading of an electronic version of the same newspaper. It concluded that the emission levels of greenhouse gases were of similar magnitude. The difference depended on how long you spent reading online. A survey from Harvard University [2] in the US found that the greenhouse gas emissions associated with about 15 internet searches equalled the emissions from the production of one newspaper.

Electronic media have several advantages. We believe in a future for both electronic media and paper and there is a need for a better balance in the dialogue between representatives for the media. The main motivation for those making statements on these issues is often financial rather than environmental. Facile environmental arguments not based on a balanced or comprehensive analysis of the facts do nothing to improve this dialogue.

1) *Moberg et al 2007*
2) *Dr. Alex Wissner-Gross, Harvard University*

CONTINUOUSLY IMPROVING OUR PRODUCTION PROCESSES

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

The desire to measure this continuous improvement in our mills and as a company over short and long term led us to implement an environment index (E-index) several years ago. The E-index forms part of the regular reporting by the mills to corporate management and the board. In addition to being a performance reporting tool it allows us to:

- establish and review mill specific targets
- identify target areas for additional investment
- demonstrate the environmental improvements following process changes or investments.

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

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

The table below shows the targets for 2010 and 2011 for the various parameters included in the E-index, as well as the results achieved the last three years for our present mill portfolio. These figures represent production-weighted averages for all mills. In 2010 seven mills reached their E-index targets and the company E-index target was improved compared to 2009. The company's ambitious target was however not reached. Changes in production levels and process changes within mills will impact the individual mill and company E-Index scores.

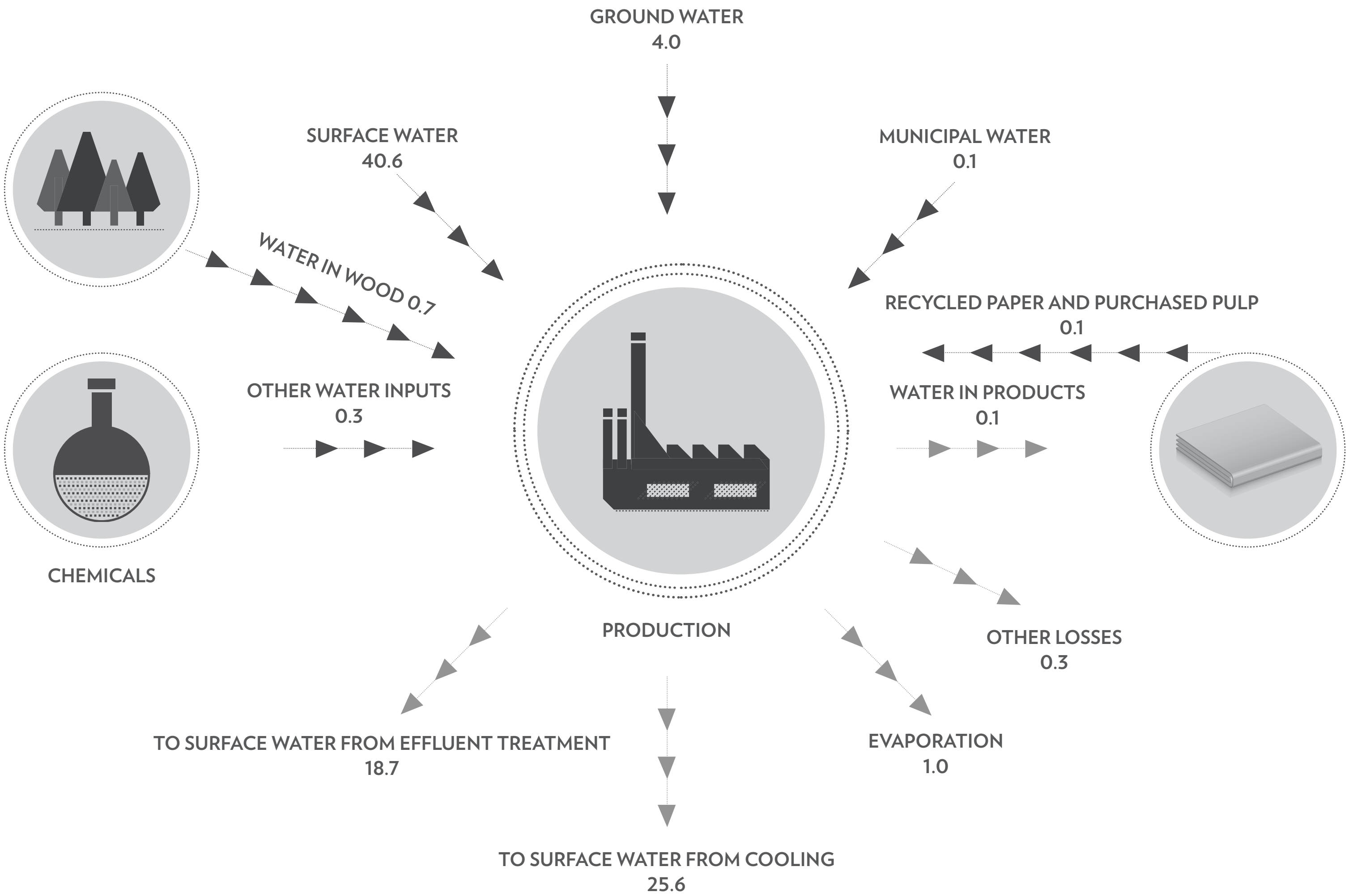
ENVIRONMENTAL INDEX

	Achieved 2008	Achieved 2009	Achieved 2010	Target 2010	Target 2011
Discharged process water (m^3/tonne)	17.2	19.3	18.7	18.0	17.7
COD (kg/tonne)	5.90	5.37	4.79	4.56	4.53
Suspended solids (kg/tonne)	0.66	0.62	0.56	0.52	0.50
Nitrogen oxides (g/GJ)	93	93	106	98	106
Waste to landfill (kg/tonne)	22.2	20.4	21.4	19.3	19.5
Total energy consumption (GJ/tonne)	12.41	12.5	12.56	12.6	12.57
Environmental Index	**1.12**	**1.15**	**1.14**	**1.09**	**1.08**

KEY FIGURES

FOR NORSKE SKOG WHOLLY-OWNED MILLS IN 2010

Consumption of raw materials	
Roundwood	3 812 000m^3
Sawmill chips	1 728 000m^3
Recovered paper	1 482 000 tonne
Purchased pulp	168 000 tonne
Inorganic fillers	517 000 tonne
Energy	
Electricity	8 850 GWh
Heat	6 500 GWh
Discharges to water	
Discharged process water	75 mill m^3
Organic material (COD)	19 200 tonne
Suspended solids (TSS)	2 230 tonne
Phosphorus (Tot-P)	42 tonne
Emissions to air	
CO_2 equivalents (direct)	774 000 tonne
SO_2	492 tonne
NOx	1467 tonne
Production waste	
Sludge (dry)	478 000 tonne
Bark	151 000 tonne
Other	40 000 tonne
Production	
Newsprint grades	2 640 000 tonne
Magazine paper	1 358 000 tonne



THE NORSKE SKOG WATER PROFILE

GLOBAL AVERAGE WATER USE m³ / TONNE OF PAPER

In 2010, the total water use per tonne of paper was reduced by 5.7% compared to 2009. 96% of the water entering our mills is returned to rivers and lakes after treatment.

Water scarcity is not an issue in any of the forest areas supplying Norske Skog or in any area where our mills are located. Drought has previously been a problem in the Albury region in Australia.

The figure presents the 2010 water profile for Norske Skog. The profile has been developed by examining the major inputs and outputs of water in the manufacturing process. The data presented is a combination of all 13 wholly owned mills and represents a 'company average'.

WATER SUPPLY

The majority of fresh water which enters Norske Skog mills (88.5%) originates from surface water sources. A further 8.8% is supplied from ground water supplies and a relatively small amount 0.2% comes from municipal water supplies.

Water also enters the manufacturing process through the raw materials which are purchased. Fibre based raw materials (wood, woodchips, recycled fibre and purchased pulp) constitute approximately 1.5% of water input. Non-fibre raw materials (such as chemicals and steam) make up the balance.

WATER USE

The majority of water which enters our mills (56%) is "non-contact". It is used to cool machinery and equipment performing electricity or steam generation and/or pulp and paper manufacturing activities. Cooling water does not require effluent treatment.

Depending on the mill, non-contact cooling water may be

- reused as process water
- combined with process effluents prior to effluent treatment and discharged with process effluent as a combined outfall
- combined with process effluent after effluent treatment and discharged as a combined outfall
- discharged as a separate non-contact cooling water discharge.

Water which enters the pulp and papermaking processes ("process" water) makes up approximately 41% of the total volume taken into our manufacturing sites.

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

Not all of the process water used in papermaking is returned to rivers and lake systems. Approximately 4% is either returned to the atmosphere as water vapour, retained in the products or used for irrigation of forest plantations or agricultural areas.

EMISSIONS TO AIR AND DISCHARGES TO WATER

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

SOLID RESIDUES AND EMISSIONS TO AIR

Emissions to air occur primarily from energy generation processes, and the majority of solid wastes occur from the processing of fibre inputs (wood or recovered paper) and from the treatment of effluent (fibre and biological solids). Most of our mills have their own boilers or incinerators for producing thermal energy from these solid residues. Fossil fuels in the form of natural gas, oil and coal may also be used. The main emissions associated with these activities include carbon dioxide, particulates, sulphur dioxide and nitrogen oxides. A number of technologies are used to reduce and control these discharges. Ash residues result from combustion processes involving solid fuels.

In 2010 the emission of sulphur dioxide per tonne of paper was reduced by 19% compared to 2009 through reduced use of fossil fuel. The emissions of NOx per tonne of paper were reduced by 7%.

The total quantity of production waste generated by the company in 2010 was 669 000 dry tonnes. This is an increase of about 87 000 tonnes compared to 2009. The increase is mainly related to increased production of sludge in the effluent treatment plants due to increased paper production levels in 2010. 186 000 tonnes of ash from combustion was generated in 2010, an increase of 4 200 tonne compared to 2009.

The residues from the production processes are reused or disposed of in a number of ways as shown in the figure. Where possible, process residues are used to generate energy for the pulp and paper manufacturing process. In 2010 72% of the waste was used as biofuel. Other residues, for example ash, are used in concrete or brick making, or road construction. Agricultural reuse is also an option for some ash and organic materials. Part of the production residues are deposited in landfills. Many of our mills participate in projects to find alternative or additional methods of reusing the by-products from the production processes.

Our aim is to continuously reduce the amount of hazardous waste from our production processes. Hazardous waste made up 675 tonnes in 2010, a reduction of 14% compared to 2009. About 56% of the hazardous waste is waste oil. Hazardous waste is disposed of or recycled in accordance with national regulations, generally via government authorised collection systems.

WATER DISCHARGES

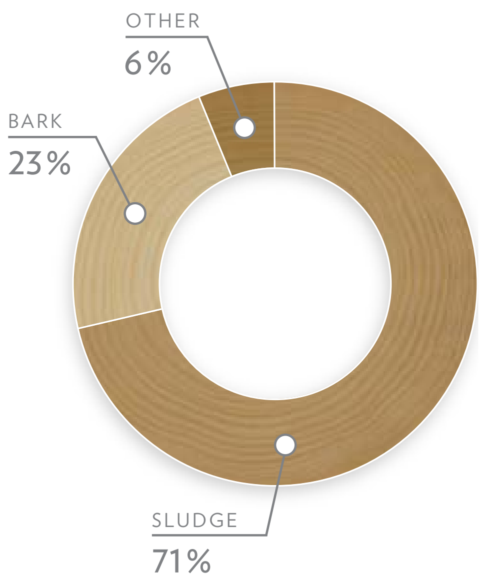
Water is generally used and recovered multiple times through the pulp and paper-making processes before finally being discharged to a number of treatment stages. These treatments remove solid particles as well as dissolved organic material, making the water suitable for return to the natural environment.

In 2010 the water use in the production process per tonne of paper was 3.2% lower than in 2009. The discharge of dissolved organic material, suspended matter and phosphorus per tonne of paper were reduced by 15%, 10% and 14% respectively compared to 2009. The discharge of nitrogen increased by 7.4% compared to 2009. The difference in results from one year to the next is the result of many factors. Process improvements, utilisation of equipment, production issues and product changes influence the results.

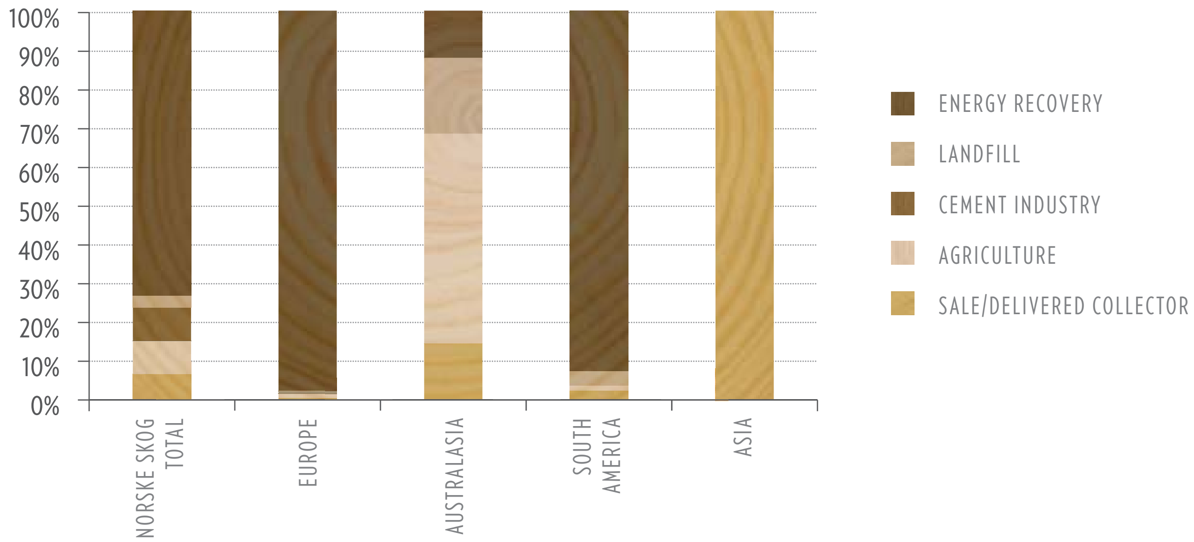
Norske Skog does not use bleaching chemicals containing chlorine in any of our mills. Chlorinated organic compounds are therefore not created and AOX is not included in our emission reporting.

During 2010 permit limit exceedences relating to discharged water quality were reported to the authorities by the Pisa and Albury mills.

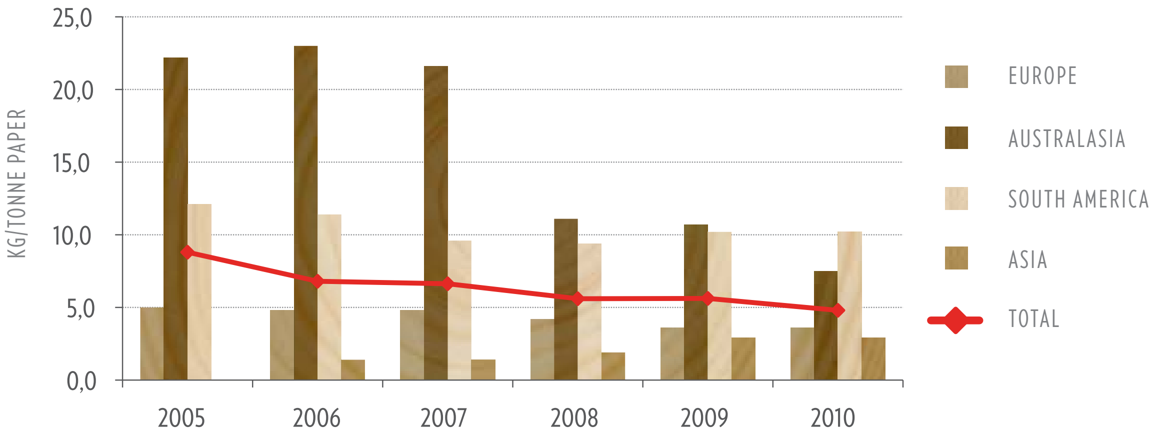
PRODUCTION WASTE **2010**



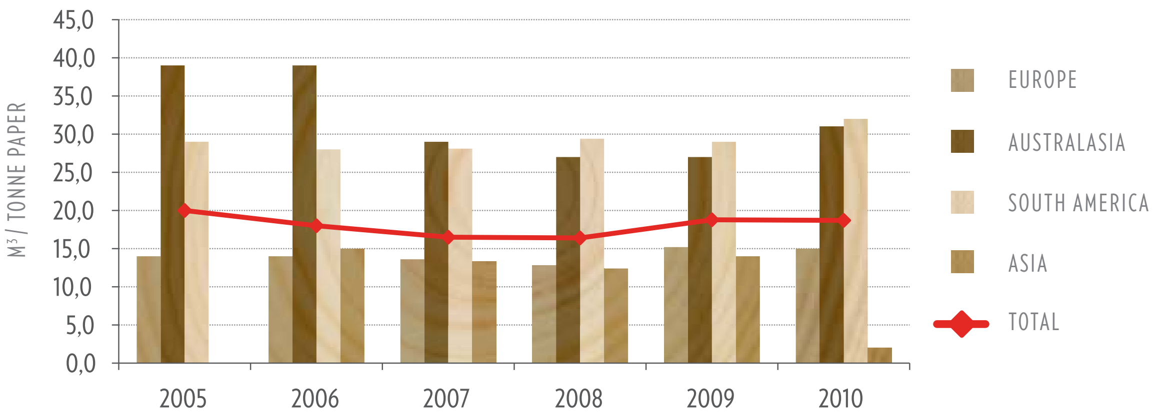
DISPOSAL OF MILL WASTE IN 2010



TRENDS IN DISCHARGES OF ORGANIC SUBSTANCES (COD) PER TONNE OF PAPER FOR THE PERIOD 2005-2010



TRENDS IN DISCHARGES OF WASTEWATER PER TONNE OF PAPER FOR PERIOD 2005-2010



ENVIRONMENT-RELATED INVESTMENTS, OPERATING COSTS AND TRANSPORT

ENVIRONMENT-RELATED INVESTMENTS

Environmental investments of NOK 59 million were made at our mills in 2010. This represents a decrease of 74 % compared to investments in 2009. The decrease is due to the present difficult economic situation.

Most of the investments made in 2010 regarded energy saving and reduction of emissions to the receiving water. Most mills implemented a number of smaller environmental related initiatives as part of their continuous improvement programs.

The presentation of environment related investments often only covers the expenditure side of the equation. While some investments are made to meet changes in regulations, a large proportion of investments are also made to provide financial or other business benefits. For example investments in new equipment or technology which reduce water use will also reduce energy use through reductions in the volumes of water pumped, heated or treated. Investments in solid waste handling systems are often done to improve the suitability of the waste for combustion and heat recovery. Improvements in chemical handling often have an improved health and safety dimension.

ENVIRONMENT-RELATED OPERATING COSTS

Approximately NOK 294 million of environment-related operating costs were incurred in 2010, equivalent to approximately NOK 74 per tonne of paper produced. The cost per tonne of paper decreased by 7 % compared to 2009. The cost of chemicals in treatment plants and sludge dewatering accounted for 31 % of the environment-related costs, while payroll costs and maintenance were responsible for 17 % and 12 % respectively. Government taxes and various other charges relating to operating and monitoring treatment plants and waste management accounted for the remainder.

TRANSPORT

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

Transport of raw materials

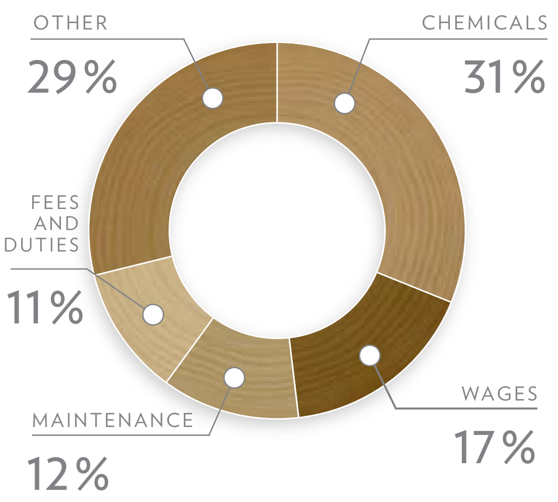
The most environmentally friendly form of wood sourcing is to be supplied by local and certified wood sources to minimise transport distances. Recycled fibre is a globally traded commodity, but the environmental considerations apply when we are purchasing this material. Trucks dominate our raw material transport methods, accounting for more than 83 % of inwards transport in 2010 (same as in 2009). Ship and train deliveries accounted for 7 % and 10 % respectively.

Transport of products

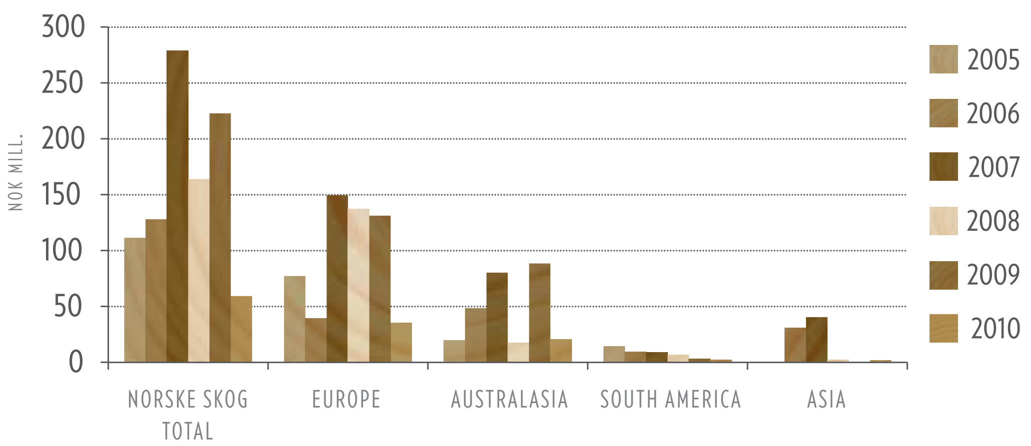
In 2010 we transported 4.0 million tonnes of paper to our customers. The distribution methods used to transport our finished products differs from the transport of supplied raw materials, since much of the paper is exported.

At a company level there was little change in transport methods compared to 2009. Truck transport continues to be the dominant distribution method. In 2010, 50 % of our finished product was transported by truck (45 % in 2009). Rail and ship transportation, (20 % and 30 % respectively), are the two other important methods used by Norske Skog to move our products to the customer.

ENVIRONMENT-RELATED OPERATING COSTS, BY TYPE OF COST, 2010



ENVIRONMENT-RELATED INVESTMENTS 2005-2010



MILL FIGURES 2010

		Bruck	Follum	Golbey	Parenco	Saugbrugs
Production						
Paper	tonnes	371 738	258 115	592 831	242 428	462 384
Consumption						
Roundwood	1 000 m^3	199	547	234	0	611
Sawmill chips	1 000 m^3	0	65	316	0	66
Recovered paper	1 000 tonnes	214	0	487	314	0
Purchased pulp	1 000 tonnes	23	4	0	0	50
Pigments and fillers	1 000 tonnes	94	42	19	11	155
Electric power	MWh/tonne	1.17	2.78	1.65	1.16	2.82
Electric power	GWh	436	718	978	280	1 302
Thermal energy [1]	GJ/tonne	4.80	7.24	4.85	5.64	5.54
Thermal energy	TJ	1 782	1 869	2 875	1 367	2 562
Discharge to water						
Water consumption	m^3/tonne	13.3	19.2	9.4	15.2	18.0
Water consumption	1 000 m^3	4 954	4 549	5 569	3 682	8 307
Organic material (COD)	kg/tonne	2.7	7.7	1.6	2.7	4.0
Organic material (COD)	tonnes	1 004	1 982	949	655	1 859
Suspended solids (SS)	kg/tonne	0.2	0.5	0.1	0.1	0.3
Suspended solids (SS)	tonnes	83	135	71	14	129
Phosphorus (tot-P)	g/tonne	4.1	6.5	11.5	12.2	10.4
Phosphorus (tot-P)	tonnes	1.5	2.0	7.0	3.0	5
Air emissions						
CO_2-e (fossil) (direct)	tonne/tonne	0.55	0.01	0.04	0.72	0.02
CO_2-e (fossil) (indirect)	tonne/tonne	0.05	0.02	0.12	0.07	0.02
CO_2-e (fossil) (total)	1 000 tonnes	222	7	98	192	19
Waste [2]						
Waste to landfill	kg/tonne	0.0	12.0	0.7	0.1	19.4
Waste to landfill	tonnes	0	3 010	399	26	8 974
Management systems						
Environmental MS [3]	Certificate	ISO/EMAS	ISO	ISO	ISO	ISO
CoC-systems	Certificate	PEFC/FSC	PEFC/FSC	PEFC/FSC	PEFC	PEFC/FSC
Forestry certification [4]						
Certified (PEFC or FSC)	%	86	85	67	0[5]	88

[1] Includes heat recovered from the production process

[2] Production waste (organic and inorganic)

[3] ISO = ISO 14001, EMAS = EU Eco management and audit scheme

[4] Of the quantity roundwood + sawmill chips + purchased pulp

[5] 100 % Recovered fibre, PEFC certified

[6] 100 % Recovered fibre

Skogn	Walsum	Albury	Boyer	Tasman	Bio Bio	Pisa	Singburi
472 046	411 091	267 656	258 308	294 385	95 320	153 088	118 325
537	0	366	569	181	217	352	0
194	458	30	48	497	0	54	0
197	0	112	0	0	0	0	146
3	64	0	4	2	7	10	0
23	159	0	5	10	1	0	0
2.34	1.93	2.64	2.98	3.31	2.34	2.96	0.88
1 103	794	706	769	974	223	453	104
5,33	6.22	7.06	7.45	6.87	4.57	7.86	5.09
2 516	2 557	1 890	1 924	2 022	436	1 203	602
17.6	14.6	9.1	31.4	50.1	35	30.7	17
8 307	6 003	2 438	8 118	14 748	3 335	4 694	2 016
4.0	4.4	2.9	11.8	7.9	14	7.8	2.9
1 888	1 813	782	3 048	2 334	1 333	1 194	341
0.6	0.2	0.2	2.2	2.3	1.4	0.04	0.2
264	83	41	568	683	137	6	18
14.8	7.6	2.1	18.1		68	11	8.7
7	3.0	0.5	5.0		6.5	1.7	1.0
0.02	0.06	0.25	0.82	0.00	0.13	0.01	0.37
0.02	1.29	2.35	0.36	0.67	0.93	0.15	0.50
17	553	696	304	197	90	24	102
32.8	0.0	8.6	78.9	47.5	27.3	5.1	223
15 450	2	2 303	20 383	13,983	2 603	779	26 382
ISO	ISO/EMAS	ISO	ISO	ISO	ISO	ISO	ISO
PEFC/FSC	PEFC/FSC	PEFC	PEFC	FSC	PEFC	FSC	
79	89	56	87	53	49	88	0[6)]

INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT OF NORSKE SKOG

We have reviewed the environmental information presented in Norske Skog's 2010 Annual Report, pages 20 – 39 ("the Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We believe that our work provides an appropriate basis for us to conclude with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

CONCLUSIONS

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

- The environmental aspects presented in the Report comprise the most significant ones at corporate level.
- Norske Skog has applied procedures, as summarised on page 39, for the purpose of collecting, compiling and validating environmental data from its reporting units for inclusion in the Report.
- The aggregated information accumulated as a result of the procedures noted above is consistent with the data reported from reporting units and appropriately reflected in the Report.
- The environmental information for 2010 reported from a sample of two reporting units visited (Norske Skog Skogn and Norske Skog Golbey) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
- Norske Skog applies a reporting practice for its environmental reporting aligned with the GRI reporting principles. The GRI Index referred to on page 39 in the Report appropriately reflects where relevant information on each of the elements and performance indicators of the GRI Sustainability Reporting Guidelines is to be found within the Norske Skog Annual Report 2010. The UN Global Compact table referred to on page 39, appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2010.

Oslo, 2 March, 2011
Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Sørensen
State Authorised Public Accountant
Corporate Responsibility Services

ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY REPORTING

The environment report contains information which Norske Skog believes covers the material environmental aspects of the value chain of the company's activities. Environmental data for 2010 includes wholly owned paper mills which were part of the group as of 31 December 2010. Environmental data has been collected from the mills using established reporting routines. These include monthly standardised reporting for the key environmental data as well as a standardised collection of supplementary information on an annual basis. The monthly reporting includes production, consumption of raw materials, energy consumption, emissions and discharges and waste. Data from this reporting is collated by the environment manager on the group level in standardised monthly reports to the corporate management and to the board quarterly. Basis and methodology for the reporting on greenhouse gas emissions and the Environmental Index is described on pages 28 and 30. The figures in the environmental report are collated and processed with a view towards an as uniform and practical presentation of data as possible.

Although great emphasis is being placed on ensuring completeness and correctness, there are uncertainties in relation to some of the figures.

In order to maintain open communication on environmental matters, we want our environmental report to be as correct as possible and hold the highest quality possible. The environmental report has therefore, over a number of years, been audited by the accountancy firm Deloitte. It is our belief that such an audit raises the credibility of the report. In addition, the audit gives us, internally in Norske Skog, greater surety that the data and statements in the environmental report are based on information which has been collected and processed systematically, and that the necessary documentation is available.

Norske Skog also supports the work to develop a global standard for reporting of sustainable development. We therefore use the Global Reporting Initiative's (GRI) guidelines for reporting relating to sustainability as a tool in our work to report environmental and corporate responsibility. Our reporting practice is, in our view, for all practical purposes in line with the GRI reporting routines. On our website, (www.norskeskog.com/gri.aspx), there is a GRI table containing references to where in the annual report relevant information about the various elements and key indicators in GRI can be found. In our opinion, our reporting for 2010 meets with the Level B requirements in accordance with the guidelines.

Norske Skog is committed to contribute to sustainable development. We have signed the UN Global Compact , are members of Global Compact Nordic Network (GCNN), where participants from Denmark, Finland, Norway and Sweden discuss common challenges and the implementation of the ten principles in the UN Global Compact. There is a UN Global Compact table, with reference to where in the annual report relevant information about the ten principles can be found, on our website (www.norskeskog.com/global-compact.aspx).

REPORT OF THE BOARD OF DIRECTORS

The world economy stabilised in 2010 after the global financial crisis, but remained characterised by uncertainty in some markets throughout the year. The paper market saw reduced demand for newsprint in the USA, while market developments in Europe and other parts of the world were positive. Low prices in Europe in combination with high costs for input factors contributed to making 2010 another demanding year for Norske Skog. Several measures were implemented to reduce debt and fixed costs. Improvement of operational efficiency and increased capacity utilisation had an effect, in particular towards the close of the year, but the company's financial results remained unsatisfactory throughout 2010. As in earlier years, the work to strengthen Norske Skog's financial position will be given high priority in 2011. The same applies to the positioning of the group to assume an active role in an expected consolidation of the industry.

NORSKE SKOG IN 2010

The developments in earnings, market conditions and costs in 2010 were largely as expected when the board considered the outlook for the year.

There was increased demand for newsprint and magazine paper in most countries and regions where Norske Skog has operations, however the global demand for newsprint only increased by around 1.5 per cent in 2010 because of the continued fall in North America. Because of capacity closures in both Europe and North America, capacity utilisation in the industry was significantly higher, and for Norske Skog there was an increase from 79 per cent in 2009 to 89 per cent in 2010.

Despite increased demand and the closure of capacity, prices for newsprint in Europe were very low throughout 2010. This is due to price agreements that were in force for the entire year. Price increases were carried out for magazine paper in Europe in the second half of 2010. New five-year sales agreements were entered into with the largest customers in Australasia. Under these agreements, there was a small price increase from the second half of the year. In other parts of the world, the price level for newsprint was largely rising.

The price per unit of the main input factors showed a clear upwards trend throughout 2010. This was especially true for recovered paper and market pulp, and to a certain extent also for wood and energy. Price increases on input factors were offset to some extent by efficiency improvements in areas such as energy. Norske Skog has carried out a number of measures to reduce fixed costs through workforce reductions and other rationalisation initiatives.

Norske Skog is exposed to currency fluctuations, primarily in the Norwegian operations. During 2010, NOK was on average significantly stronger against the major currencies that impact export earnings. This resulted in a slightly negative effect on earnings, although there was no significant impact on financial items.

Total assets in the balance sheet were reduced by NOK 3.9 billion in 2010. The main reason was that investments were significantly lower than depreciation, and that the value of the energy portfolio was reduced. Net interest-bearing debt was reduced by NOK 706 million in 2010, and gearing (net interest-bearing debt to equity) was 0.87 per 31 December 2010, compared with 0.80 at the end of 2009

MEASURES TO IMPROVE PROFITABILITY AND REDUCE DEBT

In 2008, Norske Skog completed a programme to improve the group's overall cost situation by NOK 3 billion annualised compared with the base year 2005. An improvement programme (CIP) was initiated in 2009, aiming to achieve a positive earnings impact of NOK 1 billion in 2010. The programme and other measures initiated in 2009 took full effect in 2010. Costs had been reduced by around NOK 900 million at the end of 2010. Annual fixed costs were around NOK 4.3 billion at the end of 2010.

In 2010, Norske Skog focused on additional measures to reduce fixed costs and increase cash flow, including streamlining the process for purchasing and logistics and a lower level of investments.

The reduction in total capacity compared with 2009 is due to shut-down of a paper machine at Norske Skog Parenco and the sale of two mills in China.

NOK was strong in relation to most currencies at the end 2010/beginning of 2011. On average for 2010 compared with 2009, NOK was eight per cent stronger in relation to EUR, five per cent stronger in relation to USD and four per cent stronger in relation to GBP.

The work to strengthen Norske Skog's financial position will be given high priority in 2011. The group will continue to work with the sale of assets to achieve further debt reductions. Norske Skog is in dialogue with lenders concerning the refinancing of debt maturing in 2011 and 2012.

RECOGNITION FOR QUALITY, ENVIRONMENTAL REPORTING AND EMPLOYEE DEVELOPMENT

Norske Skog emphasises having comprehensive and transparent environmental reporting as well as the development of its employees. In 2010, Norske Skog received several awards which acknowledged this work.

In 2010, IKEA named Norske Skog as the best supplier of paper for the IKEA catalogue. The catalogue is one of the most printed publications in the world. IKEA's reasoning for the award included Norske Skog's environmental profile and results, in addition to product quality.

The Carbon Disclosure Project's (CDP) 2010 ranking named Norske Skog as the best Norwegian company for climate reporting and transparency in connection with climate challenges. This is the third time Norske Skog has qualified for the Carbon Disclosure Leadership Index, which includes the 10 per cent best Nordic companies in all industries.

Norske Skog Tasman in New Zealand won the most prestigious award at the New Zealand Forest Industries Training and Education National Awards 2010. Norske Skog Tasman received recognition for its focus on improving the company's performance through employee development.

COMMENTS TO THE ACCOUNTS

COMPARABILITY

There were no changes in the Norske Skog mill structure through 2010, and production capacity for the whole year was 4 483 000 tonnes. The corresponding figure for the full year 2009 was 4 947 000 tonnes, and the reduction is due to the closure of a paper machine at Norske Skog Parenco in June 2009 and the sale of two mills in China with accounting impact from 1 July and 1 November 2009.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue in 2010 was NOK 19 billion (NOK 20.4 billion in 2009). Delivery volumes were slightly higher in 2010 than in 2009, and the reason for the reduction in revenue is primarily the far lower prices for newsprint and magazine paper in Europe

Gross operating earnings were NOK 1 413 million in 2010 (NOK 2 185 million). Gross operating earnings for 2010 include the reversal of various provisions giving a total income of NOK 286 million. These reversals are primarily related to pensions and environmental liabilities. Depreciation in 2010 was NOK 1 991 million (NOK 2 465 million). The reduction is mainly due to the mills that were sold during 2009, as well as a minor effect from the new assessment of the expected useful life at the mills in Australasia. Gross operating earnings after depreciation but before restructuring costs, other gains and losses and impairment, were minus NOK 578 million in 2010 (minus NOK 280 million).

Restructuring expenses in 2010 amounted to NOK 57 million (NOK 396 million). The amount for both years consists of provisions for severance pay and other costs in conjunction with mill closures and the general downsizing. Other gains and losses in 2010 were minus NOK 1 578 million (gain of NOK 1 233 million), and the majority of the amount in both years was related to the change in value of the group's energy portfolio. Impairments amounted to NOK 165 million in 2010 (NOK 1 883 million). Most of the impairments in 2010 are related to Norske Skog Singburi in Thailand, while impair-

ments in 2009 were primarily related to two mills in Europe and most of the losses on the sale of two mills in China. Operating earnings after the non-recurring items mentioned above were minus NOK 2 379 million in 2010 (minus NOK 1 325 million).

Net financial items in 2010 were minus NOK 924 million (income of NOK 280 million in 2009). Net interest expense including interest rate instruments was NOK 753 million in 2010 (NOK 914 million) and the reduction is mainly due to the fact that net interest-bearing debt was on average around NOK 1.8 billion lower in 2010 than in 2009. Currency items in total, mainly realised and unrealised gains or losses from currency hedging, were minus NOK 136 million in 2010 (profit of NOK 1 097 million in 2009). The currency gains in 2009 arose because there was a strengthening of NOK throughout the year, and Norske Skog has most of its debt in foreign currency. Financial items in 2009 also included gains of NOK 284 million from the buy-back of treasury bonds.

There was a tax income in the income statement for 2010 of NOK 851 million (tax expense of NOK 380 million in 2009). The tax income in 2010 reflects a pre-tax loss of NOK 3 320 million.

Net profit after tax in 2010 was minus NOK 2 469 million (minus NOK 1 400 million). The decline in earnings of around NOK 1 billion is about the same as the deterioration in operating earnings, since higher financial costs are offset by lower taxes. Earnings per share in 2010 were minus NOK 12.97 (minus NOK 6.36).

Cash flow from operating activities, after paid financial items and taxes, was NOK 397 million in 2010 (NOK 1 697 million). The reduction in cash flow is primarily due to weaker operating earnings, but 2010 is also affected by the fact that redundancy expenses that were provided for in 2009 were paid in 2010. The positive paid income taxes of NOK 67 million in 2010 were due to repayment of withholding tax in Canada. Cash flow per share was NOK 2.09 in 2010 (NOK 8.95).

BALANCE SHEET

Total assets were NOK 29 297 million at 31 December 2010, compared to NOK 33 155 million at 31 December 2009. The reduction of NOK 3 858 million is primarily due to the fact that investments were lower than depreciation, and that the value of the energy portfolio was reduced.

Non-current assets were NOK 19 271 million at 31 December 2010, compared to NOK 23 546 million at 31 December 2009. The reduction is due to the factors mentioned above, as well as the reclassification of some assets from non-current assets to current assets in connection with ongoing sales processes. Capitalised investments in fixed assets were NOK 478 million in 2010 (NOK 683 million), and this amount was largely maintenance investments in both years. Shares amounting to NOK 66 million were purchased in a French energy company in connection with a long-term energy contract for Norske Skog Golbey.

Current assets were NOK 10 027 million at 31 December 2010, compared to NOK 9 609 million at 31 December 2009. The increase is due to the reclassification mentioned above, as well as an increase in cash and cash equivalents of NOK 199 million through the year, such that they amounted to NOK 4 440 million at 31 December 2010.

Non-current liabilities amounted to NOK 13 875 million at 31 December 2010, compared to NOK 17 316 million at 31 December 2009. The main reason for this reduction is that total debt maturing in 2011 of NOK 1 958 million has been reclassified to current liabilities. In addition, deferred taxes are reduced as a result of the positive tax expense in the income statement. Furthermore, the relatively large amount of debt maturing in 2011 explains the increase in current liabilities from NOK 3 824 million at 31 December 2009 to NOK 5 240 million at 31 December 2010.

Net interest-bearing debt was reduced by NOK 706 million during 2010 and amounted to NOK 8 889 million at 31 December 2010. There were no significant loan transactions in 2010.

Equity excluding minority interests was NOK 10 161 million at 31 December 2010, compared to NOK 11 987 million at 31 December 2009. The reduction comes mainly from the loss for the year. Equity per share was NOK 54 at 31 December 2010 and NOK 63 at 31 December 2009. Norske Skog's financial position is discussed further in the following paragraphs in this report.

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

FINANCIAL POSITION

Financially, 2010 has been another demanding year for Norske Skog. A relatively high level of debt combined with weak earnings, has led to a strong focus on the financial challenges the company faces.

Norske Skog has implemented a number of measures to counter the impact of challenging market conditions. There has been particular focus on cost reductions and strict prioritisation of investment funds. These measures have resulted in Norske Skog maintaining a positive cash flow from operations, despite significant price reductions for newsprint and magazine paper in Europe, combined with cost increases for key input factors. Furthermore, sales of assets have contributed to further debt reductions. At the end of the year, Norske Skog's net interest-bearing debt amounted to NOK 8 889 million, compared with NOK 9 595 million per 31 December 2009. Efforts to reduce debt will continue in 2011.

It is a goal that the average maturity period of the loan portfolio should be more than 5 years. At the end of 2010, the average maturity period was 5.1 years.

Despite the fact that the average maturity period of the debt portfolio is satisfactory, Norske Skog is faced with a refinancing need related to the loan maturities in 2011 and 2012, and these maturities are close together in time. The group had a cash balance of NOK 4 440 million at the end of 2010, which is more than sufficient to cover payments for 2011. Norske Skog is in dialogue with financial institutions in connection with the evaluation of various financing options.

Norske Skog's bank loan agreements contain financial covenants. Net equity (defined as equity minus intangible assets) shall be at least NOK 9 billion, and the ratio between debt and equity (gearing) shall not exceed 1.4. Norske Skog meets these requirements as at 31 December 2010. The group is still exposed to breach of these financial covenants, but expects that this can be handled through a refinancing in 2011.

Norske Skog has credit ratings from Moody's and Standard & Poor's. The credit rating from Moody's at year-end was B2 with a negative outlook. The rating from Standard & Poor's was B- with a negative outlook.

DIVIDEND PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend be paid for the accounting year 2010.

SEGMENT ACTIVITY

Norske Skog's reporting structure consists of the main segments newsprint, magazine paper, energy and other activities. From 2010, the newspaper segment was divided into two geographic regions of Europe and outside Europe, while sales offices and other administrative entities are included in newsprint – other activities.

NEWSPRINT TOTAL

The segment encompasses Norske Skog's production and sale of newsprint. Production capacity in 2010 was 3.1 million tonnes, equivalent to 69 per cent of the total capacity of the group.

Operating revenue in 2010 was NOK 11 535 million (NOK 13 073 million in 2009) and gross operating earnings were NOK 1 059 million (NOK 1 684 million). As a result of low prices, the European operations had a very poor year with zero gross operating earnings, while there was some improvement in gross operating earnings for the operations outside of Europe, due to the good development in Australasia. Produced and sold volumes were unchanged in 2010 compared with 2009, but there was a significant increase when it is taken into account that the two mills in China were included for a large part of 2009. Capacity utilisation was 89 per cent in 2010, compared with 79 per cent in 2009.

NEWSPRINT EUROPE

The region includes the newsprint mills Norske Skog Skogn, Norske Skog Golbey and Norske Skog Parenco, as well as one of the paper machines at Norske Skog Follum and one of the paper machines at Norske Skog Bruck. Production capacity in 2010 was 1 763 000 tonnes, which is 39 per cent of Norske Skog's total capacity. As discussed elsewhere in this annual report, a new assessment of capacity was made in the second half of 2010, primarily because of the trend towards lower grammage. Reference is made to the table on page 3.

Operating revenue in 2010 was NOK 5 642 million (NOK 6 199 million) and gross operating earnings in 2010 were zero (NOK 779 million). Produced and sold volumes rose by around 11 per cent, and capacity utilisation was 89 per cent in 2010 compared to 75 per cent in 2009. The sales price for newsprint in Europe, measured in EUR, was over 20 per cent lower in 2010 than in 2009, and this is the main reason for the extremely poor earnings. There were also some price increases for input factors, especially recovered paper, but this was offset to some extent by reduced fixed costs.

The market balance for newsprint in Europe improved gradually during 2010 as a result of increased demand of around two per cent, reduced capacity following closures, and positive development relating to trade flows to and from Europe.

NEWSPRINT OUTSIDE EUROPE

The region includes Norske Skog's newsprint operations in Australasia, South America and Asia with a total production capacity of 1 320 000 tonnes, which is 30 per cent of the group's overall production capacity. Of this, 880 000 tonnes are in Australasia, 310 000 tonnes are in South America and 130 000 tonnes are in Asia. Figures for 2010 are not directly comparable with 2009 because of the two mills in China that were sold during 2009.

Operating revenue in 2010 was NOK 5 617 million (NOK 5 896 million) and gross operating earnings were NOK 1 065 million (NOK 881 million). Most of the operating earnings in 2010 came from the operations in Australasia, where new five-year sales agreements were signed in 2010 for the bulk of the sales volume. Earnings from the operations in South America were weak, mainly due to long-term production problems at Norske Skog Pisa in Brazil and the strong local currency. Norske Skog Bio Bio in Chile was hit by earthquake in February 2010, but after re-start of operations, the mill has had normal production levels since May. Capacity utilisation for operations outside Europe was 90 per cent in 2010 compared to 82 per cent in 2009.

Demand for newsprint outside of Europe increased by around five per cent in 2010 compared with 2009, and the largest increase was in South America. It is believed that there has been a slight increase in customer inventories.

MAGAZINE PAPER

The segment includes the mills Norske Skog Saugbrugs and Norske Skog Walsum, as well as one paper machine at Norske Skog Follum and one paper machine at Norske Skog Bruck. Total production capacity in 2010 was 1.4 million tonnes, of which uncoated magazine paper was 550 000 tonnes and coated magazine paper 850 000 tonnes. This segment represents 31 per cent of the group's overall production capacity.

Operating revenue in 2010 was NOK 6 288 million (NOK 6 272 million) and gross operating earnings were NOK 305 million (NOK 689 million). Prices for magazine paper fell at the beginning of 2010, but increased again in the second half of the year. Prices in 2010 were, on average, considerably lower than in 2009. The result is also negatively affected by increased costs, primarily for chemical pulp. Capacity utilisation was 89 per cent in 2010 compared with 79 per cent in 2009.

Demand for coated magazine paper in Europe rose by 11 per cent in 2010, while there was a reduction of one per cent for uncoated magazine paper. This difference must be viewed in the context of developments in 2009, when demand for uncoated paper fell far less than demand for coated paper. There is a significant export of magazine paper from Europe, and export markets were strong in 2010.

ENERGY

The ordinary activities of the segment include the purchase and resale of energy to the Norwegian mills and Norske Skog Pisa in Brazil. For accounting purposes, purchase of energy for these mills is booked as a cost of materials in the segment, with resale at contract prices. Other revenue is related to the sale to external parties of excess energy that Norske Skog has in Norway and Brazil. Excess energy has arisen in Norway as a result of the closure of a paper machine at Norske Skog Follum in the summer of 2008 and the closure of Norske Skog Union in 2006. Sales of excess energy during periods of high spot-market prices resulted in gross operating earnings in 2010 of NOK 150 million (minus NOK 18 million). Because of a new contract structure with effect from 1 January 2011, the energy segment is not expected to show significant gross operating earnings in the future.

In addition to income from ordinary operations mentioned above, the operating earnings under IFRS also include fair value adjustments on contracts and embedded derivatives. The contracts are recognised in the balance sheet in accordance with IAS 39, which means that the value consists of the difference between the estimated market price and contract price over the contract period, discounted to present value. The group has recognised amounts in the balance sheet relating to contracts in Norway, Brazil and New Zealand. The value can fluctuate significantly from quarter to quarter due to changes in expected future energy prices, and is also affected by changes in exchange rates, price indices and the discount rate used. Gross operating earnings under IFRS were minus NOK 1 543 million in 2010 (positive earnings of NOK 972 million in 2009). The value of the balance sheet contracts was approximately NOK 3 billion at 31 December 2010.

OTHER ACTIVITIES
Other activities include unallocated group costs and trading activities related to recovered paper. Gross operating earnings in the segment were minus NOK 100 million in 2010 (minus NOK 170 million).

This segment also includes the wholly-owned subsidiary Xynergo AS. This company was established in 2008 with the aim to develop the production of bio-fuels based on wood, and trade of biomass. In autumn 2010, it was decided that Norske Skog should not invest additional capital in the company, and the process to wind up the bio-fuel activities was started.

COST DEVELOPMENT
The group's total costs (excluding depreciation) in 2010 were NOK 17.6 billion, compared to NOK 18.2 billion in 2009. Of total costs in 2010, 76 per cent were variable costs and 24 per cent were fixed costs. The corresponding distribution in 2009 was 73 per cent variable and 27 per cent fixed, and the change in 2010 mainly reflects the increased capacity utilisation from 79 to 89 per cent.

WOOD
Norske Skog's consumption of logs and sawmill chips was around 5.5 million m³ in 2010 (5.2 million m³). The distribution by geographic region was 36 per cent in Norway, 22 per cent in continental Europe and 42 per cent in Australasia and South America. Wood accounted for 12 per cent of total expenditure in 2010. There was a general increase in wood prices in Europe during 2010, which is related to the demand for bio-energy purposes and the strong market for chemical pulp. Norske Skog has long-term purchase contracts with price-regulating clauses in Norway, and also purchases wood under long-term purchase agreements in Australasia and South America.

RECOVERED PAPER AND CHEMICAL PULP
Norske Skog's consumption of recovered paper was 1.5 million tonnes in 2010, of which 1.2 million tonnes was in Europe. Consumption of chemical pulp, which is used primarily in the production of magazine paper, was around 170 000 tonnes. These two input factors amounted to 11 and four per cent respectively of total expenditure in 2010.

There were strong price increases for both recovered paper and chemical pulp through 2010. For both of these, the price increase was largely driven by strong demand from China.

ENERGY
Energy is the largest single expense for Norske Skog, and amounted to around 23 per cent of total expenditure in 2010. Around two-thirds of the energy cost is related to purchase of electricity. Volume-wise, the energy consumption in 2010 amounted to 15 400 GWh (14 600 GWh). Of the volume in 2010, 8 800 GWh was electricity, 500 GWh was self-generated heat energy and 6 100 GWh was purchased heat energy.

About 75 per cent of the group's electricity consumption is purchased under long-term contracts entered into in Norway, France, South America, Australia and New Zealand. New long-term contracts for most of the energy consumption of Norske Skog Skogn and about one third of the energy consumption of Norske Skog Golbey were signed in 2010. The group's exposure to spot prices in the electricity market is mainly in continental Europe, where prices were relatively high in parts of 2010.

FIXED COSTS

For a long time, it has been a priority to reduce fixed costs and thereby improve cash flow. The main elements of this in the past two years have been the closure of a paper machine at Norske Skog Parenco, workforce reductions at mills and at head office and other cost reductions in areas such as maintenance. When non-recurring items related to the recognition of pension and environmental provisions are excluded, the level of fixed costs at the end of 2010 was around NOK 4.3 billion. Work on further cost reductions will continue in 2011, and the target level of fixed costs at the end of 2011 is around NOK 4 billion.

MALAYSIAN NEWSPRINT INDUSTRIES (MNI)

Norske Skog owns 33.65 per cent of MNI, which owns the only paper mill in Malaysia. Norske Skog uses the equity method of consolidation for MNI, which means that Norske Skog's share of MNI's net profit after tax is presented in the income statement line "Share of profit in associated companies". Surplus values are amortised in the group accounts. The share of profit in 2010 amounted to minus NOK 20 million compared with income of NOK 19 million in 2009.

HEALTH AND SAFETY

Norske Skog aims to have zero injuries amongst its employees. Health and safety is the responsibility of the individual business unit, but the results of all units and the health and safety work are followed up by the head office. All near misses and injuries are reported in a global system, and experiences from each individual incident are shared throughout the organisation. Absence due to illness in Norske Skog in 2010 was 3.7 per cent. The corresponding figure in 2009 was four per cent. The H-value, which represents lost-time injuries per million working hours, was 0.7 in 2010. This is the lowest H-value ever recorded in the history of the group and the lowest in the entire industry. The following nine mills had zero lost-time injuries in 2010: Norske Skog Boyer, Norske Skog Bruck, Norske Skog Follum, Norske Skog Parenco, Norske Skog Pisa, Norske Skog Saugbrugs, Norske Skog Singburi, Norske Skog Tasman and Norske Skog Walsum. The H-value development in 2010 was very positive, falling from 1.9 in 2009.

On 23 February 2011, there was a tragic death at Norske Skog Golbey as a result of collision of a cargo truck. An investigation has been started to determine the cause of this incident.

RESEARCH AND DEVELOPMENT

Norske Skog's research and development work is performed in the individual business units and in cooperation with external research institutions. The work is coordinated by the wholly owned Norske Skog subsidiary NSI Focus AS, which helps to exploit synergies and learning opportunities across the organisation.

Norske Skog spent NOK 8 million on research and development in 2010. Research activities are in part financed by the Norwegian tax incentive scheme "Skattefunn". The activities include optimisation of the use of mechanical pulp and recycled paper mass in production. Studies are also being carried out into new product opportunities based on the company's current production facilities. About one-third of the research and development work is initiated by the group's central management, while the rest results from initiatives form the individual mills. Norske Skog is also involved in a number of projects to improve customers' printing processes. Research and development costs are not capitalised.

ORGANIZATION, MANAGEMENT AND EMPLOYEES

CORPORATE MANAGEMENT

Norske Skog's corporate management consists of Sven Ombudstvedt (president and CEO), Audun Røneid (CFO), Terry Hamilton (senior vice president Europe), Jan-Hinrich Clasen (senior vice president commercial activities and logistics), Rune Gjessing (senior vice president Australasia, Asia and South America) and Gaute Hjelmbrekke Andreassen (senior vice president strategy). Ombudstvedt took over as president and CEO on 1 January 2010, replacing Christian Rynning-Tønnesen, while Andreassen took up his position in March 2010. At the same time, responsibility for human resources and the organisation was transferred to the business areas, and responsibility for the activities in Europe was split between the senior vice president Europe and the senior vice president commercial activities.

EMPLOYEES

Norske Skog had 5 257 employees at the end of 2010. At the end of 2009, there were 5 668 employees.

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

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

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

Norske Skog is a global company that sees the value of an international corporate management. Three nationalities are currently represented in corporate management. Norske Skog works to achieve increased awareness of the fact that discrimination based on gender, race or convictions is not only a violation of laws and regulations, but is also in conflict with the interests of diversity, our ethical standards and our global agreement with the Norwegian United Federation of Trade Unions and ICEM for the development of good working conditions. The company complies with the purposes and provisions of the Anti-Discrimination and Accessibility Act, and has previously participated in the Female Future project. Some of the company's mills also have their own equality committee.

REMUNERATION AND INCENTIVE PROGRAMMES FOR CORPORATE MANAGEMENT

In accordance with the provisions in Section 6-16a of the Public Limited Liability Companies Act, the board's declaration relating to the stipulation of salaries and other remuneration to the company's leading employees is presented at the general meeting. A complete overview of remuneration to the leading employees has been included in Note 13 to the group accounts. Corporate management has an incentive programme with disbursements based on the relative performance of the Norske Skog share compared with a selection of relevant companies. The programme has been described in the chapter on shares and share capital elsewhere in the annual report.

BOARD OF DIRECTORS

Norske Skog's board of directors is comprised of Eivind Reiten (chair), Gisèle Marchand (deputy chair), Alexandra Bech Gjørv, Halvor Bjørken, Helge Evju, Ingrid Wiik and three employee-elected representatives Paul Kristiansen, Inge Myrlund and Svein Erik Veie. Bech Gjørv, Evju, Greve and Veie were elected at the general meeting on 22 April 2010. In accordance with the Securities Trading Act, Einar J. Greve resigned as a board member of Norske Skogindustrier ASA with effect from 1 March 2011.

Twelve board meetings have been held since the last general meeting, six meetings in the audit committee and four meetings in the remuneration committee.

RISK MANAGEMENT

Operationally, 2010 was a challenging year, marked by lower prices for newsprint and magazine paper in Europe, combined with cost increases for key input factors. The board is kept continuously updated on the group's financial performance, with particular focus on market development and liquidity. The board has received regular updates on the group's financial forecasts, as well as other factors that affect the group's financial position. Norske Skog performs an annual Enterprise Risk Management evaluation, which is based on reports from all operating units and key head office functions. The report is presented to the board and is part of the group's risk management activities.

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

Demand for newsprint and magazine paper is influenced by competition from electronic media and the general economic situation. This has led to considerable overcapacity in recent years with continuing pressure on sales prices and margins. The financial crisis led to significantly lower advertisement volumes in 2009, with a sharp decline in consumption of newsprint and magazine paper in virtually all geographic markets. This resulted in significantly reduced prices in 2010, especially in Europe.

Since Norske Skog's operations are almost exclusively concentrated around the production of wood-based printing paper, the group is exposed to market developments in this segment. The spread between newsprint and magazine paper provides a certain level of product-related diversification, however, and the group's operations in Australasia, South America and Asia provide some geographic diversification. This has been important in 2010 where operations outside Europe have delivered relatively stable profits and good cash flow. Norske Skog has also closed capacity, converted part of the newsprint production to higher quality paper grades, sold properties and surplus power and conducted extensive cost-cutting measures. In this way, the company has to some extent been able to offset the weak market conditions. Profitability is, however, weak and this must be improved in the future. This will largely depend on achieving a good balance between supply and demand for newsprint and magazine paper.

Norske Skog has a limited amount of own forest and fibre resources. The supply of these input factors is to, to a large extent, ensured through long-term contracts. The group has long-term wood contracts in Norway, for certain mills in Europe and in Australasia and South America that ensure long-term, stable raw material supplies for the business units there. The contracts contain pricing clauses that provide a certain price stabilising effect. Recovered paper is purchased by the mills based to a large extent on local contracts, mainly at market prices. There have been large fluctuations in recovered paper prices in recent years, and prices have generally been increasing, particularly because of high demand from manufacturers in Asia.

Energy supply is primarily secured through long-term power contracts. Long-term contracts have been entered into in Norway, South America and Australasia that cover most of the expected consumption. These contracts also reduce the fluctuations in energy costs. It is a requirement under IFRS that contracts containing embedded derivatives are valued, either with the whole contract or separately. The balance sheet value of energy contracts amounted to approximately NOK 3 billion at the end of 2010. Changes in balance sheet values are recognised over the income statement and can lead to large fluctuations in income due to the large volumes and contract lengths. However, these accounting effects have no impact on cash flow. In addition, some of the energy exposure is covered through financial hedging contracts, primarily forward contracts. This applies particularly to continental Europe. Financial risk management primarily includes foreign exchange risk, interest rate risk and liquidity risk.

Norske Skog has income and expenses in various currencies, and changes in exchange rates can therefore have a major impact on the group's earnings and cash flow. The group manages this risk through an active hedging program. The group hedges a large part of the expected cash flow in foreign currency on a 12 month rolling basis. The purpose of this is to improve predictability of the group's cash flow. Forward contracts and options are used to hedge cash flow. Cash flow hedging is limited for countries with capital restrictions.

Since a significant share of the group's capitalised assets are located outside of Norway, currency fluctuations could also affect equity and debt-related covenants. The balance sheet is primarily hedged by matching the currency composition of the loan portfolio to the currency distribution of assets and cash flow. Norske Skog's debt is primarily in Euro, U.S. dollars and Australian dollars, all currencies in which the group has a positive underlying cash flow. In addition to borrowings in foreign currencies, instruments such as short forward contracts and long-term currency swaps are used. In this way, fluctuations in equity and debt-related covenants are reduced.

Norske Skog mainly pays fixed interest rates on the group's borrowings, to ensure predictability of interest payments, something that is considered appropriate given the pressure on the group's earnings and cash flow. The allocation between fixed and floating interest rates is governed by the underlying loans and the use of interest rate hedging agreements. Liquidity and refinancing risk is an important area. Weak earnings, combined with a global financial crisis, have made it difficult to obtain financing on acceptable terms. The company has worked actively to reduce debt through asset sales. In addition, the group has worked to reduce liquidity risk by maintaining a high cash balance and a long-term repayment profile for its debt. At the year end, the group's cash reserves amounted to NOK 4.4 billion.

Norske Skog performs credit evaluations of counterparties for financial trading. These counterparties consist primarily of international banks and the requirement is that these should have a credit rating of at least A-. Individual limits for credit exposure are set based on external ratings and internal assessments. Assessments are also made of counterparties in long-term contracts. Norske Skog performs credit evaluations of its customers. Internal credit limits are determined on the basis of information obtained from external sources and credit rating companies. Norske Skog has low losses on accounts receivable.

The group's general insurance is managed centrally through a well-established insurance programme.

The group's risk factors are also discussed further in Note 8 to the group accounts and the group's corporate governance is discussed in the annual report under Corporate governance.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2010, 444.1 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 527.5 million shares in 2009. On average, each share was traded 2.4 times in 2010.

The Norske Skog share price on 30 December 2010 was NOK 13.85, compared with NOK 9.41 on 4 January 2010, which represented an increase of 47 per cent over the year. The highest price in 2010 based on closing prices was NOK 14.35 on 28 December and the lowest price was NOK 6.82 on 25 May.

The share capital of Norske Skogindustrier ASA at 31 December 2010 was NOK 1 899 456 260, divided into 189 945 626 shares with nominal value NOK 10. All shares have equal rights. There were no changes in the company's share capital during 2010, and there is no existing authority for the board to increase share capital.

Norske Skog owned 231 493 treasury shares at the beginning of 2010. In May, 100 000 shares were purchased, and 289 631 shares were sold to employees in connection with the employee share ownership scheme. Norske Skog's holding of treasury shares at 31 December 2010 was 41 862 shares. The board is authorised to repurchase up to ten per cent of outstanding shares.

The largest individual Norwegian shareholder at 31 December 2010 was Viken Skog, with a shareholding of 5.7 per cent. The Norwegian forest owners' federations owned a total of 13.3 per cent. The foreign ownership proportion was 36 per cent at 31 December 2010, compared to 25 per cent at the previous year-end. The foreign shareholders are largely registered through investment banks. Based on information obtained, there are no foreign shareholders with a shareholding exceeding five per cent.

Based on information in the central securities depository, Norske Skog had a total of 24 779 shareholders at 31 December 2010, of which 1 291 were located outside of Norway.

NORSKE SKOG AND THE COMMUNITY

Norske Skog business units often represent a large proportion of jobs in their local communities. In addition to helping with places of employment, both directly and indirectly, our units cooperate closely with local authorities to contribute to the local community in other ways. Each business unit has an independent responsibility for maintaining good communication with relevant stakeholders in their communities.

Norske Skog views corporate social responsibility as an integral part of the business. Relations with the outside world are based on the core values of honesty, openness and cooperation. The group and its business units should be aware of their role in the community. An open dialogue with external and internal stakeholders is emphasised, as well as respect for local cultures and traditions.

Norske Skog attracts considerable attention in Norway, where the group is listed on the Oslo Stock Exchange and has its head office and three of its 14 business units. An understanding of the group's strategy and organisation is important, and relationships with Norwegian authorities, trade unions and other groups are therefore given high priority.

INTERNAL AUDIT

The group's internal audit function has an important role in controlling that working- and decision making processes take place according to laws and regulations in the respective countries and according to the company's own requirements for ethical business conduct. Regular internal audits are performed at the group's units, and audit reports are prepared which include the status of compliance with ethical guidelines, improvements since the previous audit and mapping of areas that need improvement or change. The reports are routinely submitted to corporate management and the board's audit committee. Annual reports from internal audit are processed by the board, together with the administration's recommendations for improvements.

RECOVERED PAPER

Norske Skog consumed 1.5 million tonnes of recovered paper in 2010. Use of recovered paper is an important element of the group's energy and climate policy. Recovered paper requires less energy for production of new paper than fresh wood, and thereby reduces the emissions of greenhouse gases.

PURCHASE OF WOOD

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

ENERGY, WASTE AND EMISSIONS

Norske Skog aims to reduce its environmental footprint to a minimum. The company's goal is that the same environmental standards should also apply to partly-owned companies and the company's suppliers.

All Norske Skog business units must operate within the constraints of national laws and regulations. There have been no serious breaches of laws, rules or the group's own standards in 2010. In many cases, Norske Skog sets higher environmental targets than required by national and local authorities.

A total of 669 000 tonnes of dry waste was generated from operations in 2010, compared with 582 000 tonnes in 2009. Of this, 72 per cent was utilised as bio energy. The company produced 2100 GWh of bio energy in 2010.

GREENHOUSE GAS EMISSIONS
Norske Skog has determined to reduce its emissions of greenhouse gases by 25 per cent from 2006 to 2020. The reduction target includes direct emissions of greenhouse gases from paper production and indirect emissions from the production of purchased electricity and heat. The target will be attained through a combination of energy conservation and use of alternative energy sources. The greenhouse gas emissions per tonne of paper was reduced by one per cent. The total emissions from our mills increased by six per cent in 2010 due to increased production. The total emission reduction as of 2010 is 9.5 per cent compared with the base year 2006.

ENVIRONMENTAL INVESTMENTS
Norske Skog made environmental investments of NOK 59 million in 2010, primarily to save energy and clean drain water.

ENVIRONMENTAL CERTIFICATION
All of Norske Skog's business units are ISO 14001 environmentally certified.

ENVIRONMENTAL REPORTING
Norske Skog sets ambitious goals for its environmental work, both at group and unit level. Clear environmental goals are set for each individual production unit, and the company has routines for internal reporting of environmental performance. External environmental reporting is based on transparency, and the group has received much recognition for this.

In 2010, Norske Skog was named the best Norwegian company for climate change strategies and reporting of greenhouse gas emissions by the international Carbon Disclosure Project (CDP). CDP represents 475 investors worldwide and ranks companies in an annual report based on reporting of emissions and emission-reducing measures.

Norske Skog supports the work of developing a global standard for reporting sustainable development. The group's annual report is prepared in accordance with the Global Reporting Initiative (GRI). The principles of the UN Global Compact are also applied in Norske Skog's reporting.

ICEM
The ICEM treaty is a global agreement to secure employee rights. Norske Skog is a signatory to the treaty, which has been signed with the Norwegian United Federation of Trade Unions and the International Federation of Chemical, Energy, Mine and General Workers' Unions.

GLOBAL EMPLOYEE REPRESENTATIVE FORUMS
Norske Skog has global and regional forums for employee representatives. The current arrangement was established in 2004, and is regulated by an agreement between corporate management and the company's employee representatives. Most regional forums held a meeting in 2010.

UN GLOBAL COMPACT
Norske Skog signed the UN Global Compact treaty in 2003. Businesses that have signed the treaty commit themselves to complying with principles for human rights, employee rights, the environment and anti-corruption work.

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

EVENTS AFTER 31 DECEMBER 2010

SALE OF PROPERTIES IN NORWAY
Norske Skog entered into an agreement to sell Klosterøya (Skien, Norway) to a consortium consisting of Conceptor Eiendomsutvikling AS and

Bratsberg Gruppen AS on 12 January 2011. After the closing down of the Union mills, Norske Skog has used considerable resources on clearing up and developing Klosterøya, and the board considers it a good solution that others will now take over further development. For an extended period of time, Norske Skog has cooperated with local authorities and businesses to develop residential, business and outdoor recreation areas close to Skien. Over the course of 2010, Norske Skog has sold properties in Norway, including Klosterøya, for around NOK 280 million.

FIRE AT NORSKE SKOG SAUGBRUGS

On 2 February 2011, fire caused damage to the thermo-mechanical pulp plant which supplies the paper machines at the Norske Skog Saugbrugs mill. No employees were injured as a result of the incident. The fire has caused major damage to the electrical cable system and the pulp mill. All production at the mill's three paper machines was halted due to the fire. Subsequently, one paper machine (PM4) has started up again and is now at normal production levels of 10 000 tonnes per month. Production at Norske Skog Saugbrugs will be 30 000-35 000 tonnes lower per month (PM5 and PM6). Normal production levels from these machines cannot be expected until late June 2011. Norske Skog Saugbrugs has an annual production of 550 000 tonnes of SC magazine paper and has 600 employees. The investigation has not been completed at the time of writing. Norske Skog's insurance coverage limits the loss to the deductible.

OUTLOOK FOR 2011

The board emphasises that there is considerable uncertainty associated with the assessment of future prospects. After a very weak result in 2010, an improvement is expected in 2011. The price level for newsprint in Europe is expected to be higher in 2011 than in 2010, and Norske Skog has largely entered into quarterly pricing agreements, instead of the previous annual agreements that have been practiced. Not all contracts include price regulation from the start of the year, so part of Norske Skog's newsprint tonnage in the first quarter of 2011 will be sold at prices that applied in 2010. There will also be higher prices for magazine paper in Europe, but price increases measured in per cent will be lower than for newsprint. Price levels are expected to be stable in Australasia.

There is reason to expect higher prices for most input factors, and this will to some extent counteract the positive effect on earnings from higher prices in Europe. It is not expected that gross operating earnings from the energy segment will be significant in 2011.

Although increased earnings and cash flow are expected in 2011, earnings will still remain unsatisfactory. The board of Norske Skog believes that a consolidation of the industry for publication paper will be positive for the industry's overall profitability and the companies' ability to provide a competitive long-term return on capital.

NORSKE SKOGINDUSTRIER ASA

The parent company of the group, Norske Skogindustrier ASA, comprises most of the group's operations in Norway. Paper-making operations consist of eight paper machines at the mills at Skogn in Levanger, Saugbrugs in Halden and Follum in Hønefoss.

There has been a significant volume increase in terms of tonnes produced and sold in 2010 compared with 2009. In 2010, a total of 1 210 000 tonnes of paper were sold from the Norwegian mills, while the corresponding figure for 2009 was 1 059 000 tonnes. Due to lower sales prices per tonne and increase in costs for input factors, gross operating earnings were lower than in 2009. This applies even though employee benefit expenses and other operating expenses were reduced by NOK 178 million and NOK 161 million respectively, as a result of staffing reductions and other cost cuts. Of the reduction in employee benefit expenses, NOK 122 million came from non-recurring items related to the curtailment and termination of the company's defined benefit pension plan and closing of the early retirement pension scheme with effect from 31 December 2010. With effect from 31 December 2010, the company switched to a defined contribution pension scheme for all employees under the age of 52.

The company has conducted quarterly reviews of the recoverable amount in 2010. The result of these assessments is that impairments of NOK 852 million related to Norske Skog Skogn and NOK 402 million related to Norske Skog Follum have been reversed. This relates to the impairments that were made in 2007. The reversals were made as a result of changed assumptions relating to the price of energy and the expected economic life. More information regarding the calculation of recoverable amount is given in Note 4 to the group accounts. Depreciation has decreased from NOK 431 million in 2009 to NOK 346 million in 2010 as a result of changes in the estimated remaining economic life. The changes in the expected economic life were carried out with effect from 1 January 2010.

Norske Skog has entered into energy contracts for a volume that is higher than expected future demand for own use. Change in the value of Norwegian energy contracts that are not for own use affects the parent company's income statement in a similar way to the consolidated financial statements. In June 2010, Norske Skog signed an agreement to sell excess energy in Southern Norway for NOK 800 million. The sale includes an annual supply of 1.5 TWh from 1 January 2011 until 31 December 2020. The energy that was sold had its delivery point in Southern Norway where Norske Skog does not need it for its own operations. The sale resulted in an accounting loss of NOK 382 million. At the end of 2010, the value of the Norwegian energy contracts was NOK 1 487 million lower compared to the end of 2009. This is largely due to the sale of 1.5 TWh, and the total volume has been reduced by one year. The value of the company's energy contracts is presented in the balance sheet as other non-current assets and other current assets, while changes in value and realised gains and losses on sales are presented in the income statement as other gains and losses.

Net financial expenses in 2010 amounted to NOK 846 million. This item includes impairment of the carrying value of shares in subsidiaries of NOK 760 million, and dividends from subsidiaries of NOK 824 million. Impairment of shares in subsidiaries is a consequence of reduced values of the underlying assets. In addition, net interest expenses of

NOK 1 079 million and positive currency effects of NOK 202 million are included within net financial expenses.

There was a negative net cash flow from operating activities in the parent company of NOK 739 million in 2010. This amount included financial payments of NOK 532 million. Net increase in working capital of NOK 217 million and payments related to hedges on the purchase of energy of NOK 110 million have contributed to the negative cash flow from operations. The accounting gain from the closure/reduction of the company's defined benefit pension plan and termination of the old pension scheme had no effect on cash flow. At the end of 2010, Norske Skogindustrier ASA had 1 590 employees, of which 138 were female. Employee absence due to illness was 4.7 per cent in 2010.

PROFIT ALLOCATION FOR THE PARENT COMPANY

The net loss in 2010 for Norske Skogindustrier ASA (the parent company) of NOK 429 million has been allocated in its entirety to other paid-in equity. Distributable equity in Norske Skogindustrier ASA amounted to NOK 3 087 million at 31 December 2010.

EFFORTS IN 2010

The work to increase the group's profitability through cost reductions, staff reductions and optimisation of operations has been ongoing throughout 2010. The number of employees in the group was reduced by 400 in 2010. The measures in 2010 confirm the value of creative initiatives and implementation capability in the organisation and good cooperation with the employee organisations. The board of directors would like to thank all employees for their efforts in 2010.

OXENØEN BRUG, 2 MARCH 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Halvor Bjørken
Board member

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Paul Kristiansen
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

ANNUAL ACCOUNTS
NORSKE SKOG GROUP

ANNUAL ACCOUNTS NORSKE SKOG GROUP

INCOME STATEMENT

NOK MILLION	NOTE	2010	2009	2008
Operating revenue	3	**18 986**	**20 362**	**26 468**
Distribution costs		-1 856	-1 749	-2 340
Cost of materials		-11 539	-11 445	-15 771
Change in inventories		-31	-132	-176
Employee benefit expenses	13	-2 709	-3 100	-3 381
Other operating expenses	15	-1 438	-1 751	-2 077
Gross operating earnings		**1 413**	**2 185**	**2 723**
Depreciation	4	-1 991	-2 465	-2 623
Gross operating earnings after depreciation		**-578**	**-280**	**100**
Restructuring expenses	17	-57	-396	-221
Other gains and losses	18	-1 578	1 233	-502
Impairments	4	-165	-1 883	-785
Operating earnings		**-2 379**	**-1 325**	**-1 407**
Share of profit in associated companies	21	-17	25	30
Financial items	5	-924	280	-1 402
Profit/loss before income taxes		**-3 320**	**-1 019**	**-2 779**
Income taxes	19	851	-380	13
Net profit/loss for the year		**-2 469**	**-1 400**	**-2 765**
Majority share of net profit/loss for the year		-2 462	-1 205	-2 715
Minority share of net profit/loss for the year	23	-6	-194	-50
Basic/diluted earnings per share (in NOK)	24	**-12.97**	**-6.36**	**-14.33**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2010	2009	2008
Net profit/loss for the year	**-2 469**	**-1 400**	**-2 765**
Other comprehensive income			
Currency translation differences	532	-1 742	2 221
Tax expense on translation differences	-26	30	217
Hedge of net investment in foreign operations	162	1 770	-2 406
Tax expense on net investment hedge	-22	-130	-113
Cash flow hedge	0	44	-78
Reclassification to income statement, divestment of operations	0	-155	722
Tax expense on reclassifications	0	0	17
Other items	-9	-1	-18
Tax expense on other items	0	-34	0
Other comprehensive income	**637**	**-218**	**562**
Comprehensive income	**-1 832**	**-1 618**	**-2 203**
Majority share of comprehensive income	-1 828	-1 377	-2 214
Minority share of comprehensive income	-4	-241	11

BALANCE SHEET

NOK MILLION	NOTE	31.12.2010	31.12.2009	31.12.2008
Assets				
Deferred tax asset	19	137	128	73
Other intangible assets	4	160	208	287
Property, plant and equipment	4	15 909	17 561	25 139
Investments in associated companies	21	209	228	295
Other non-current assets	10	2 856	5 420	1 186
Total non-current assets		**19 271**	**23 546**	**26 980**
Inventories	20	2 013	2 003	2 703
Receivables	10	2 397	2 511	3 885
Cash and cash equivalents	26	4 440	4 241	6 036
Other current assets	20	1 177	853	5 587
Total current assets		**10 027**	**9 609**	**18 211**
Total assets		**29 297**	**33 155**	**45 191**
Shareholders' equity and liabilities				
Paid-in equity		12 303	12 302	12 310
Retained earnings and other reserves	24	-2 143	-315	1 052
Minority interests	23	22	28	269
Total equity		**10 183**	**12 015**	**13 632**
Pension obligations	14	559	665	644
Deferred tax liability	19	923	1 836	1 588
Interest-bearing non-current liabilities	11	11 717	13 892	18 820
Other non-current liabilities	22	676	922	2 226
Total non-current liabilities		**13 875**	**17 316**	**23 277**
Interest-bearing current liabilities	12	1 954	355	2 339
Trade and other payables		3 074	3 196	4 999
Tax payable	19	32	35	89
Other current liabilities	20	180	237	855
Total current liabilities		**5 240**	**3 824**	**8 282**
Total liabilities		**19 115**	**21 140**	**31 559**
Total equity and liabilities		**29 297**	**33 155**	**45 191**

OXENØEN BRUG, 2 MARCH 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

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Inge Myrlund
Board member

Svein Erik Veie
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2010	2009	2008
Cash flow from operating activities				
Cash generated from operations		18 920	21 144	26 639
Cash used in operations		-18 070	-18 734	-23 574
Cash from net financial items [1]		-520	-548	-727
Taxes paid		67	-166	-361
Net cash flow from operating activities		**397**	**1 697**	**1 977**
Cash flow from investing activities				
Purchase of fixed assets	3	-411	-580	-1 283
Sales of fixed assets		168	45	618
Change in intercompany balance with subsidiaries		0	68	30
Acquisition of shares in companies and other financial instruments		-112	-2	-127
Sales of shares in companies and other financial instruments		770	-117	3 051
Net cash flow from investing activities		**415**	**-587**	**2 289**
Cash flow from financing activities				
New loans raised		53	4 753	1 511
Repayments of loans		-465	-6 901	-2 533
Purchase/sale of treasury shares		1	-1	-3
New equity		1	0	9
Net cash flow from financing activities		**-409**	**-2 149**	**-1 016**
Foreign currency effects on cash and cash equivalents		-204	-915	1 059
Total change in cash and cash equivalents		**199**	**-1 954**	**4 309**
Cash and cash equivalents 1 January	26	4 241	6 195	1 886
Cash and cash equivalents 31 December	26	4 440	4 241	6 195
Reconciliation of net cash flow from operating activities				
Profit/loss before income taxes		-3 320	-1 019	-2 779
Depreciation/impairments	4	2 156	4 348	3 408
Share of profit in associated companies	21	17	-25	-30
Gain/loss on sale of fixed assets		-147	-17	-322
Taxes paid		67	-166	-361
Change in receivables		-67	783	172
Change in inventories		4	335	-73
Change in current liabilities		-182	-525	343
Non-cash financial items		404	-828	675
Adjustments for non-cash working capital items, currency translation differences and other items [2]		1 465	-1 189	945
Net cash flow from operating activities		**397**	**1 697**	**1 977**

[1] Cash paid from financial items was NOK 850 million in 2010, and cash received was NOK 330 million. In 2009 and 2008 cash paid from financial items was NOK 1 039 million and NOK 1 277 million respectively, and cash received was NOK 491 million and NOK 541 million respectively.

[2] (Gains)/losses on energy contracts for 2010, 2009 and 2008 amounted to NOK -1 582 million, NOK 963 million and NOK -64 million respectively. The 2008 amount also included a loss of NOK 606 million from the divestment of two mills in South Korea.

STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	Paid-in equity	Retained earnings	Hedge accounting	Other equity reserves	Total before minority interests	Minority interests	Total equity
Equity 1 January 2008	**12 310**	**3 354**	**1 305**	**-1 377**	**15 592**	**365**	**15 957**
Comprehensive income	0	-2 733	-2 641	3 160	-2 214	11	-2 203
Dividend	0	0	0	0	0	-2	-2
Change in holding of treasury shares	0	0	0	-1	-1	0	-1
Change in ownership in subsidiaries	0	0	0	-15	-15	-105	-120
Equity 31 December 2008	**12 310**	**621**	**-1 335**	**1 766**	**13 363**	**269**	**13 632**
Comprehensive income	0	-1 205	1 684	-1 857	-1 377	-241	-1 618
Change in holding of treasury shares	-8	0	0	9	1	0	1
Equity 31 December 2009	**12 302**	**-583**	**349**	**-81**	**11 987**	**28**	**12 015**
Comprehensive income	0	-2 462	140	494	-1 828	-4	-1 832
Change in holding of treasury shares	2	0	0	0	2	0	2
Change in ownership in subsidiaries	0	-2	0	3	1	-3	-2
Equity 31 December 2010	**12 303**	**-3 048**	**489**	**416**	**10 161**	**22**	**10 183**

NOTES TO THE ANNUAL ACCOUNTS

1. GENERAL INFORMATION

Norske Skogindustrier ASA ("the company") and its subsidiaries (together "the group") manufacture, distribute and sell publication paper. This includes newsprint and magazine paper.

The group has 14 fully and partly owned mills on four continents.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Lysaker outside of Oslo. The company is listed on the Oslo stock exchange. The consolidated financial statements were authorised for issue by the board of directors in Norske Skogindustrier ASA on 2 March 2011.

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

2. ACCOUNTING PRINCIPLES

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

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

Consolidation

a) Subsidiaries

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

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

b) Associates

Associates are all entities over which the group exercises significant influence but not control, generally held to accompany a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Use of the equity method means that the group's share of post-acquisition profits or losses made by its associates is recognised as share of profit in associated companies and is assigned to the carrying value of the investment together with the group's share of comprehensive income in the associated company. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group's share of unrealised gains on transactions between the group and its associates are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

c) Transactions and non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

Segment reporting

Reportable segments

The activities in the group are divided into three operating segments: newsprint, magazine paper and energy. The newsprint segment is further segregated into two geographical regions. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the corporate management team which makes strategic decisions.

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

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

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

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

b) Transactions and balances
Foreign currency transactions are translated into the entity's functional currency at the exchange rate prevailing on the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Gains and losses subject to hedge accounting and relating to currency positions qualifying as net investment hedges and which are hedge accounted are booked as part of comprehensive income.

Exchange differences arising from the settlement of accounts receivable/payable and unrealised gains/losses on the same positions are recognised in operating revenue/cost of materials respectively. Exchange differences arising from the settlement of other items are recognised within financial items.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement as financial items.

c) Group companies
The results and financial position of all group entities which have a functional currency different from the presentational currency are translated into the presentational currency as follows:
i. Assets and liabilities for each of the balance sheets presented are translated at the closing rate at the date of that balance sheet.
ii. Income and expenses for each income statement are translated at average exchange rates.
iii. All resulting exchange differences are booked to comprehensive income and presented in other equity reserves.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are booked as part of comprehensive income and is presented in other equity reserves. When a foreign operation is fully or partially sold, such exchange differences are booked out of comprehensive income and recognised in the income statement as part of the gain or loss on sale.

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

Property, plant and equipment
Land and buildings comprise mainly mills, machinery and office premises. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation. Cost includes expenditure directly attributable to the acquisition of the items. The residual value of production equipment is defined as the realisable value after deduction of estimated cost of dismantling and removal of the asset. If the estimated cost exceeds the estimated value, the net liability is added to the cost of the related asset, and a provision is recognised as a liability in the balance sheet.

Borrowing costs which are directly related to qualifying assets are recognised as part of the acquisition cost for the qualifying asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of PPE.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The residual value and useful life of the assets are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and included in the income statement line Other gains and losses.

Biological assets
Biological assets are measured upon initial recognition and at the end of each reporting period at fair value less estimated point-of-sale costs, unless fair value cannot be reliably measured. A gain or loss arising on initial recognition, and from changes in fair value during a period, is reported in net profit or loss for the period in which it arises. When fair value cannot be reliably estimated, the asset is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Intangible assets
a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Patents and licenses
Patents and licenses have a finite useful life and are recognised at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.
c) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the specific software and bring it into use, and amortised over their estimated useful lives. Costs associated with maintaining computer software are recognised as an expense as they are incurred. Costs which are directly associated with the development of identifiable and unique software products controlled by the group, and which are likely to generate economic benefits exceeding the costs beyond one year, are recognised as intangible fixed assets. Direct costs include the costs of software development personnel and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Impairment of non-financial assets
Intangible assets which have an indefinite useful life, for example goodwill, are not subject to amortisation, and are tested annually for impairment. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which cash flows are separately identifiable (cash-generating units). At each balance sheet date, the possibility of reversing impairment losses in prior periods is evaluated (except for goodwill).

Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

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

a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for

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

Non-financial commodity contracts where the relevant commodity is readily convertible to cash and where the contracts are not for own use fall within the scope of IAS 39. Such contracts are treated as derivatives in accordance with IAS 39. Norske Skog currently has energy contracts in Norway and South America that do not meet the own use criteria according to IAS 39.5. The contracts must therefore be treated as derivatives and are booked to fair value through the income statement (see also Notes 7, 8 and 9). Commodity contracts within the scope of IAS 39 are classified as current assets, unless they are expected to be realised more than 12 months after the balance sheet date. In that case, they are classified as non-current assets.

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

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

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

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

a) Hedges of the fair value of fixed interest loans (fair value hedge);
b) Hedging of a net investment in a foreign operation (net investment hedge);
c) Derivatives at fair value through profit or loss.

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

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

a) Fair value hedge
Changes in the fair value of derivatives that qualify as hedging and which are effective, are recorded in the income statement, together with any changes in the fair value of the of the hedged asset or liability that are attributable to the hedged risk. The ineffective part of the hedging relationship is booked as an interest cost within financial items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortized over the period to maturity. Hedging instruments that are terminated prior to maturity will be treated in the same way. If the underlying hedged item is realised or repurchased prior to maturity, any associated hedging reserve/amortised cost is recognised in the income statement on a one-to-one basis.

b) Net investment hedge
Gains and losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

c) Derivatives at fair value over profit or loss
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised in the income statement.

The fair value of quoted investments is based on the current market price. If the market for a financial asset is not active, the group applies valuation techniques to establish the fair value. These include the use of recent arm's length transactions, reference to other instruments which are substantially the same, and discounted cash flow analyses defined to reflect the issuer's specific circumstances (see also Note 9).

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

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

Inventory
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, or average purchase price. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trace receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when objective evidence exists that the group will be unable to collect the entire amount due in accordance with the original terms of each receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

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

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

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

Current and deferred income tax
The group's income tax expense include current tax based on taxable profit in group companies, change of deferred income taxes for the financial period and adjustments to previous periods. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

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

Employee benefits

a) Pension obligations

Group companies operate various pension schemes. These are generally funded through payments to insurance companies, as determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

A defined benefit plan is one which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group makes fixed contributions to a separate entity.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds which are denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating to the terms of the related pension liability, or alternatively a government bond interest rate if such bonds do not exist.

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

Past-service costs are recognised immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group makes contributions to publicly- or privately-administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been made. These contributions are recognised as an employee benefit expense in the period the contribution relates to. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share-based remuneration

The group has a long-term incentive plan where the allocation of synthetic options to members of corporate management is based on the development of the company's share price in relation to a defined group of listed paper producers. The programme results in a cash payout if the options are exercised. The fair value of the liability is measured at each balance sheet date and on the settlement date. See also Note 13.

c) Bonus arrangements

The group accrues for bonus arrangements when there exists a contractual obligation or past practice has created a constructive obligation.

Provisions

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

Restructuring provisions comprise mainly employee termination payments. Restructuring costs are costs which are not related to the ongoing operations. This includes for example severance (redundancy) payments, early retirement or other arrangements for employees leaving the company, external costs relating to coaching, counselling and assistance finding new jobs, or external costs to lawyers and legal advisors in relation to the de-manning process, and lease termination penalties. Provisions are not recognised for future operating losses.

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

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

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised within financial items.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group's revenue consists almost exclusively of the sale of goods, and the principle for recognition of revenue is the same for newsprint and magazine paper.

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. This will depend upon the buyer's delivery terms and will be in the range from the finalisation of the production to delivery of the goods to the buyer.

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

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

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

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

Leases
Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

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

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

Emission Rights
There is currently no accounting standard or interpretation within IFRS that deals specifically with the accounting for emission permits or renewable energy certificates. Norske Skog accounts for emission rights by recognising an intangible asset for the emission rights received at the market value on the date the rights are granted. The difference between the fair value and the nominal amount paid is recognised in the balance sheet as a government grant (deferred income).

Emissions are recognised in the income statement as cost of materials, and the government grant (deferred income) is recognised in line with the cost of emitting. Unused rights (deferred income) and used rights are offset against the intangible asset recognised in the balance sheet when the emission rights expire.

If the received rights are sufficient to cover the entity's emissions, there will be no net cost or net income in the income statement. If the entity is required to go to the market and acquire additional rights, these are accounted for at market value at the time of purchase and recognised in the income statement.

If the received rights exceed actual consumption, the surplus will be sold in the market. Gains from such sales are presented as Other gains and losses. Emission rights that are sold in advance are recognised in line with the actual use as an operating expense.

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

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

a) Estimated decline in value of intangible assets and tangible fixed assets
The group performs periodic tests to assess whether there has been a decline in the value of intangible assets and tangible fixed assets. Tangible fixed assets and intangible assets are written down to their recoverable amount when the recoverable amount is lower than the assets carrying value. The recoverable amount from assets or cash-generating units is determined by calculating the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Calculation of value in use requires use of estimates.

The group's cash-generating units are: Europe newsprint, Europe magazine paper (light weight coated (LWC)), Australasia newsprint, South America newsprint, Saugbrugs (super calendared (SC)), Follum magazine paper and Singburi newsprint. The capitalised value of intangible assets and tangible fixed assets within the cash-generating units is measured against the value in use of intangible assets and tangible fixed assets within these units. A possible future change in the composition of the group's cash-generating units could mean changes in the value in use within cash-generating units, which could in turn mean a future decline in the value of intangible assets and tangible fixed assets.

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

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

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

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

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

d) Residual value and dismantling provision
The residual value of the group's production equipment is valued as the anticipated realisable value on the balance sheet date, after deducting the estimated costs relating to asset dismantling, removal and restoration. If the estimated costs

exceed the estimated residual values, the net liability is added to the fixed asset cost in the balance sheet and a provision is recognised as a liability. The group performs a review of the residual value its production equipment at the end of each accounting year. Residual value is affected by short-term changes in the underlying assumptions, for example scrap metal prices. A change in the residual value could have an impact on future depreciation costs. The provision for dismantling costs is based on a number of assumptions made using management's best judgment.

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

f) Pensions
The present value of the pension obligation depends on several input factors that are determined by means of a number of actuarial assumptions. The assumptions used in calculating the net pension expense (income) includes the discount rate. Changes in these assumptions will affect the carrying value of the pension obligation.

New and amended standards adopted by the group
The group has adopted the following new and amended IFRSs in 2010:

IFRS 5 Non-current assets held for sale and discontinued operations (amendment)
The amendment clarifies the disclosure requirements in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. There is also a clarification that assets and liabilities in a subsidiary that is held for sale shall be classified as held for sale even if a non-controlling interest is retained. As the amendment only affects disclosures in the accounts, there is no impact on earnings per share.

IFRS 8 Operating segments (amendment)
It is no longer required to show the total assets for each operating segment, unless such information is reported to the chief operating decision makers. The change is reflected in Note 3 Operating Segments, and affects only the presentation and not earnings per share.

IAS 27 Consolidated and separate financial statements (revised)
The revised standard requires that the effects of all transactions with non-controlling interests are recorded in equity if there is no change in control, and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment has not had a significant impact on the accounts.

IAS 36 Impairment of assets (amendment)
The amendment clarifies that the main cash-generating unit (or group of units) that goodwill should be allocated to when testing for impairment is an operating segment as defined in IFRS 8 *Operating segments*. The change has not had a significant impact on the accounts.

IAS 39 Financial instruments – recognition and measurement (amendment)
There were some amendments to IAS 39, none of which have had a significant impact on the financial statements:
- An option to pay back loans early should not be separated out as an embedded derivative if the lender is compensated for lost interest
- A clarification that the effect of cash flow hedging shall be recognised over the hedging period
- A clarification of the treatment of hedging upon use of internal contracts

IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial Instruments: Recognition and measurement
The change requires that an assessment is made of whether an embedded derivative must be separated from a host contract, for all financial instruments reclassified out of the "fair value through profit or loss" category. This assessment must be made at the time of re-classification. The change has not had a significant impact on the accounts.

IFRIC 16 Hedges of a net investment in a foreign operation (amendment)
The amendment removes the restriction regarding which entity in a group can be the owner of a hedging instrument. The change has not had a significant impact on the accounts.

New interpretations and changes to existing standards
The following interpretations and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2011, but the group has not chosen to adopt early:

IAS 24 Related Party Disclosures (revised)
The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities; and clarifies and simplifies the definition of a related party. The amendment is effective for annual periods beginning 1 January 2011 or later and is not expected to have a material impact on the disclosures given in the group or company accounts.

IFRIC 14, IAS19 Prepayments of a minimum funding requirement (amendment)
The amendment means that prepayments of minimum funding contributions may be recognised as an asset, instead of an expense. The amendment is effective for annual periods beginning 1 January 2011 or later and is not expected to have a significant impact on the accounts.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies the accounting treatment when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor. IFRIC 19 requires a gain or loss to be recognised in the income statement when a liability is settled through the issuance of the entity's own equity instruments. The interpretation is effective for annual periods beginning on or after 1 July 2010, and is not expected to have a significant impact on the accounts.

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

IFRS 9 Financial Instruments
The new standard replaces the measurement rules relating to classification and measurement of financial assets and financial liabilities in the current IAS 39. The group and parent company are yet to assess the full impact of the adoption of IFRS 9. The standard is effective for annual periods beginning 1 January 2013 or later, but has not yet been approved by the EU.

Various changes arising from the annual improvement project 2010
The changes include a number of minor amendments to the following standards and interpretations that may be relevant for the group, but are not expected to have a significant impact on the financial statements: IFRS 7, IAS 1, IAS 27 and IAS 34. The amendment to IAS 27 applies to financial years starting 1 July 2010 or later while the other amendments apply to financial years starting 1 January 2011 or later. The amendments have not yet been approved by the EU.

3. OPERATING SEGMENTS

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

At the end of 2010, Norske Skog had 14 fully or partly owned paper mills on four continents. Two of the mills produce only magazine paper, two produce both magazine paper and newsprint and 10 produce newsprint only. Both the newsprint and the magazine paper segment represent an aggregation of the paper machines in the group producing the two paper qualities.

Newsprint
The newsprint segment encompasses production and sale of paper qualities which, measured in grams per square meter, will normally be in the range 40-57 g/m^2. These paper qualities are used in newspapers, inserts and advertising materials.

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

Energy
The energy segment includes purchase and sale of energy for the group's mills in Norway and Brazil, sale of excess energy in the spot market and the fair value of certain energy contracts and embedded derivatives in energy contracts.

The sale of energy to the mills and in the spot market is reported as Operating revenue in the energy segment, while changes in fair value of energy contracts and embedded derivatives are reported as Other gains and losses.

Other activities
Activities in the group that do not fall into any of the three operating segments are presented under other activities. This includes corporate functions, real estate activities, trading and sorting of recovered paper and purchase and resale of wood.

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

The group's investment in associated companies accounted for in accordance with the equity method is primarily related to its 33.7% share in Malaysian Newsprint Industries Sdn. Bhd., which is described in more detail in Note 21 Investment in associated companies.

Major customers
Norske Skog had a total sales volume of newsprint and magazine paper of 4 013 000 tonnes in 2010, of which sales to the group's largest customer constituted approximately 460 000 tonnes.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

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

2009	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**13 073**	**6 272**	**1 736**	**2 064**	**-2 783**	**20 362**
Distribution costs	-1 076	-579	0	-94	0	-1 749
Cost of materials	-7 136	-3 374	-1 752	-1 465	2 283	-11 445
Change in inventories	-118	-16	0	3	0	-132
Employee benefit expenses	-1 813	-995	0	-292	0	-3 100
Other operating expenses	-1 244	-618	-2	-386	500	-1 751
Gross operating earnings	**1 684**	**689**	**-18**	**-170**	**0**	**2 185**
Depreciation	-1 775	-645	0	-45	0	-2 465
Gross operating earnings after depreciation	**-91**	**44**	**-18**	**-215**	**0**	**-280**
Restructuring expenses	-360	-34	0	-2	0	-396
Other gains and losses	201	0	990	41	0	1 233
Impairments	-1 833	-49	0	0	0	-1 883
Operating earnings	**-2 083**	**-39**	**972**	**-175**	**0**	**-1 325**
Share of operating revenue from external parties (%)	99	98	38	34		100

2008	NEWSPRINT	MAGAZINE PAPER	ENERGY	OTHER ACTIVITIES	ELIMI-NATIONS	NORSKE SKOG GROUP
Operating revenue	**17 933**	**7 244**	**1 549**	**3 663**	**-3 920**	**26 468**
Distribution costs	-1 512	-710	0	-118	0	-2 340
Cost of materials	-10 657	-4 051	-1 512	-2 977	3 426	-15 771
Change in inventories	-140	-16	0	-19	0	-176
Employee benefit expenses	-1 996	-991	0	-393	0	-3 381
Other operating expenses	-1 525	-660	1	-386	494	-2 077
Gross operating earnings	**2 102**	**816**	**37**	**-231**	**0**	**2 723**
Depreciation	-2 116	-460	0	-48	0	-2 623
Gross operating earnings after depreciation	**-14**	**356**	**37**	**-279**	**0**	**100**
Restructuring expenses	-201	-3	0	-17	0	-221
Other gains and losses	-731	-2	-24	255	0	-502
Impairments	-1 791	1 000	0	7	0	-785
Operating earnings	**-2 737**	**1 352**	**12**	**-34**	**0**	**-1 407**
Share of operating revenue from external parties (%)	100	100	36	25		100

OPERATING REVENUE PER MARKET

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

	2010	2009	2008
Norway	1 693	1 447	1 186
Rest of Europe	10 276	10 439	12 977
North America	826	451	1 210
South America	1 311	1 416	1 976
Australasia	3 801	3 763	3 678
Asia	887	2 578	5 279
Africa	193	269	162
Total operating revenue	**18 986**	**20 362**	**26 468**

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

	2010	2009	2008
Newsprint	319	421	987
Magazine paper	52	93	218
Energy	0	0	0
Other activities	39	66	78
Total	**411**	**580**	**1 283**

INVENTORIES

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

	31.12.2010	31.12.2009	31.12.2008
Newsprint	1 230	1 169	1 722
Magazine paper	744	782	896
Energy	0	0	0
Other activities	40	53	85
Total	**2 013**	**2 003**	**2 703**

PROPERTY, PLANT AND EQUIPMENT PER GEOGRAPHICAL REGION

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

	31.12.2010	31.12.2009	31.12.2008
Norway	3 571	3 983	4 314
Rest of Europe	4 820	5 825	9 451
Asia	388	520	3 203
Australasia	5 396	5 326	5 496
South America	1 177	1 349	1 921
Activities not allocated to regions	556	558	754
Total	**15 909**	**17 561**	**25 139**

4. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

OTHER INTANGIBLE ASSETS	GOODWILL	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2008	5 682	118	240	6 040
Additions	0	0	182	182
Disposals	-171	-8	-108	-287
Reclassified from plant under construction	0	0	0	0
Currency translation differences	166	19	47	232
Acquisition cost 31 December 2008	**5 677**	**129**	**361**	**6 167**
Accumulated depreciation and impairments 1 January 2008	5 624	85	199	5 908
Depreciation	0	8	15	23
Impairments	0	0	8	8
Disposals	-171	-4	-73	-248
Currency translation differences	166	15	8	189
Accumulated depreciation and impairments 31 December 2008	**5 619**	**104**	**157**	**5 880**
Carrying value 31 December 2008	**58**	**25**	**204**	**287**
Acquisition cost 1 January 2009	5 677	129	361	6 167
Additions	0	0	72	72
Disposals	0	-8	-193	-201
Reclassified from plant under construction	0	2	50	52
Currency translation differences	7	-11	-39	-43
Acquisition cost 31 December 2009	**5 684**	**112**	**251**	**6 047**
Accumulated depreciation and impairments 1 January 2009	5 619	104	157	5 880
Depreciation	0	6	19	25
Impairments	0	0	0	0
Disposals	0	-8	-48	-56
Currency translation differences	7	-12	-5	-10
Accumulated depreciation and impairments 31 December 2009	**5 626**	**90**	**123**	**5 839**
Carrying value 31 December 2009	**58**	**22**	**128**	**208**
Acquisition cost 1 January 2010	5 684	112	251	6 047
Additions	0	0	62	62
Disposals	0	-3	-94	-97
Reclassified from plant under construction	0	2	0	2
Currency translation differences	0	0	6	6
Acquisition cost 31 December 2010	**5 684**	**111**	**225**	**6 020**
Accumulated depreciation and impairments 1 January 2010	5 626	90	123	5 839
Depreciation	0	5	20	25
Impairments	0	0	0	0
Disposals	0	-3	-8	-11
Currency translation differences	0	-2	9	7
Accumulated depreciation and impairments 31 December 2010	**5 626**	**90**	**144**	**5 860**
Carrying value 31 December 2010	**58**	**21**	**81**	**160**

Goodwill is not depreciated. Licenses, patents and other intangible assets are depreciated over a period from five to 20 years.

GOODWILL SPECIFIED PER ACQUISITION	ACQUISITION YEAR	31.12.2010	31.12.2009	31.12.2008
Norske Skog Golbey	1995	58	58	58

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2008	323	46 640	11 245	1 080	1 165	60 453
Additions	24	65	14	10	1 069	1 182
Disposals	0	-3 866	-1 627	-71	-527	-6 091
Dismantling provision	0	341	120	0	0	461
Reclassified from plant under construction	0	597	200	27	-824	0
Currency translation differences	32	5 343	1 306	163	160	7 004
Acquisition cost 31 December 2008	**379**	**49 120**	**11 258**	**1 209**	**1 043**	**63 009**
Accumulated depreciation and impairments 1 January 2008	67	26 622	4 551	812	0	32 052
Depreciation	3	1 890	621	86	0	2 600
Impairments	0	1 430	1	0	346	1 777
Reversal of impairments	0	-1 000	0	0	0	-1 000
Value changes	51	0	0	0	0	51
Disposals	0	-1 302	-385	-63	0	-1 750
Currency translation differences	-14	3 424	609	121	0	4 140
Accumulated depreciation and impairments 31 December 2008	**107**	**31 064**	**5 397**	**956**	**346**	**37 870**
Carrying value 31 December 2008	**272**	**18 056**	**5 861**	**253**	**697**	**25 139**
Acquisition cost 1 January 2009	379	49 120	11 258	1 209	1 043	63 009
Additions	23	204	35	3	418	683
Disposals	-5	-3 557	-576	-56	-42	-4 236
Dismantling provision	0	-1 141	-137	0	0	-1 278
Reclassified from plant under construction	0	591	83	10	-736	-52
Currency translation differences	-7	-3 821	-1 093	-127	-41	-5 089
Acquisition cost 31 December 2009	**390**	**41 396**	**9 570**	**1 039**	**642**	**53 037**
Accumulated depreciation and impairments 1 January 2009	107	31 064	5 397	956	346	37 870
Depreciation	1	1 916	460	63	0	2 440
Impairments	0	1 961	240	12	42	2 255
Reversal of impairments	0	-372	0	0	0	-372
Value changes	-54	0	0	0	0	-54
Disposals	0	-3 433	-110	-55	-42	-3 640
Currency translation differences	10	-2 425	-511	-97	0	-3 023
Accumulated depreciation and impairments 31 December 2009	**64**	**28 711**	**5 476**	**879**	**346**	**35 476**
Carrying value 31 December 2009	**326**	**12 685**	**4 094**	**160**	**296**	**17 561**
Acquisition cost 1 January 2010	390	41 396	9 570	1 039	642	53 037
Additions	8	192	50	5	223	478
Disposals	-13	-415	-173	-80	0	-681
Dismantling provision	0	-37	-140	0	0	-177
Transfer to assets held for sale	0	-7	-142	0	-2	-151
Reclassification	0	140	-140	0	0	0
Reclassified from plant under construction	12	509	174	5	-702	-2
Currency translation differences	41	652	-144	-26	15	538
Acquisition cost 31 December 2010	**438**	**42 430**	**9 055**	**943**	**176**	**53 042**
Accumulated depreciation and impairments 1 January 2010	64	28 711	5 476	879	346	35 476
Depreciation	1	1 686	242	37	0	1 966
Impairments	0	147	45	0	0	192
Reversal of impairments	0	319	0	0	-346	-27
Value changes	30	0	0	0	0	30
Transfer to assets held for sale	0	-3	-9	0	0	-12
Disposals	-11	-402	-121	-75	0	-609
Currency translation differences	21	201	-84	-21	0	117
Accumulated depreciation and impairments 31 December 2010	**105**	**30 659**	**5 549**	**820**	**0**	**37 133**
Carrying value 31 December 2010	**333**	**11 771**	**3 506**	**123**	**176**	**15 909**

Norske Skog owns forests in Australia and Brazil. These assets are valued at fair value less estimated point-of-sale costs. Changes in value are reported in the income statement line Other gains and losses. Machinery and equipment are depreciated over a period from three to 25 years. Buildings and other property are depreciated over a period from three to 33 years. Fixtures and fittings are depreciated over a period from three to five years. Land and plant under construction are not depreciated.

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

Non-current assets held for sale

In the second quarter of 2010, Norske Skog initiated a sales process for some of the group's non-production related properties in Norway. The assets had a carrying value of NOK 139 million at 31 December 2010 and were reclassified from Property, plant and equipment to Other current assets, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The assets were classified as part of Other activities in the segment reporting. The sale has been completed in 2011 and is commented on in Note 29.

Assumptions applied when estimating recoverable amount

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

The estimated nominal future cash flow is estimated in the currency in which it is expected to be generated. The net present value is calculated through discounting the expected cash flows using a weighted average cost of capital appropriate for that currency and the cash-generating unit, or individual asset. The cost of the equity part of the weighted average cost of capital is assessed on the interest rate of ten-year government bonds in the currency the cash flow is estimated. This is adjusted for a specific operational risk relevant to Norske Skog and, in certain instances, with a country-specific risk premium relevant to the cash-generating unit or the individual asset. The cost of the liability part of the weighted average cost of capital is based on average market interest rates on Norske Skog's debt liabilities. When calculating value in use at the end of 2010, the discount rate after tax was in the interval from 7.7% to 10.8% (8.5% to 11.7% in 2009). The calculations are based on cash flow and weighted average cost of capital after tax. The net present value of future cash flow after tax is adjusted for tax effects to arrive at the actual value in use to be used for impairment testing purposes.

When calculating the value in use, the group is divided into the following cash generating units: Europe newsprint, Europe magazine paper (light weight coated (LWC)), Australasia newsprint, South America newsprint, Saugbrugs (super calendared (SC)), Follum magazine paper and Singburi newsprint. Europe newsprint, Australasia, South America and Singburi are included in the operating segment newsprint, while Europe (LWC), Follum magazine paper and Saugbrugs are included in the operating segment magazine paper. There are cases where a cash generating unit consists of more than one mill. This reflects the allocation of production based on what is most profitable for the group in total.

Cash flow is calculated individually for up to ten years for each cash-generating unit based on estimated economic life. The paper industry is a capital intensive industry and investment decisions are made based upon projects with a long time horizon. The production machines have a long technical useful life. Expected remaining economic useful life of the different paper machines is the basis for estimation of the length of the cash flow period. Sales prices and prices for input factors are based on management-approved forecasts in the first two years and on long-term price prognoses thereafter. The management-approved forecast figures are based on budgets from the mills, updated with the latest estimates for sales prices and prices for input factors. The estimated value of operations beyond ten years is assessed as a terminal value based on the industry average for Enterprise Value/EBITDA, but adjusted for the assets' technical state and the cash flow horizon. The rate of growth in the terminal value is zero.

The term "forecasts for long-term prices" refers to the equilibrium price level which the least cost-efficient mills in the industry need in order to survive an economic cycle. Only the capacity needed to cover market demand is included in the analysis. As for most industrial products, real paper prices are declining by approximately 1-2% per year. This means that the cash flow decreases gradually in the years where long-term prices are used.

Sensitivities in the estimation of recoverable amount

The estimation of recoverable amount is based on assumptions regarding the future development of several factors. These include price development for finished goods, sales volumes, input prices (wood, recovered paper, energy, development in salaries etc.), capital expenditure on operational fixed assets, currency rates and interest rates. This means that there will be uncertainties when it comes to the outcome of the calculations. Norske Skog has performed sensitivity analyses using the variables mentioned above to predict how fluctuations will impact recoverable amount. In relation to the assumptions made in the calculation of the present value of future cash flows, recoverable amount is most sensitive to changes in prices of finished goods, sales volume and exchange rate movements. A reduction in sales price and sales volume in the cash flow period of 5% will cause a reduction in recoverable amount in the order of NOK 7 400 million and NOK 2 600 million respectively. Correspondingly, a weakening of USD of 5% will cause a NOK 900 million reduction in the recoverable amount. A price increase of 5% on the input prices for wood, recovered paper and energy will reduce recoverable amount by approximately NOK 900 million, NOK 800 million and NOK 1 700 million respectively.

Impairment charges in 2010

Norske Skog has estimated recoverable amount at each quarter-end during 2010. As a result of these tests, impairment losses of NOK 150 million were recognised on tangible fixed assets at Norske Skog Singburi in Thailand. The impairment losses are caused by lower expected future earnings (reduction in sales prices and higher prices on recovered paper). In addition, impairment losses of NOK 42 million related to Norske Skog Bio Bio in Chile have been recognised. The impairment at Norske Skog Bio Bio was made as a result of the earthquake that hit Chile in February 2010.

At the same time, a previously recognised impairment loss of NOK 27 million at Norske Skog Pisa in Brazil was reversed. This amount is related to completion of a building which was fully written-down in 2008 in connection with the decision to terminate the PM2 project. It was subsequently decided to complete the building, and it was taken into use during the fourth quarter of 2010.

Expected useful life

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

5. FINANCIAL ITEMS

FINANCIAL INCOME	2010	2009	2008
Dividends received	1	1	1
Interest income	75	91	135
Realised/unrealised gain on foreign currency	406	2 078	686
Other financial income	7	267	322
Total	**489**	**2 437**	**1 144**

FINANCIAL EXPENSES	2010	2009	2008
Interest cost	828	1 005	1 420
Realised/unrealised loss on foreign currency	543	980	944
Other financial expenses	43	171	182
Total	**1 414**	**2 157**	**2 546**
Net financial items	**-924**	**280**	**-1 402**

6. MORTGAGES

LOANS SECURED BY MORTGAGES ON REAL PROPERTY	31.12.2010	31.12.2009	31.12.2008
Other mortgage debt	126	143	936

CARRYING VALUE OF ASSETS SECURING THIS DEBT	31.12.2010	31.12.2009	31.12.2008
Property, plant and equipment	121	191	2 304

As a general principle, Norske Skogindustrier ASA and its subsidiaries do not pledge assets above a predefined threshold in their bank loan agreements. Mortgage loans per 31 December 2010 and 31 December 2009 related to land and forest areas at Norske Skog Boyer, Australia. Mortgage loans in 2008 consisted of loans related to Norske Skog's mills in China.

7. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

31 DECEMBER 2010	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Non-financial assets	Total
Other non-current assets	10	2 598	102	66	89	2 856
Receivables	10	0	2 312	0	85	2 397
Cash and cash equivalents		0	4 440	0	0	4 440
Other current assets	20	905	45	0	227	1 177
Total		**3 503**	**6 899**	**66**	**401**	

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing non-current liabilities	11	0	11 717	0	11 717
Interest-bearing current liabilities	12	0	1 954	0	1 954
Other non-current liabilities	20	190	0	487	676
Trade and other payables		174	2 900	0	3 074
Other current liabilities	20	31	0	149	180
Total		**395**	**16 571**	**636**	

31 DECEMBER 2009	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Non-financial assets	Total
Other non-current assets	10	5 207	96	0	117	5 420
Receivables	10	0	2 481	0	30	2 511
Cash and cash equivalents		0	4 241	0	0	4 241
Other current assets	20	711	0	0	142	853
Total		**5 918**	**6 818**	**0**	**289**	

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing non-current liabilities	11	0	13 892	0	13 892
Interest-bearing current liabilities	12	0	355	0	355
Other non-current liabilities	20	172	0	750	922
Trade and other payables		71	3 125	0	3 196
Other current liabilities	20	42	0	195	237
Total		**285**	**17 372**	**945**	

31 DECEMBER 2008	Note	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Non-financial assets	Total
Other non-current assets	10	930	25	0	231	1 186
Receivables	10	0	3 869	0	16	3 885
Cash and cash equivalents		0	6 036	0	0	6 036
Other current assets	20	5 421	0	0	166	5 587
Total		**6 351**	**9 930**	**0**	**413**	

	Note	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing non-current liabilities	11	0	18 820	0	18 820
Interest-bearing current liabilities	12	0	2 339	0	2 339
Trade and other payables		710	4 289	0	4 999
Other current liabilities	20	538	0	316	855
Total		**1 248**	**25 448**	**316**	

FINANCIAL ASSETS AND LIABILITIES

	31.12.2010		31.12.2009		31.12.2008	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Derivatives	5	5	205	205	916	916
Commodity contracts	2 590	2 590	4 992	4 992	0	0
Miscellaneous other non-current assets	260	260	223	223	270	270
Other non-current assets	**2 856**	**2 856**	**5 420**	**5 420**	**1 186**	**1 186**
Accounts receivable	2 130	2 127	2 208	2 206	3 521	3 519
Other receivables	182	182	273	273	348	348
Prepaid VAT	85	85	30	30	16	16
Receivables	**2 397**	**2 394**	**2 511**	**2 509**	**3 885**	**3 883**
Cash and cash equivalents	4 440	4 440	4 241	4 241	6 036	6 036
Derivatives	279	279	275	275	413	413
Commodity contracts	626	626	436	436	4 849	4 849
Current investments	45	45	0	0	159	159
Non-financial current assets	227	227	142	142	166	166
Other current assets	**1 177**	**1 177**	**853**	**853**	**5 587**	**5 587**
Interest-bearing non-current liabilities [1]	11 717	10 152	13 892	11 008	18 820	12 492
Interest-bearing current liabilities [2]	1 954	1 960	355	355	2 339	2 320
Total interest-bearing liabilities	**13 671**	**12 112**	**14 248**	**11 363**	**21 159**	**14 812**
Derivatives	35	35	75	75	0	0
Commodity contracts	155	155	97	97	0	0
Non-financial non-current liabilities	487	487	750	750	2 226	2 226
Other non-current liabilities	**676**	**676**	**922**	**922**	**2 226**	**2 226**
Derivatives	174	174	71	71	189	189
Accounts payable	1 271	1 271	1 137	1 137	2 085	2 085
Other accounts payable	1 629	1 629	1 988	1 988	2 725	2 725
Trade and other payables	**3 074**	**3 074**	**3 196**	**3 196**	**4 999**	**4 999**
Commodity contracts	31	31	42	42	538	538
Non-financial current liabilities	149	149	195	195	317	317
Other current liabilities	**180**	**180**	**237**	**237**	**855**	**855**

[1] The fair value of non-current bank loan debt is based on cash flows discounted using swap rate, plus the credit default swap (CDS). The fair value of foreign bonds is calculated using price indications from banks. The fair value of Norwegian bonds is based on published assessment values at 1 January 2011.
[2] The fair value of current borrowings equals their carrying amount, as the impact of discounting is not regarded to be significant.

There is uncertainty as to the calculated fair value of interest-bearing liabilities. The fair value calculation is based on acknowledged valuation principles according to IFRS, but is not necessarily an estimate of the amount the group would have to cover if it were to repay all its debt to all lenders.

Financial instruments (hereunder energy contracts and derivatives) were classified as current assets in 2008, both in the group accounts and the parent company accounts. This was based on the assessment that financial instruments were held for trading according to IAS *39 Financial Instruments – recognition and measurement* and should therefore be classified as current assets in the balance sheet. In 2009, the interpretation of IAS 39 was changed so that the general guidelines for classification according to IAS 1 *Presentation of Financial Statements* also apply for financial instruments. As a basis for assessing whether financial instruments are current or non-current assets, the reality of whether they are held for sale or not and whether they are current or not should prevail. Following this change, the main portion of the group's financial instruments (energy contracts and derivatives) was reclassified from current to non-current assets during 2009. For energy contracts, only the volume for the first year is classified as current assets.

8. FINANCIAL RISK AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

Norske Skog is exposed to various financial risk factors through its operating activities, including market risk (interest rate risk, currency risk and commodity price risk), liquidity risk and credit risk. Norske Skog seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog monitors and manages financial risk based on internal policies and standards set forth by corporate management and approved by the board of directors. These written policies provide principles for the overall risk management as well as standards for managing exchange rate risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored. There has been no breach of these policies during 2010, 2009 or 2008.

Market Risk

a) Interest rate risk

The goal of the interest rate risk management is to secure the lowest possible interest rate payments over time within acceptable risk limits. In the current challenging market situation in the publication paper market, Norske Skog has secured most of the interest rate payments by primarily paying fixed interest rates on its loan obligations.

INTEREST-BEARING ASSETS AND LIABILITIES WITH CORRESPONDING HEDGES

	31.12.2010			31.12.2009			31.12.2008		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	4 479	8 901	13 381	4 834	9 063	13 897	9 029	11 268	20 297
Interest-bearing assets	-4 440	0	-4 440	-4 241	0	-4 241	-6 195	0	-6 195
Net exposure before hedging	39	8 901	8 941	593	9 063	9 656	2 834	11 268	14 102
Fair value hedge	195	-195	0	195	-195	0	7 229	-7 229	0
Cash flow hedge	0	0	0	0	0	0	-3 009	3 009	0
Net exposure after hedging	234	8 706	8 941	788	8 868	9 656	7 054	7 048	14 102

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

Interest rate risk - fair value hedge

Changes in the fair value of derivatives which are designated and qualify as fair value hedges in accordance with IAS 39 *Financial Instruments – recognition and measurement* are recorded in the income statement together with any changes in the fair value of the hedged asset or liability which are attributable to the hedged risk. The market value of hedging instruments terminated before maturity will remain in interest-bearing debt as adjustments of amortised cost until the underlying hedged item is realised.

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

	2010	2009	2008
Changes in fair value of interest rate swaps	4	-2	768
Changes in fair value of underlying debt (hedged item)	-6	2	-759
Ineffectiveness recognised in the income statement [1]	1	0	-9

The majority of the hedging instruments were terminated in 2009.
[1] Ineffectiveness is presented as financial items in the income statement.

Interest rate sensitivity analysis

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

Floating rate debt is exposed to changes in market interest rates, i.e. the interest costs or interest income associated with such instruments will fluctuate based on changes in market rates. These changes are accounted for in the sensitivity analysis. The result is based on the assumption that all other factors are kept constant.

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

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

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

The interest rate sensitivity analysis is based on a parallel shift in the yield curve for each relevant currency to which Norske Skog is exposed. Following a 50 basis point downward/upward parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK 2 million lower/higher at 31 December 2010 (NOK 0.2 million higher/lower at 31 December 2009 and NOK 4 million higher/lower at 31 December 2008). Change in net interest payments accounts for NOK 1 million, and the total change in market values of derivatives carried at fair value through profit or loss accounts for NOK -3 million. The sensitivity on net earnings is lower as at 31 December 2010 compared to 31 December 2009 and 31 December 2008 because of reduced net interest-bearing debt at 31 December 2010 and a floating debt level which is more in line with interest-bearing assets.

Due to the termination of the interest rate cash flow hedge programme, there is no interest rate sensitivity on equity in 2010 or 2009. Equity would have been NOK 22 million lower/higher at 31 December 2008 following a 50 basis points downward/upward parallel shift as a result of change in market values of interest rate swaps designated as cash flow hedge of floating rate debt.

b) Exchange rate risk

Translation risk - net investment hedge

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

In addition to traditional debt instruments, all combined currency and interest rate swaps and forward exchange contracts are also used for hedging net investments in foreign subsidiaries.

Norske Skog's net investment hedging is carried out in accordance with IAS 39. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the income statement. The gain from net investment hedging in 2010 was NOK 281 million of which NOK 162 million was booked against equity (gain of NOK 2 776 million of which NOK 1 770 million was booked against equity in 2009 and loss of NOK -3 216 million of which -2 405 million NOK was booked against equity in 2008). The ineffectiveness was lower in 2010 than in 2009 because a smaller part of the liability portfolio did not qualify for hedge accounting. The foreign exchange gains and losses from such liabilities are recognised in the income statement under financial items. During 2008, cumulative currency translation differences of NOK 61 million were re-classified to the income statement as a result of the sale of mills in South Korea. In 2009, cumulative currency translation differences of NOK 20 million were re-classified to the income statement as a result of the sale of the group's two mills in China.

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

	2010	2009	2008
Changes in spot value of financial instruments [1)]	281	2 776	-3 216
The effective portion recognised in equity	162	1 770	-2 405
Ineffectiveness recognised in the income statement	119	1 006	-811

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

Transaction risk - cash flow hedge

The group has revenues and costs in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk is the difference in the future value of outgoing or incoming funds in the various currencies used by the group. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. Between 0% and 100% of the company's 12-month cash flow exposure is hedged at any time using forward contracts and currency options. The result of the hedging is included in financial items in the consolidated income statement. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a gain of NOK 58 million in 2010 (gain of NOK 490 million in 2009 and loss of NOK -316 million in 2008). Over time, currency loss or earnings are expected to offset increased or reduced future gross operating earnings.

Foreign exchange - sensitivity analysis on financial instruments

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

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

Currency derivatives and foreign currency debt that are designated as net investment hedges and qualify for hedge accounting according to IAS 39 will only affect equity. Other currency derivatives that are recognised at fair value through profit and loss will affect the income statement. These effects come mainly from currency derivatives designated as hedging of the group's 12-month rolling cash flow exposure, and financial liabilities managed as economic net investment hedges which do not qualify for hedge accounting according to IAS 39.

Other non-derivative financial instruments accounted for in the analysis comprise cash, accounts payable, accounts receivable and borrowings denominated in currencies different from the functional currency of the entity.

Correlation effects between currencies are not taken into account. Figures are presented net of tax.

At 31 December 2010, if the NOK had appreciated 10% against all currencies to which the group has significant exposure, net profit after tax from financial instruments would have been NOK 259 million higher (NOK 300 million higher at 31 December 2009 and NOK 190 million higher at 31 December 2008). If the NOK had depreciated by 10% at 31 December 2010 against all currencies to which the group has significant exposure, net profit after tax from financial instruments would have been NOK 361 million lower (NOK 324 million lower at 31 December 2009 and NOK 177 million lower at 31 December 2008). Net profit after tax is affected in a non-linear manner due to changes in fair value of options. The effect of the sensitivity analysis on the income statement is mainly caused by changes in fair value of derivatives designated as rolling cash flow hedge, and foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting. Due to a relatively larger share of debt for which there is no hedge accounting, the effect on the income statement is larger in 2010 compared to 2009 and 2008.

Given a 10% appreciation/depreciation of the NOK, equity would have been NOK 560 million higher/lower (NOK 606 million higher/lower at 31 December 2009 and NOK 1 048 million higher/lower at 31 December 2008) as a result of foreign exchange gains/losses on financial instruments designated as net investment hedges. The sensitivity on equity excludes the effects from the above-calculated sensitivity on the income statement.

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

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

Changes in fair value of commodity contracts reflect unrealised gains or losses and are calculated as the difference between market price and contract price discounted to present value. Some commodity contracts are bilateral contracts or embedded derivatives in bilateral contracts, for which there exist no active market. Hence, valuation techniques, with the use of available market information, are used as much as possible. Techniques that reflect how the market could be expected to price instruments are used in non-observable markets.

Norske Skog's portfolio of commodity contracts consists mostly of physical energy contracts. Fair value of commodity contracts is therefore especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts depends on currency and price index fluctuations.

In June 2010 Norske Skog sold excess electricity in Southern Norway from its long term Norwegian electricity contract for NOK 800 million.

Sensitivity analysis for commodity contracts
Trading and hedging mandates have been established for energy activity. Most financial trading and hedging activities are carried out at Nord Pool, while some financial hedging is carried out bilaterally with banks and trading companies. When calculating fair value of future and forward contracts, cash flows are by principle assumed to occur in the middle of the period. Currency effects arise when contract values nominated in foreign currencies are translated into the reporting currency.

COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39

		FAIR VALUE 31.12.2010	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price	change 25%	3 082	-2 501	2 497
Currency	change 10%	3 082	-518	518

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

EMBEDDED DERIVATIVES

		FAIR VALUE 31.12.2010	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10%	-53	-4	4
Price index	change 2.5%	-53	-10	-24

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

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long term cash flows. Cash flow forecasts include cash flows stemming from operations, investments, financing activities and financial instruments. The group had current investments, cash and cash equivalents of NOK 4 440 million at 31 December 2010 (NOK 4 241 million at 31 December 2009 and NOK 6 195 million at 31 December 2008) and fully drawn credit facilities of NOK 3 125 million at 31 December 2010 (fully drawn credit facilities of NOK 3 326 million at 31 December 2009 and unused credit facilities of NOK 3 946 million at 31 December 2008). See Note 11 Interest-bearing non-current liabilities for maturity of facilities.

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

In order to mitigate liquidity risk, Norske Skog may issue new shares, sell assets to reduce debt or refinance loans that are nearing maturity.

MATURITY OF FINANCIAL LIABILITIES AND FINANCIAL INSTRUMENTS

31 DECEMBER 2010	0 - 6 MONTHS	6 - 12 MONTHS	2012-2013	2014-2015	> 2015
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest-bearing debt	-122	-1 838	-3 873	-1 995	-5 318
Projected interest payment on interest-bearing debt	-578	-243	-1 117	-966	-2 062
Trade payables	-3 040	0	0	0	0
Total	**-3 740**	**-2 081**	**-4 991**	**-2 960**	**-7 380**
NET SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Interest rate swaps - net cash flows	17	22	-13	-3	1
Forward rate agreements	1	-4	0	0	0
Commodity contracts	-4	3	3	0	0
GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Foreign exchange contracts - outflows	-3 706	-1 422	-48	0	0
Foreign exchange contracts - inflows	3 776	1 465	45	0	0
Cross-currency swaps - outflows	-1 042	-25	-556	-258	0
Cross-currency swaps - inflows	984	14	463	209	0
Total	**26**	**53**	**-105**	**-52**	**1**
Total 2010	**-3 713**	**-2 028**	**-5 096**	**-3 012**	**-7 379**

31 DECEMBER 2009	0 - 6 MONTHS	6 - 12 MONTHS	2011-2012	2013-2014	> 2014
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Principal payment on interest-bearing debt	-88	-288	-5 947	-999	-6 575
Projected interest payment on interest-bearing debt	-597	-252	-1 516	-1 111	-2 510
Trade payables	-3 196	0	0	0	0
Total	**-3 881**	**-541**	**-7 463**	**-2 110**	**-9 085**
NET SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Interest rate swaps - net cash flows	-2	27	50	-4	-1
Forward rate agreements	0	1	1	0	0
Commodity contracts	6	-4	-3	0	0
GROSS SETTLED DERIVATIVE FINANCIAL INSTRUMENTS					
Foreign exchange contracts - outflows	-2 968	-1 088	-598	0	0
Foreign exchange contracts - inflows	3 136	1 132	650	0	0
Cross-currency swaps - outflows	-241	-248	-1 552	-242	0
Cross-currency swaps - inflows	257	261	1 551	222	0
Total	**188**	**81**	**99**	**-24**	**-1**
Total 2009	**-3 693**	**-459**	**-7 364**	**-2 134**	**-9 085**

CREDIT RISK

Norske Skog makes a credit evaluation of all financial trading counterparties. The counterparty must be at least an A- rated company. Based on the rating and other calculations, a limit on credit exposure is established for all counterparties. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. At 31 December 2010, all counterparties were rated single A- or above (unchanged from 2009 and 2008). The maximum credit risk arising from financial instruments is represented by the carrying amount of financial assets on the balance sheet. This includes derivatives with positive market value except embedded derivatives. Embedded derivatives are not subjected to credit risk as there are no future cash flows associated with such derivatives.

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

9. DERIVATIVES

Fair value of derivatives

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

31 DECEMBER 2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	5	178	0	183
Derivatives used for hedging	0	106	0	106
Commodity contracts	0	12	3 202	3 214
Total	**5**	**296**	**3 202**	**3 503**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	0	-59	0	-59
Derivatives used for hedging	0	-149	0	-149
Commodity contracts	0	-8	-179	-187
Total	**0**	**-216**	**-179**	**-395**

31 DECEMBER 2009	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	0	4	0	4
Derivatives used for hedging	0	429	0	429
Commodity contracts	0	150	5 278	5 428
Other financial assets	0	47	0	47
Total	**0**	**630**	**5 278**	**5 908**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Trading derivatives	-36	-8	0	-44
Derivatives used for hedging	0	-137	0	-137
Commodity contracts	0	-2	-102	-104
Total	**-36**	**-147**	**-102**	**-285**

The following table shows the changes in level 3 instruments at 31 December 2010.

	ASSETS	LIABILITIES
Opening balance	5 278	-102
Investments in the period	0	0
Compensation from sales in the period [1]	-800	0
Transfers into level 3	0	0
Transfers out of level 3	0	0
Gains and losses recognised in profit or loss	-1 276	-77
Closing balance	3 202	-179

[1] Sales in the period include compensation from the sale of parts of a long-term energy contract. Gains and losses related to the realised volume from contracts in level 3 are recognised in the income statement within Other gains and losses.

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

The fair value of commodity contracts recognised in the balance sheet is calculated by using quotes from actively traded markets when available. Otherwise, price forecasts from acknowledged external sources are used. Commodity contracts that fail to meet the own-use exemption criteria in IAS 39 *Financial Instruments – recognition and measurement* are recognised in the balance sheet and valued on the same principle as financial contracts. Some of these are long term energy contracts. In calculating the fair value of embedded derivatives, valuation techniques are used in the absence of observable market inputs. Embedded currency options are calculated using a Black 76 valuation model, where some input assumptions have been made in absence of an active long-term option market.

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

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

In accordance with IFRS 7.27 the following table is presented, showing the fair value of commodity contracts in level 3 given a change in assumptions to a reasonably possible alternative.

FAIR VALUE OF DERIVATIVES IN LEVEL 3 GIVEN A REASONABLY POSSIBLE ALTERNATIVE

	31.12.2010	31.12.2009
ASSETS		
Commodity contracts	3 218	4 941
LIABILITIES		
Commodity contracts	-174	-97

The electricity prices for long-term electricity contracts in Norway, Brazil and New Zealand are not directly observable in the market for the whole contract length. A change in the forecast to a reasonably possible alternative would change the fair value. For the energy contracts in Norway and in New Zealand a reasonably possible alternative at 31 December 2010 would be a parallel shift downwards of the long-end of the forward curve of 3%. In Brazil a reasonably possible alternative would be a parallel shift upwards of the long end of the forward curve of 5%.

DERIVATIVES	31.12.2010		31.12.2009		31.12.2008	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
NET INVESTMENT HEDGE						
Forward contracts	2	-27	91	-15	39	-2
Cross-currency contracts	0	-5	0	-6	139	-22
Total	**2**	**-32**	**91**	**-21**	**178**	**-24**
FAIR VALUE HEDGE [1]						
Interest-rate swaps	5	0	1	0	916	-33
Total	**5**	**0**	**1**	**0**	**916**	**-33**
CASH FLOW HEDGE [2]						
Interest-rate swaps	0	0	0	0	0	-44
Total	**0**	**0**	**0**	**0**	**0**	**-44**
OTHER DERIVATIVES [3]						
Interest-rate swaps	73	-64	154	-91	0	-76
Forward rate contracts	10	-13	1	-3	9	-15
Currency options	30	-54	12	-19	127	-230
Forward contracts	167	-43	175	-11	56	-288
Commodity contracts	3 202	-120	5 414	-103	4 844	-484
Embedded derivatives	14	-67	14	-35	5	-55
Total	**3 496**	**-361**	**5 770**	**-262**	**5 041**	**-1 148**
TOTAL VALUE						
Interest-rate swaps	78	-64	155	-91	916	-153
Forward rate contracts	10	-13	1	-3	9	-15
Currency options	30	-54	12	-19	127	-230
Forward contracts	169	-70	266	-26	95	-290
Cross-currency contracts	0	-5	0	-6	139	-22
Commodity contracts	3 202	-120	5 414	-103	4 844	-484
Embedded derivatives	14	-67	14	-35	5	-55
Total	**3 503**	**-395**	**5 861**	**-283**	**6 135**	**-1 249**

The above table includes only derivatives, and the total amount may differ compared to other tables showing financial assets and liabilities.

1) The notional principal amount of the underlying debt in the fair value hedge was NOK 200 million at 31 December 2010 (NOK 200 million at 31 December 2009 and NOK 7 549 million at 31 December 2008)

2) The cash flow hedge programme was terminated in March 2009 due to the repayment of a bank facility of EUR 500 million.

3) Includes: active management portfolio, embedded derivatives in physical contracts, commodity hedging contracts and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through the income statement

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	NOTE	31.12.2010	31.12.2009	31.12.2008
RECEIVABLES				
Accounts receivable		2 241	2 304	3 681
Provision for bad debt		-111	-96	-160
Other receivables		182	273	348
Prepaid VAT		85	30	16
Total		**2 397**	**2 511**	**3 885**
OTHER NON-CURRENT ASSETS				
Loans to employees		15	25	25
Long-term shareholdings	25	69	10	14
Miscellaneous non-current receivables		88	71	91
Derivatives	7	5	205	916
Commodity contracts	7	2 590	4 992	0
Pension plan assets	14	89	117	140
Total		**2 856**	**5 420**	**1 186**

The group's credit policy for sales is centralised. The credit risk on trade and other receivables is continuously monitored, independent of due date. The group's sales are mainly to large customers with a low degree of default. Collateral as security is not normally requested.

AGEING OF RECEIVABLES	31.12.2010	31.12.2009	31.12.2008
Not due	2 098	1 792	3 390
0 to 3 months	302	618	459
3 to 6 months	10	74	52
Over 6 months	98	123	144
Total [1]	**2 508**	**2 607**	**4 045**

[1] Does not include provision for bad debt.

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

11. INTEREST-BEARING NON-CURRENT LIABILITIES

	31.12.2010	31.12.2009	31.12.2008
Bonds	7 606	10 027	13 618
Debt to financial institutions	4 111	3 865	5 200
Total	**11 717**	**13 892**	**18 820**
Interest-bearing debt in NOK	2 062	1 823	1 050
Interest-bearing debt in foreign currencies	9 655	12 069	17 769
Total	**11 717**	**13 892**	**18 820**

INTEREST-BEARING NON-CURRENT DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2010	NOK 31.12.2010	NOK 31.12.2009	NOK 31.12.2008
USD	414	2 424	4 300	7 453
EUR	900	7 028	7 498	10 025
NZD	13	59	110	107
AUD	24	144	162	41
CNY	0	0	0	144
Total interest-bearing debt in foreign currencies		**9 655**	**12 069**	**17 770**
Interest-bearing debt in NOK		2 062	1 823	1 050
Total non-current interest-bearing debt		**11 717**	**13 892**	**18 820**

The average interest rate at 31 December 2010 was 5.9% (5.9% at 31 December 2009 and 7.6% at 31 December 2008).

DEBT REPAYMENT Maturity of the group's total debt at 31 December 2010	DEBT BANKS	BONDS	TOTAL
2011	281	1 673	1 954
2012	3 185	655	3 840
2013	34	0	34
2014	34	924	958
2015	34	1 003	1 037
2016	33	0	33
2017	33	3 853	3 886
2018	33	0	33
2019	94	0	94
2020-2033	101	1 171	1 272
Total	**3 862**	**9 279**	**13 141**

DEBT REPAYMENT Maturity of the group's total debt at 31 December 2009	DEBT BANKS	BONDS	TOTAL
2010	377	0	377
2011	57	1 853	1 910
2012	3 382	655	4 037
2013	38	0	38
2014	37	924	961
2015	34	990	1 024
2016	34	0	34
2017	35	4 101	4 135
2018	35	0	35
2019	146	0	146
2020	36	0	36
2021	9	0	9
2033	0	1 155	1 155
Total	**4 220**	**9 677**	**13 897**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, hedge reserves and fair value hedging. At 31 December 2010, the accounts included a discount of NOK 51 million (discount of 60 million at 31 December 2009 and premium of NOK 9 million at 31 December 2008). Premiums or discounts on issued bonds will be amortised in the income statement over the lifetime of the issued bonds. See Note 6 for loans secured by mortgage.

As a result of the termination of a large part of the fair value hedge portfolio in the beginning of 2009, an amount in the balance sheet was reclassified. A hedge reserve (deferred income) amounting to NOK 338 million is included in interest-bearing debt as at 31 December 2010 (NOK 411 million at 31 December 2009 and NOK 916 million at 31 December 2008). The hedge reserve does not constitute any payment obligation for the group, but will be amortised in the income statement over the term of the debt that has been hedged.

Total interest bearing debt is affected by unrealised currency effects on forward contracts and on cross-currency swap contracts. This will also differ from booked debt. At 31 December 2010, this effect increased debt by NOK 236 million (no effect at 31 December 2009 and a reduction of debt by NOK 63 million at 31 December 2008).

Norske Skog has a credit facility of EUR 400 million (equivalent to NOK 3 125 million) which matures in 2012. At 31 December 2010 this facility was fully drawn (fully drawn facility at 31 December 2009 of NOK 3 326 million and undrawn facility at 31 December 2008 of NOK 3 946 million).

At 31 December 2010, the group's holding of its own bonds amounted to NOK 334 million of Norwegian bonds (NOK 334 million at 31 December 2009 and NOK 531 million at 31 December 2008). The group's holding of own bonds in foreign currency amounted to USD 125 million and EUR 7 million, respectively (USD 308 million and EUR 7 million at 31 December 2009 and USD 151 million and EUR 0 million at 31 December 2008). This is deducted from interest-bearing debt in NOK.

Norske Skog has made declarations of negative pledge when raising long-term loans. The bank loans also contain requirements relating to financial key ratios. These are:
- net equity capital (equity capital minus intangible fixed assets) must be a minimum of NOK 9 000 million
- the ratio of net interest-bearing debt divided by equity must be a maximum of 1.4.

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

12. INTEREST-BEARING CURRENT LIABILITIES

	31.12.2010	31.12.2009	31.12.2008
Current bank debt	281	355	1 617
Other interest-bearing liabilities	1 673	0	722
Total	**1 954**	**355**	**2 339**

The group has unused bank overdrafts of NOK 150 million at 31 December 2010. No restrictions are placed on the use of the facility.

13. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2010	2009	2008
Salaries		2 187	2 331	2 628
Social security contributions		424	503	504
Pension costs	14	-17	148	118
Other employee benefit expenses		115	118	131
Total		**2 709**	**3 100**	**3 381**

NUMBER OF EMPLOYEES BY REGION	31.12.2010	31.12.2009	31.12.2008
Europe	3 407	3 725	3 837
South America	587	556	574
Australasia	892	997	1 051
Asia	244	247	788
Corporate functions (head office)	127	143	176
Total	**5 257**	**5 668**	**6 426**

The base salary for the CEO Sven Ombudstvedt at 31 December 2010 was NOK 4 000 000 and total salary and other benefits received by Sven Ombudstvedt in 2010 amounted to NOK 4 204 000.

The CEO's retirement age is 64. Early retirement benefits and salary over 12 G are covered by a supplementary agreement for corporate management. The CEO entered the company's new defined contribution pension plan from 1 January 2011.

The mutual period of notice for the CEO and other members of corporate management is six months. If circumstances arise in which the company or the person concerned, by mutual agreement, terminates the contract of employment in the best interests of the company, the company guarantees to pay the affected person's base salary for a period of 18 months from the end of the notice period.

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

Remuneration to members of the corporate assembly and the board amounted to NOK 707 300 and NOK 3 364 700 respectively in 2010.

Please see Note 9 in the parent company accounts for further information on remuneration to executive employees.

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

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

	BASE SALARY 31.12.2010	PAYMENTS IN KIND ETC FOR 2010 [1]	BONUS 2010 [2]
Sven Ombudstvedt	4 000	204	0
Gaute Hjelmbrekke Andreassen	2 300	153	0
Rune Gjessing	2 100	146	445
Jan-Hinrich Clasen	2 140	176	439
Audun Røneid	2 330	181	599
Terry Hamilton	2 130	181	519

[1] Includes special benefits, car allowance, newspapers, free telephone, etc.
[2] Based on results achieved in 2009, paid in 2010. Sven Ombudstvedt and Gaute Hjelmbrekke Andreassen were employed in 2010 and did not receive bonus payment 2010.

LONG-TERM OWNERSHIP PLAN

The board adopted new principles for the long-term incentive programme in 2007, whereby the criteria for awarding synthetic shares to the corporate management team are related to Total Shareholder Return (TSR – development of the share price including dividend payments), such that this must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 30% payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the CEO and 17 500 for other members of corporate management, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50% of the allocation from this programme must be applied to purchasing shares, which must be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. This scheme involves no dilution effect.

The programme was continued for 2008 and 2009 and was also continued for 2010 with some changes. The maximum annual bonus from the programme is set to NOK 4 mill for the CEO and NOK 2 mill for other members of corporate management (instead of a fixed number of shares), the bonus after tax must be used to purchase shares until the total shareholding in the company corresponds a certain number of shares (200 000 for the CEO and 100 000 for other members of corporate management) and the number of companies in the defined reference group is reduced to 12, including Norske Skog. It is proposed to continue with the programme for 2011.

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

	SALARY	DIRECTORS FEE	REMUNERATION FOR COMMITTEE WORK
Eivind Reiten	0	520	6
Gisèle Marchand	0	323	78
Halvor Bjørken	0	285	40
Helge Evju	0	145	18
Aleksandra Bech Gjørv	0	145	27
Einar Jørgen Greve	0	145	0
Paul Kristiansen	494	285	91
Inge Myrlund	668	285	0
Svein Erik Veie	454	145	0
Ingrid Wiik	0	285	40
Stein-Roar Eriksen [1)]	419	140	0
Wenche Holen [1)]	0	140	25
Svein Rennemo [1)]	0	183	0

[1)] Previous members who left the board during 2010.

AUDITORS FEES
(in NOK 1 000)

	PARENT COMPANY	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	2 600	5 839	376	8 815
Audit-related assistance [1)]	14	280	0	294
Tax assistance	37	135	0	172
Other fees	0	7 172	0	7 172
Total	**2 651**	**13 426**	**376**	**16 453**

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

14. PENSION COSTS AND PENSION OBLIGATIONS

Norske Skog has various pension schemes in accordance with local conditions and practices in the countries in which the group operates. A total of 6 693 current and former employees are covered by such schemes. Of these, 4 078 people are covered by defined benefit plans and 2 615 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

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

	BENEFIT IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65	30	67	62	3 160
Norske Skog Parenco B.V.	70	40/37	65/62	60	258
Norske Skog Walsum GmbH	50-70	40	65-67	63	593

Plan assets of the pension scheme in Norske Skogindustrier ASA are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. With effect from the beginning of 2011, a new defined contribution scheme has been introduced in Norway, with a contribution of 4% for earnings between 1 and 6 G (base amount in the national insurance scheme) and 8% between 6 and 12 G. The previous defined benefit plan has been closed and covers employees born before 1 January 1959 who were employed before the closure.

The transition from a defined benefit to a defined contribution pension plan in Norway took place with effect from 31 December 2010 and was thus recognised in the accounts for 2010. The curtailment and settlement of the defined benefit plan were accounted for in accordance with the rules regarding curtailment and settlement in IAS 19 *Employee benefits*. All employees born after 1 January 1959 were transferred to the new defined contribution scheme. A final settlement was calculated for these employees, and all assets and obligations in the defined benefit plan were therefore considered to be settled.

A new early retirement plan for employees in Norway was implemented from 1 January 2011. The previous early retirement scheme still applied in 2010. The change in the early retirement scheme is considered to be so extensive that it was classified as a settlement of the old scheme and establishment of a new one. The settlement of the old scheme was recognised in the income statement in the 2010 accounts. The obligation recognised in the balance sheet at 31 December 2010 only related to those who had gone into early retirement under the old scheme as at 31 December 2010. This obligation consists of both Norske Skog's 25% share of its own early retirement pensioners' pensions, as well as an estimate of the premium for the years 2011-2015. This premium will cover the financing of the old pension scheme. The premium must be paid per employee, regardless of the actual early retirement withdrawal in Norske Skog. Norske Skog has estimated the future obligations for the old early retirement plan to be NOK 15 million per 31 December 2010.

Plan assets in Norske Skog Parenco B.V. are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands.

In evaluating plan assets, their estimated value at 31 December is used. This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the insurance company.

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

In measuring incurred obligations, the projected obligation at 31 December is used. This projected obligation is corrected every year in accordance with the figures on incurred pension obligations provided by the actuary.

In addition to the benefit obligation funded through insurance plans, the group has unfunded benefit obligations, of which Norske Skog Walsum GmbH is the largest. The unfunded obligations include estimated future obligations relating to the Norwegian early retirement scheme, obligations to former owners of subsidiaries as well as pensions for senior management and directors. Obligations relating to senior management pensions are partly funded through a supplementary retirement plan with a life insurance company. With effect from 31 December 2010, a curtailment and settlement of the defined benefit scheme at Norske Skog Walsum GmbH was carried out. The curtailment entails that salary increases from 31 December 2010 until retirement are not a part of the future base amount for future pension contributions. In addition, the scheme was closed for new members. The employees affected by the curtailment and settlement have the opportunity to participate in a newly established defined contribution scheme. The financing of the new scheme is undertaken jointly by the company and the employees who choose to join the scheme.

The impact of the transition from a defined benefit to a defined contribution pension scheme for employees in Norway, settlement of the old early retirement plan in Norway and curtailment/settlement of the defined benefit scheme in Norske Skog Walsum GmbH are included in the net periodic pension cost for the group for 2010 (recognised curtailment/settlement).

ASSUMPTIONS MADE WHEN CALCULATING FUTURE BENEFIT OBLIGATIONS

	2010	2009	2008
Discount rate	3.7%	4.5%	3.8%
Expected return on plan assets	5.1%	5.7%	5.8%
Salary adjustment	3.5%	4.3%	3.8%
Social security increase/inflation	3.8%	4.3%	3.8%
Pension increase	1.0%	3.0%	3.0%

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

NET PERIODIC PENSION COST IN THE GROUP ACCOUNTS

	2010	2009	2008
Current service cost	105	108	102
Interest cost	88	109	142
Pension cost contribution schemes	8	10	9
Expected return on plan assets	-75	-101	-138
Periodic national insurance contributions	14	9	11
Expensed portion of early retirement plan	8	5	-8
Recognised curtailment and settlement	-176	0	0
Actuarial gains and losses	11	7	0
Net periodic pension cost	**-17**	**148**	**118**

Estimated payments to the group pension schemes in 2011 amount to NOK 80 million.

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

PARTLY OR FULLY FUNDED PENSION PLANS

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Projected benefit obligations	-1 543	-1 921	-2 319	-2 186	-2 006
Plan assets at fair value	1 475	1 692	2 122	2 347	2 080
Plan assets in excess of/less than obligations (-)	**-68**	**-229**	**-197**	**161**	**74**
Unamortised changes in early retirement plans	0	0	0	0	0
Differences in estimates not taken to income statement	90	370	250	-159	-20
Net plan assets/pension obligations (-)	**22**	**141**	**53**	**2**	**54**
Accrual national insurance contributions	-17	-54	-24	-36	-32
Net plan assets/pension obligations in the balance sheet	**5**	**87**	**29**	**-34**	**22**

UNFUNDED PENSION PLANS

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Projected benefit obligations	-504	-635	-452	-370	-455
Plan assets at fair value	0	0	0	0	0
Plan assets in excess of/less than obligations (-)	**-504**	**-635**	**-452**	**-370**	**-455**
Unamortised changes in early retirement plans	0	0	0	0	0
Differences in estimates not taken to income statement	35	0	-58	-25	0
Net plan assets/pension obligations (-)	**-469**	**-635**	**-510**	**-395**	**-455**
Accrual national insurance contributions	-6	0	-22	0	0
Net plan assets/pension obligations in the balance sheet	**-475**	**-635**	**-532**	**-395**	**-455**

RECONCILIATION OF THE PENSION PLANS WITH THE GROUP BALANCE SHEET

	NOTE	31.12.2010	31.12.2009	31.12.2008
Pension assets in the balance sheet	10	89	117	140
Pension liabilities in the balance sheet		-559	-665	-644
Net pension obligations		**-470**	**-548**	**-504**
Net unfunded pension plans		-475	-635	-532
Net partly or fully funded pension plans		5	87	29

CHANGES IN PENSION LIABILITIES FOR PARTLY OR FULLY FUNDED PENSION PLANS

	2010	2009	2008
Balance 1 January	1 921	2 319	2 186
Changes owing to entities acquired or sold	0	-271	-149
Current year's service cost	66	109	102
Current year's interest cost	66	109	142
Pension paid	-66	-53	-53
Actuarial gains and losses	-32	-181	1
Curtailments/settlements	-284	0	0
Other changes	-96	39	12
Currency translation effects	-32	-150	78
Balance 31 December	**1 543**	**1 921**	**2 319**

A return on plan assets of NOK 75 million is estimated for 2010. The actual return on the plan assets in 2009 was NOK 60 million, compared with an estimated return of NOK 101 million. The difference between the actual return and the estimated return is treated as an estimate difference.

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS

	2010	2009	2008
Balance 1 January	1 692	2 122	2 347
Changes owing to entities acquired or sold	0	-207	-106
Return on plan assets	75	101	138
Actuarial gains and losses	-107	-210	-339
Contribution to the plan assets	28	15	16
Curtailments/settlements	-202	0	0
Other changes	0	-13	-44
Currency translation effects	-11	-116	110
Balance 31 December	**1 475**	**1 692**	**2 122**

Actuarial gains and losses are adjusted in previous years.

CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS

	2010	2009	2008
Balance 1 January	-635	-452	-270
Changes owing to entities acquired or sold	0	0	0
Current year's service cost	-39	0	0
Current year's interest cost	-22	0	0
Actuarial gains and losses	125	-305	-2
Contributions to the plan assets	16	62	37
Curtailments/settlements	103	0	0
Other changes	-46	-20	48
Currency translation effects	23	80	-69
Balance 31 December	**-475**	**-635**	**-452**

INVESTMENT PROFILE FOR PENSION FUNDS

	2010		2009		2008	
	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	280	19%	299	18%	318	15%
Bonds	283	19%	421	25%	580	27%
Bonds held to maturity	258	18%	326	19%	177	8%
Properties and real estate	371	25%	408	24%	646	31%
Money market	119	8%	134	8%	187	9%
Other	164	11%	104	6%	214	10%
Balance 31 December	**1 475**		**1 692**		**2 122**	

15. OTHER OPERATING EXPENSES

	2010	2009	2008
Maintenance materials, servicing and spare parts	-751	-838	-1 018
Marketing expenses	-24	-27	-36
Administration, insurance, travel expenses etc.	-395	-456	-577
Losses on accounts receivable	-24	-29	-12
Operating leases	-102	-104	-107
Research and development	-10	-17	-17
Changes in environmental provisions	107	13	-5
Miscellaneous expenses	-239	-292	-306
Total	**-1 438**	**-1 751**	**-2 077**
Specification of losses on accounts receivable			
Receivables written off during the period	-17	-9	-9
Payments received on items previously written off	0	0	2
Change in provision for bad debt	-7	-21	-5
Total	**-24**	**-29**	**-12**

16. LEASES

OPERATING LEASES

The group expensed NOK 102 million related to operating leases in 2010. The corresponding figures for 2009 and 2008 were NOK 104 million and NOK 107 million respectively.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2010	31.12.2009	31.12.2008
Not later than one year	45	44	31
Later than one year and not later than five years	97	90	57
Later than five years	4	5	6
Total	**146**	**139**	**94**

FINANCE LEASES

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

MINIMUM LEASE PAYMENTS RELATING TO FINANCE LEASES	31.12.2010	31.12.2009	31.12.2008
Not later than one year	24	18	5
Later than one year and not later than five years	81	73	13
Later than five years	154	70	0
Total	**259**	**161**	**18**
Future finance charges on finance leases	-124	-38	0
Present value of minimum lease payments	**135**	**123**	**18**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2010	31.12.2009	31.12.2008
Not later than one year	10	12	5
Later than one year and not later than five years	30	51	13
Later than five years	95	60	0
Total	**135**	**123**	**18**
Capitalised value of the operating non-current assets 31 December (machinery and equipment)	**126**	**118**	**17**

17. RESTRUCTURING EXPENSES

	2010	2009	2008
Redundancy payment and termination fees	57	186	30
Capacity curtailments and closures	0	210	191
Total	**57**	**396**	**221**

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

Norske Skog decided in 2009 to indefinitely idle one paper machine at Norske Skog Parenco. Expenses related to the idling, including severance payments, amounted to NOK 210 million. The redundancy payment in 2009 of NOK 186 million were mainly related to Norske Skog Follum and the group's activities in Australasia, where the number of employees was reduced by 49 and 55 respectively during the year.

The redundancy payment of NOK 30 million in 2008 was mainly related to the reductions in the workforce at the group's head office. The capacity curtailments and closure expenses of NOK 191 million were related to closures and capacity reductions at the group's mills in the Czech Republic, Norway and South Korea in addition to the termination of the PM 2 project in Brazil.

18. OTHER GAINS AND LOSSES

	2010	2009	2008
Gains and losses from divestment of business activities, property, plant and equipment	147	17	-433
Changes in value – commodity contracts [1)]	-1 171	926	-589
Changes in value – embedded derivatives	-28	37	525
Changes in value – biological assets	-40	54	-51
Other realised gains and losses	-486	199	46
Total	**-1 578**	**1 233**	**-502**

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

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

The gain of NOK 17 million in 2009 was partly related to the sales of the group's two mills in China. In addition, the sales agreement related to Norske Skog Steti, which was signed in July 2008, was finalised in January 2009. The proceeds from these sales were all paid in cash.

The group's main divestments in 2008 were the sale of its two mills in South Korea, the sale of its head office in Norway and divestment of various non-production related properties. Net profit from the sale of the head office was NOK 218 million, while the divestment of the two mills in South Korea generated a loss of NOK 606 million, out of which accumulated currency translation differences constituted a loss of NOK 783 million.

Other realised gains and losses
Other realised gains and losses of minus NOK 486 million in 2010 were primarily related to sale of 1.5 TWh of excess energy in Southern Norway. The sale generated a loss before tax of NOK 382 million.

19. INCOME TAXES

TAX EXPENSE	2010	2009	2008
Current tax expense	-123	-108	-363
Change in deferred tax	974	-272	376
Total	**851**	**-380**	**13**

INCOME TAX RECONCILIATION	2010	2009	2008
Profit/loss before income taxes	-3 320	-1 019	-2 779
Computed tax at nominal tax rate of 28%	930	285	778
Differences due to different tax rates	90	-110	23
Result from affiliated companies	-2	6	9
Exempted income/non-deductible expenses	-3	-3	-123
Change in tax legislation	-5	0	0
Divestment of operations [1]	0	-329	-400
Adjustment previous years	7	61	9
Tax losses not recognised	-118	-326	-357
Other items	-47	36	75
Total tax expense	**851**	**-380**	**13**

[1] The amount in 2009 related to the divestments of Norske Skog Steti, SNP Shanghai and Norske Skog Hebei. No deferred tax asset was recognised on the accounting tap resulting from these sales. In 2008, the amount of NOK 400 million related to divestment of two mills in South Korea, of which NOK 216 million was related to withholding taxes paid in South Korea and NOK 184 million related to tax assets not recognised on the accounting loss on the divestment.

CURRENT TAX LIABILITY	31.12.2010	31.12.2009	31.12.2008
Norway	0	0	23
Rest of Europe	15	19	5
Outside Europe	17	16	61
Total	**32**	**35**	**89**

DEFERRED TAX	2010	2009	2008
Net deferred tax liability 1 January	1 708	1 515	2 022
Deferred tax charged in the income statement	-974	272	-376
Sale of subsidiaries	0	-80	-103
Tax expense on other comprehensive income	57	135	-121
Reclassification of group tax allocations	0	0	9
Currency translation differences	-5	-134	85
Net deferred tax liability 31 December	**786**	**1 708**	**1 515**

DEFERRED TAX - DETAILS	31.12.2010	31.12.2009	31.12.2008
Fixed assets, excess values and depreciation	1 161	1 261	2 184
Pensions	-50	-73	-55
Provisions and other liabilities	179	123	-82
Currency translation differences and financial instruments	1 062	1 585	1 552
Deferred tax current items	-15	-83	-96
Tax losses and tax credit to carry forward	-1 550	-1 104	-1 988
Net deferred tax liability	**786**	**1 708**	**1 515**

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

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2009	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2010	0	0	0	0
2011	0	230	0	230
2012	0	248	0	248
2013	0	111	0	111
2014	0	96	0	96
2015 and later	0	562	0	562
Indefinite expiry	2 384	1 756	1 028	5 168
Tax losses to carry forward	**2 384**	**3 004**	**1 028**	**6 416**
Tax losses not recognised	-23	-2 730	-158	-2 911
Total tax losses to carry forward – recognised	**2 361**	**274**	**870**	**3 505**
Deferred tax asset	**661**	**138**	**248**	**1 047**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2008	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2009	0	0	0	0
2010	0	0	0	0
2011	0	323	0	323
2012	0	294	610	904
2013	0	131	0	131
2014 and later	0	242	0	242
Indefinite expiry	3 860	2 535	1 223	7 618
Tax losses to carry forward	**3 860**	**3 525**	**1 833**	**9 218**
Tax losses not recognised	-5	-1 516	-1 036	-2 557
Total tax losses to carry forward – recognised	**3 856**	**2 008**	**797**	**6 661**
Deferred tax asset	**1 080**	**613**	**239**	**1 932**

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

Deferred tax is not recognised on unrealised gains and losses on debt in foreign currency which is included in the group net investment. Total unrealised tax liability is NOK 72 million at the end of 2010. The corresponding amount at the end of 2009 was an unrealised tax liability of NOK 203 million and at the end of 2008 an unrealised tax asset of NOK 396 million.

20. SPECIFICATION OF BALANCE SHEET ITEMS

	NOTE	31.12.2010	31.12.2009	31.12.2008
INVENTORIES				
Raw materials and other production input		1 038	1 018	1 415
Semi-manufactured materials		20	11	19
Finished goods		955	974	1 269
Total	3	**2 013**	**2 003**	**2 703**
OTHER CURRENT ASSETS				
Prepaid expenses		88	142	167
Assets held for sale	4	139	0	0
Derivatives	7	279	275	413
Commodity contracts	7	626	436	4 849
Current investments	7	45	0	159
Total		**1 177**	**853**	**5 587**
OTHER CURRENT LIABILITIES				
Commodity contracts	7	31	42	538
Accruals emission rights		46	35	83
Other non interest-bearing debt		103	160	233
Total		**180**	**237**	**855**
OTHER NON-CURRENT LIABILITIES				
Dismantling provision	22	92	250	1 651
Environmental provision	22	254	286	317
Deferred recognition of government grants		96	119	168
Other non interest-bearing debt		234	267	90
Total		**676**	**922**	**2 226**

21. INVESTMENT IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2010	CARRYING VALUE 31.12.2010	SHARE OF PROFIT/LOSS 2010	CURRENCY TRANSLATION DIFFERENCES AND DIVESTED ENTITIES	CARRYING VALUE 31.12.2009	CARRYING VALUE 31.12.2008
Malaysian Newsprint Industries Sdn. Bhd.	33.7%	178	-20	8	190	260
Other associated companies		31	3	-10	38	35
Total		**209**	**-17**	**-2**	**228**	**295**

Shares in associated companies are consolidated in the group accounts in accordance with the equity method. Share of profit presented in the table above is the group's percentage share of profit after tax adjusted for amortisation of surplus values at group level allocated to the investment at the time of the acquisition.

Malaysian Newsprint Industries Sdn. Bhd.
Malaysian Newsprint Industries Sdn. Bhd. is incorporated in Kuala Lumpur, Malaysia and is a producer of newsprint. Based on the entity's company accounts, operating revenue in 2010 amounted to MYR 504 million (MYR 496 million in 2009 and MYR 614 million in 2008) and profit after tax was minus MYR 7 million (MYR 17 million in 2009 and MYR 35 million in 2008). Total assets at the end of 2010 were MYR 1 264 million (MYR 1 313 million per 31 December 2009 and MYR 1 411 per 31 December 2008) and total debt was MYR 653 million (MYR 731 million per 31 December 2009 and MYR 845 million per 31 December 2008).

22. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2009	148	1 651	341
Changes and new provisions	396	-1 278	-17
Utilised during the year	-185	0	-31
Periodic unwinding of discount	0	69	16
Divestment of subsidiaries	0	-89	0
Currency translation differences	-20	-103	-23
Balance 31 December 2009	**339**	**250**	**286**
Changes and new provisions	57	-177	-70
Utilised during the year	-338	0	-11
Periodic unwinding of discount	0	13	17
Divestment of subsidiaries	0	0	0
Currency translation differences	32	7	32
Balance 31 December 2010	**90**	**92**	**254**

Restructuring provision
The restructuring provisions at 31 December 2010 are expected to be paid during 2011 and are classified in the balance sheet as Other current liabilities. For further information see Note 17.

Clean-up and dismantling provision
In 2009, Norske Skog implemented a net presentation model for residual values and liabilities associated with the dismantling of property, plant and equipment. After the implementation, the residual value of an item of property, plant and equipment is defined as the realisable value after deduction of the estimated cost of dismantling and removal of the asset. If the estimated cost exceeds the estimated value, the net liability is added to the cost of the related asset, and a provision is recognised in the balance sheet. The change resulted in a reduction of the carrying value of property, plant and equipment and liabilities in 2009. In previous years, residual values and the related liabilities were treated as separate items in the balance sheet.

Provisions related to future clean-up costs arising from a future closing down of production facilities amounted to NOK 92 million at 31 December 2010 compared to NOK 250 million at 31 December 2009. The total amount is classified as non-current and will only be realised at the time of a future closing down of any of the Norske Skog production units. The provision is the net present value of the future estimated costs, calculated using a long-term risk-free interest rate. The periodic unwinding of the discount is recognised in the income statement as a financial item. The opposite entry for dismantling provision and change in provision estimates is property, plant and equipment.

Discount rates and assumptions included as part of the best estimate will impact the future carrying value of the dismantling provision. To illustrate the sensitivity, a reduction in the future discount rate of one percent point would increase the provision by approximately NOK 7 million with a corresponding increase in future depreciation on property, plant and equipment.

Environmental provision
The group's provision for environmental obligations is presented in the balance sheet as Other non-current liabilities. The provision is related to estimated future costs for cleaning up any environmental pollution caused by Norske Skog production units. The provision will mainly be realised in a future period upon a potential shut down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local governments may also lead to realisation of this provision at an earlier point in time.

The carrying value of the provision is the best estimate made by measuring the expected value on the specific obligations, discounted to present value by using a long-term risk-free interest rate when the time value of money is material. Changes in factors included in the expected value will impact the carrying value of the obligation. To illustrate the sensitivity, a reduction in the future discount rate by one percentage point would increase the provision by approximately NOK 20 million. Changes in accounting estimates not related to assets are classified as operating items in the income statement, and the periodic unwinding of the discount is recognised as a financial item.

Provisions for future environmental obligations amounted to NOK 254 million as at 31 December 2010 compared to NOK 286 million at the previous year-end. The change during 2010 was primarily related to Norske Skog Boyer, where the provision was reduced by NOK 108 million.

23. MINORITY INTERESTS

	2010	2009	2008
Minority interests at 1 January	28	269	365
Net profit/(loss) for the year attributable to minority interests	-6	-194	-50
Changes in minority interests	-2	0	-105
Dividend paid to minority interests	0	0	-2
Currency translation differences	2	-46	61
Minority interests at 31 December	**22**	**28**	**269**

24. EARNINGS AND DIVIDEND PER SHARE

	2010	2009	2008
Majority share of net profit/(loss) for the year in NOK million	-2 462	-1 205	-2 715
Weighted average number of shares in 1 000	189 830	189 663	189 501
Basic and diluted earnings/(loss) per share in NOK [1)]	-12.97	-6.36	-14.33

[1)] There were no dilution effects in 2010, 2009 and 2008.

No dividends were paid for 2009 or 2008. The board of directors recommends that no dividend should be disbursed for the accounting year 2010. The dividend decision will be made by the annual general meeting on 14 April 2011.

25. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
SHARES OWNED BY THE PARENT COMPANY				
Miscellaneous shares, each with book value below NOK 1 million	NOK			2 363
SHARES OWNED BY OTHER GROUP COMPANIES				
Exeltium SAS, Paris, France	EUR	174 504	4.78	65 166
Other shares, each with book value below NOK 1 million	NOK			1 895
Total				**67 061**
Total shares included as financial assets				**69 424**

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
SHARES IN NORWEGIAN SUBSIDIARIES OWNED BY THE PARENT COMPANY				
Follum Industripark AS, Hønefoss	NOK	110	100	14 020
Lysaker Invest AS, Lysaker	NOK	1 054 371	100	2 004 371
Nornews AS, Lysaker	NOK	100	100	100
Norsk Industrikraft AS, Lysaker	NOK	100	100	0
Norske Skog Eiendom AS, Lysaker	NOK	1 500	100	190 681
Norske Skog Holding AS, Lysaker	NOK	5 000	100	8 554
Norske Skog Kraft AS, Lysaker	NOK	100	100	0
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100	12 364 196
nsiFocus AS, Lysaker	NOK	100	100	100
Reparco Global Holding AS, Lysaker	NOK	100	100	120
Wood and Logistics AS, Lysaker	NOK	3 000	100	3 093
Xynergo AS, Hønefoss	NOK	1 800	100	18
Total				**14 585 253**
SHARES IN FOREIGN SUBSIDIARIES OWNED BY THE PARENT COMPANY				
Norske Skog Golbey SA, Golbey, France	EUR	137 388	100	1 153 153
Norske Skog France sarl., Paris, France	EUR	235	100	7 939
Norske Skog Belgium N.V., Antwerp, Belgium	EUR	480	100	3 235
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	99.9	493
Norske Skog Logistics N.V., Antwerp, Belgium	EUR	62	100	540
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	99.9	165 918
Norske Skog Österreich GmbH, Graz, Austria	EUR	35	100	360
Norske Skog Deutschland GmbH, Augsburg, Germany	EUR	520	100	10 063
Norske Skog Walsum GmbH, Duisberg, Germany	EUR	150 025	100	1 441 997
Norske Skog Holdings B.V., Amsterdam, The Netherlands	EUR	170 100	100	323
Markproject Ltd., London, United Kingdom	GBP	300	100	3 105
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100	2
Norske Skog (Ireland) Ltd., Clonmel, Ireland	EUR	3	100	22
Norske Skog Jämtland AB, Trångsviken, Sweden	SEK	200	100	780
Norske Skog Denmark ApS, Værløse, Denmark	DKK	200	100	25
NSI Insurance A/S, Hvidovre, Denmark	DKK	54 000	100	58 531
Norske Skog Italia SrL, Milan, Italy	EUR	10	95	84
Norske Skog Czech & Slovak Republic spol. s.r.o., Prague, Czech Republic	CZK	400	100	112
Nornews Portugal Lda., Lisbon, Portugal	EUR	400	75	0
Norske Skog Espana S.A., Madrid, Spain	EUR	90	100	3 607
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	50	100	193
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	USD	1	95	0
Norske Skog Polska Sp. z.o.o., Warsaw, Poland	PLN	50	100	110
Norske Skog Hungary Kft., Budapest, Hungary	HUF	3 000	100	110
Norske Skog Adria d.o.o., Trzin, Slovenia	EUR	21	100	164
THP Paper Company, Seattle, USA	USD	0	100	0
Norske Skog Pisa Ltda., Jaguariaíva, Brazil	USD	95 912	99.9	887 441
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	0.1	614
Norske Skog Pan Asia Co. Pte. Ltd., Singapore	USD	723 322	100	4 297 989
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5 009	100	118 154
Total				**8 155 064**
Total shares in subsidiaries owned by the parent company				**22 740 317**

SHARES IN OTHER COMPANIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Norske Skog Forest Holdings AG, Zürich, Switzerland	CHF	63 173	100
Norske Skog Holdings (Schweiz) AG, Zug, Switzerland	CHF	100 100	100
Norske Skog Overseas Holdings AG, Zürich, Switzerland	CHF	35 000	100
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	45	100
Norske Skog Parenco B.V., Renkum, The Netherlands	EUR	75 456	100
Parenco Finance B.V., Renkum, The Netherlands	EUR	18	100
Reparco Nederland B.V., Nijmegen, The Netherlands	EUR	227	100
Reparco Nijmegen B.V., Nijmegen, The Netherlands	EUR	18	100
Reparco Randstad B.V., Gravenhage, The Netherlands	EUR	14	100
Reparco Renkum B.V., Renkum, The Netherlands	EUR	18	100
Reparco Trading B.V., Nijmegen, The Netherlands	EUR	46	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	20 000	0.1
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Europe Recovered Paper N.V., Antwerp, Belgium	EUR	62	0.1
Nornews Portugal Lda., Lisbon, Portugal	EUR	400	25
Norske Skog Italia SrL, Milan, Italy	EUR	10	5
Reparco UK Ltd., Bolton, United Kingdom	GBP	5	100
Norske Skog Industries (UK) Ltd., London, United Kingdom	GBP	0	100
Eidsverket AS, Lysaker, Norway	NOK	620	100
Klosterøya AS, Lysaker, Norway	NOK	10 100	100
Oxenøen Eiendom AS, Lysaker, Norway	NOK	1 120	100
Ranheim Eiendomsutvikling AS, Lysaker, Norway	NOK	120	100
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	USD	1	5
Fletcher Paper Sales North America, Inc., Delaware, USA	USD	10	100
Forest Terminals Corporation, California, USA	USD	5	100
Norske Skog (USA) Inc. Southport, USA	USD	2 200	100
Norske Skog US Recovered Paper Inc., Pasadena, USA	USD	250	100
33027 Yukon Inc., British Columbia, Canada	CAD	19 245	100
33038 Yukon Inc., British Columbia, Canada	CAD	27 382	100
4159641 Canada Inc.	CAD	1	100
4246799 Canada Inc.	CAD	1 183 792	100
Crown Forest Holdings (1995) Inc., Whitehorse, Canada	CAD	154 360	100
Crown Forest Industries Ltd., Whitehorse, Canada	CAD	1 691 813	100
NS Industries Canada Ltd., British Columbia, Canada	CAD	567 380	100
Tasman Equipment Ltd., Vancouver, Canada	CAD	1	100
Norske Skog CI Ltd., Georgetown, Cayman Islands	CHF	13	100
Norske Skog (Australasia) Pty Ltd., Sydney, Australia	AUD	21 000	100
Norske Skog (Australia) No. 2 Pty Ltd., Sydney, Australia	AUD	0	100
Norske Skog Capital (Australia) Pty Ltd., Sydney, Australia	AUD	223 000	100
Pan Asia Paper Trading Co. Pty. Ltd., Sydney, Australia	USD	5 000	100
Norske Skog Industries Australia Ltd., Sydney Australia	AUD	0	100
Norske Skog Paper Mills (Australia) Ltd., Tasmania, Australia	AUD	7 539	100
Norske Skog Holdings (No.1) Ltd., Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (No.2) Ltd., Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (No.3) Ltd., Auckland, New Zealand	NZD	1	100
Norske Skog Capital (New Zealand) Ltd., Auckland, New Zealand	NZD	1	100
Norske Skog Tasman Ltd., Auckland, New Zealand	NZD	600 000	100
Enerpar-Energias do Parana Ltda., Curitiba, Brazil	USD	11 143	99.8
Norske Skog Florestal Ltda., Jaguariaíva, Brazil	USD	41 817	99.8
Aamodt do Brasil Ltda., Jaguariaíva, Brasil	USD	1	99.8
Nórdica Energia Ltda., Curitiba, Brasil	USD	0	99.9
Papeles Norske Skog Bio Bio Ltda., Concepcion, Chile	USD	15 000	99.9
Norske Skog Sales (Hong Kong) Ltd., Hong Kong, China	HKD	0	100
Norske Skog (Thailand) Company Ltd., Bangkok, Thailand	THB	1 083 750	94
Norske Skog PanAsia (Shanghai) Commercial Consulting Co. Ltd., Shanghai, China	CNY	1 126	67
Reparco Trading (Tianjin) Co., Ltd., Tianjin, China	CNY	2 051	100

26. CAPITAL RISK MANAGEMENT

Norske Skog's objective when managing capital is to safeguard the ability to continue as a going concern by maximising return on capital employed and use capital effectively.

All major investments are subject to approval by the group's investment board, which prioritises investment opportunities based on the projects' estimated return and ability to ensure stable operations, compliance with safety standards and environmental regulations.

The group monitors its capital structure on the basis of its gearing, which is calculated as net interest-bearing debt divided by equity. Net interest-bearing debt is calculated as total interest-bearing debt less cash and cash equivalents, gain on fair value hedge and hedge reserve from fair value hedge.
The calculations are shown in the table below:

	NOTE	31.12.2010	31.12.2009	31.12.2008
Interest-bearing debt	11, 12	13 671	14 248	21 159
- Cash and cash equivalents		4 440	4 241	6 195
- Fair value hedge	8	4	0	916
- Hedge reserve	11	338	411	0
Net interest-bearing debt		**8 889**	**9 595**	**14 047**
Equity excluding minority interest		10 161	11 987	13 362
Gearing		0.87	0.80	1.05

27. CONTINGENT LIABILITIES

In 1998, Norske Skogindustrier ASA finalised a lease-and-buyback arrangement with three American investors for PM5 and PM6 at Norske Skog Saugbrugs. The arrangements with two of the investors were terminated in December 2008 and January 2009. The arrangement with the third and final investor was terminated in August 2010. This termination results in the annulment of a contingent liability for potential losses to the investor if Norske Skogindustrier ASA was not able to meet the requirements of the leasing agreement. The contingent liability amounted to USD 20.8 million as at 31 December 2009. Costs related to the termination are mainly booked against guarantee provisions. The income-statement impact is therefore minimal.

28. RELATED PARTIES

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

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

The associated company Malaysian Newsprint Industries Sdn. Bhd. purchases recovered paper from Reparco companies in the Norske Skog group. The value of total purchases made during 2010 amounted to NOK 20 million (NOK 15 million in 2009 and NOK 21 million in 2008), and total amounts payable to the Norske Skog group amounted to NOK 3 million as at 31 December 2010 (NOK 4 million as at 31 December 2009 and NOK 4 million as at 31 December 2008).

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

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

29. EVENTS AFTER THE BALANCE SHEET DATE

Sale of property in Norway
Norske Skog entered into an agreement to sell property at Klosterøya in Skien in Norway on 12 January 2011. The property was transferred to the buyer with effect from 15 February 2011. The carrying amount of the property amounted to NOK 139 million at 31 December 2010 and was presented in the income statement line Other current assets (non-current assets held for sale and discontinued operations). The selling price consists of a fixed and a variable element. The variable element will depend on future development of the property, amongst other factors, and is consequently not certain. The transaction will be recognised in the first quarter of 2011 and the net gain from the sale is estimated to be around NOK 15-20 million.

Fire at Norske Skog Saugbrugs
On 2 February 2011, fire caused damage to part of the thermo-mechanical pulp plant which supplies the paper machines with fibre at the Norske Skog Saugbrugs mill in Halden in Norway. Norske Skog Saugbrugs has an annual production capacity of 550 000 tonnes of super calendered magazine paper and employs 600 people. There were no reported injuries amongst employees at the mill as a result of the incident. Although the fire was quickly brought under control, it caused significant damage to the electrical cabling. All production at the mill was halted due to the fire. Normal production was subsequently started at one paper machine (PM4), which produces around 10 000 tonnes per month. Normal production from the other two paper machines (PM5 and PM6) is not expected to recommence until the end of June 2011, and Norske Skog Saugbrugs will have a loss in production of around 30-35 000 tonnes per month. The need for temporary redundancies will be evaluated on a continuous basis. An investigation is in process to detect the cause of the fire. Property damage and business interruption are covered by insurance, where the deductible is NOK 25 million.

ANNUAL ACCOUNTS
NORSKE SKOGINDUSTRIER ASA

ANNUAL ACCOUNTS NORSKE SKOGINDUSTRIER ASA

INCOME STATEMENT

NOK MILLION	NOTE	2010	2009	2008
Operating revenue	2	**6 089**	**5 586**	**7 028**
Distribution costs		-615	-562	-709
Cost of materials		-3 717	-2 960	-3 642
Change in inventories		-58	94	-88
Employee benefit expenses	8	-874	-1 052	-1 199
Other operating expenses		-615	-776	-903
Gross operating earnings		**211**	**332**	**486**
Depreciation	3	-346	-431	-221
Gross operating earnings after depreciation		**-135**	**-99**	**266**
Restructuring expenses		-6	-38	-37
Other gains and losses	11	-809	-826	-76
Impairments	3	1 254	372	861
Operating earnings		**304**	**-592**	**1 013**
Financial items	5	-846	-1 620	-3 870
Profit/loss before income taxes		**-542**	**-2 212**	**-2 857**
Income taxes	12	114	-468	1 024
Net profit/loss for the year		**-429**	**-2 681**	**-1 834**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2010	2009	2008
Net profit/loss for the year	**-429**	**-2 681**	**-1 834**
Other comprehensive income			
Cash flow hedge	0	44	-78
Other items	1	1	3
Other comprehensive income	**1**	**45**	**-75**
Comprehensive income	**-428**	**-2 636**	**-1 909**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2010	31.12.2009	31.12.2008
Assets				
Deferred tax asset	12	92	45	124
Other intangible assets	3	49	68	8
Property, plant and equipment	3	3 553	2 483	2 834
Investments in subsidiaries	4	22 740	24 237	30 460
Other non-current assets	14	6 811	6 067	3 966
Total non-current assets		**33 245**	**32 900**	**37 392**
Inventories	13	704	760	673
Receivables	14	1 212	1 144	1 746
Cash and cash equivalents		3 847	3 690	5 252
Other current assets	15	883	720	5 237
Total current assets		**6 644**	**6 314**	**12 908**
Total assets		**39 889**	**39 214**	**50 300**
Shareholders' equity and liabilities				
Paid-in equity		10 189	10 616	12 310
Retained earnings		0	0	941
Total equity	16	**10 189**	**10 616**	**13 251**
Pension obligations	8	186	272	211
Deferred tax liability	12	477	546	53
Interest-bearing non-current liabilities	7, 14	22 443	22 816	31 396
Other non-current liabilities		80	173	530
Total non-current liabilities		**23 185**	**23 807**	**32 191**
Interest-bearing current liabilities	7, 14	1 871	1 456	1 144
Trade and other payables		4 635	3 275	3 673
Tax payable	12	0	0	0
Other current liabilities		9	60	42
Total current liabilities		**6 515**	**4 791**	**4 859**
Total liabilities		**29 700**	**28 599**	**37 049**
Total equity and liabilities		**39 889**	**39 214**	**50 300**

OXENØEN BRUG, 2 MARCH 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Halvor Bjørken
Board member

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Paul Kristiansen
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTE	2010	2009	2008
Cash flow from operating activities				
Cash generated from operations		5 930	5 948	6 856
Cash used in operations		-6 134	-5 570	-6 396
Cash from net financial items [1]		-532	-517	-542
Taxes paid		-3	0	1
Net cash flow from operating activities		**-739**	**-139**	**-81**
Cash flow from investing activities				
Purchase of fixed assets		-130	-212	-460
Sales of fixed assets		22	13	53
Change in intercompany balance with subsidiaries		836	1 179	4 779
Acquisition of shares in companies and other financial payments made		-47	-2	-21
Sales of shares in companies and other financial payments received		766	76	0
Net cash flow from investing activities		**1 447**	**1 054**	**4 351**
Cash flow from financing activities				
New loans raised		1	4 669	0
Repayments of loans		-330	-6 414	-1 211
Purchase/sale of treasury shares		1	-1	-3
Net cash flow from financing activities		**-328**	**-1 744**	**-1 214**
Foreign currency effects on cash and cash equivalents		-223	-745	860
Total change in cash and cash equivalents		**157**	**-1 574**	**3 916**
Cash and cash equivalents 1 January		3 690	5 264	1 348
Cash and cash equivalents 31 December		3 847	3 690	5 264
Reconciliation of net cash flow from operating activities				
Profit/loss before income taxes		-542	-2 212	-2 857
Depreciation/impairments	3	-908	59	-640
Gain/loss on sale of fixed assets		-19	9	-40
Taxes paid		-3	0	1
Change in receivables		-160	361	-172
Change in inventories		56	-86	36
Change in current liabilities		-113	-209	74
Non-cash financial items		314	1 103	3 328
Adjustments for non-cash working capital items, currency translation differences and other items [2]		636	836	189
Net cash flow from operating activities		**-739**	**-139**	**-81**

[1] Cash paid from financial items was NOK 844 million in 2010, and cash received was NOK 312 million. In 2009 and 2008, cash paid from financial items was NOK 984 million and NOK 1 061 million respectively, and cash received was NOK 467 million and NOK 519 million respectively

[2] Losses on energy contracts for 2010, 2009 and 2008 amounted to NOK 720 million, NOK 863 million and NOK 139 million respectively.

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	Note	Share capital	Treasury shares	Share premium reserve	Other paid-in equity	Total paid-in equity	Retained earnings	Total equity
Equity 1 January 2008		**1 899**	**-6**	**3 355**	**7 062**	**12 310**	**2 851**	**15 161**
Comprehensive income		0	0	0	0	0	-1 909	-1 909
Change in holding of treasury shares		0	3	0	-3	0	-1	-1
Equity 31 December 2008		**1 899**	**-3**	**3 355**	**7 059**	**12 310**	**941**	**13 251**
Comprehensive income		0	0	0	0	0	-2 636	-2 636
Change in holding of treasury shares		0	1	0	-9	-8	9	1
Uncovered loss allocated other paid-in equity		0	0	0	-1 686	-1 686	1 686	0
Equity 31 December 2009		**1 899**	**-2**	**3 355**	**5 364**	**10 616**	**0**	**10 616**
Comprehensive income		0	0	0	0	0	-428	-428
Change in holding of treasury shares		0	2	0	-2	0	2	2
Uncovered loss allocated other paid-in equity		0	0	0	-426	-426	426	0
Equity 31 December 2010	16	**1 899**	**0**	**3 355**	**4 936**	**10 189**	**0**	**10 189**

NOTES TO THE ANNUAL ACCOUNTS

1. ACCOUNTING PRINCIPLES

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

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

The accounts were authorised for issue by the board of directors on 2 March 2011.

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

2. OPERATING REVENUE BY GEOGRAPHICAL MARKET

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

	2010	2009	2008
Norway	1 577	930	790
Europe excluding Norway	3 636	4 001	5 522
North America	701	490	173
South America	24	50	209
Australasia	34	0	23
Asia	69	57	263
Africa	49	59	47
Total	**6 089**	**5 586**	**7 028**

Operating revenue from the sale of goods and services to other entities in the group amounted to NOK 300 million in 2010. The corresponding figure for 2009 was NOK 336 million and NOK 1 082 million for 2008.

3. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTANGIBLE NON-CURRENT ASSETS	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2008	30	142	172
Additions	0	0	0
Disposals	-4	-69	-73
Acquisition cost 31 December 2008	**26**	**73**	**99**
Accumulated depreciation and impairments 1 January 2008	23	128	151
Depreciation	2	4	6
Impairments	0	0	0
Disposals	0	-66	-66
Accumulated depreciation and impairments 31 December 2008	**25**	**66**	**91**
Carrying value 31 December 2008	**1**	**7**	**8**
Acquisition cost 1 January 2009	26	73	99
Additions	0	19	19
Disposals	0	-37	-37
Reclassified from plant under construction	2	50	52
Acquisition cost 31 December 2009	**28**	**105**	**133**
Accumulated depreciation and impairments 1 January 2009	25	66	91
Depreciation	1	10	11
Impairments	0	0	0
Disposals	0	-37	-37
Accumulated depreciation and impairments 31 December 2009	**26**	**39**	**65**
Carrying value 31 December 2009	**2**	**66**	**68**
Acquisition cost 1 January 2010	28	105	133
Additions	0	8	8
Disposals	0	-12	-12
Acquisition cost 31 December 2010	**28**	**101**	**129**
Accumulated depreciation and impairments 1 January 2010	26	39	65
Depreciation	1	14	15
Impairments	0	0	0
Disposals	0	0	0
Accumulated depreciation and impairments 31 December 2010	**27**	**53**	**80**
Carrying value 31 December 2010	**1**	**48**	**49**

Licenses, patents and other intangible assets are depreciated on a straight-line basis over a period from five to 20 years.

PROPERTY, PLANT AND EQUIPMENT	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2008	11 034	3 299	348	302	14 983
Additions	194	9	0	190	393
Disposals	-36	-228	-43	0	-307
Dismantling provision	153	40	0	0	193
Reclassified from plant under construction	102	155	9	-266	0
Acquisition cost 31 December 2008	**11 447**	**3 275**	**314**	**226**	**15 262**
Accumulated depreciation and impairments 1 January 2008	10 942	2 143	290	0	14 983
Depreciation	81	101	33	0	215
Impairments	45	94	0	0	139
Reversal of impairment	-1 000	0	0	0	-1 000
Disposals	-31	-228	-42	0	-301
Accumulated depreciation and impairments 31 December 2008	**10 037**	**2 110**	**281**	**0**	**12 428**
Carrying value 31 December 2008	**1 410**	**1 165**	**33**	**226**	**2 834**
Acquisition cost 1 January 2009	11 447	3 275	314	226	15 262
Additions	101	19	0	89	209
Disposals	-20	-4	-43	0	-67
Dismantling provision	-302	-154	0	0	-456
Reclassified from plant under construction	152	82	2	-288	-52
Acquisition cost 31 December 2009	**11 378**	**3 218**	**273**	**27**	**14 896**
Accumulated depreciation and impairments 1 January 2009	10 037	2 110	281	0	12 428
Depreciation	286	111	23	0	420
Impairments	0	0	0	0	0
Reversal of impairment	-372	0	0	0	-372
Disposals	-20	0	-43	0	-63
Accumulated depreciation and impairments 31 December 2009	**9 931**	**2 221**	**261**	**0**	**12 413**
Carrying value 31 December 2009	**1 447**	**997**	**12**	**27**	**2 483**
Acquisition cost 1 January 2010	11 378	3 218	273	27	14 896
Additions	89	31	0	78	198
Disposals	-86	-18	-18	0	-122
Dismantling provision	0	-48	0	0	-48
Reclassification	140	-140	0	0	0
Reclassified from plant under construction	26	12	4	-42	0
Acquisition cost 31 December 2010	**11 547**	**3 055**	**259**	**63**	**14 924**
Accumulated depreciation and impairments 1 January 2010	9 931	2 221	261	0	12 413
Depreciation	264	62	5	0	331
Impairments	0	0	0	0	0
Reversal of impairment	-974	-280	0	0	-1 254
Disposals	-83	-18	-18	0	-119
Accumulated depreciation and impairments 31 December 2010	**9 138**	**1 985**	**248**	**0**	**11 371**
Carrying value 31 December 2010	**2 409**	**1 070**	**11**	**63**	**3 553**

Machinery and equipment are depreciated on a linear basis over a period from three to 25 years. Buildings and other property are depreciated on a linear basis over a period from three to 33 years. Fixtures and fittings are depreciated on a linear basis over a period from three to five years. Land and plant under construction are not depreciated.

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

Assumptions applied when estimating recoverable amount

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

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

The company has conducted quarterly reviews of the recoverable amount in 2010. The result of these assessments is that impairments of NOK 852 million related to Norske Skog Skogn and NOK 402 million related to Norske Skog Follum have been reversed. The reversal is due to changes in prices on energy and changes in expected economic useful lives. The calculation of recoverable amount is discussed further in Note 4 to the group accounts.

More information related to the assumptions applied when calculating recoverable amount is given in Note 4 to the group accounts.

4. IMPAIRMENT OF SHARES IN SUBSIDIARIES

	2010	2009	2008
Norske Treindustrier AS	-800	-2 100	996
Norske Skog Steti a.s.	0	0	-43
Norske Skog Holdings B.V.	-130	-1 545	0
Norske Skog Pisa Ltda.	-300	0	100
Norske Skog Walsum GmbH	-170	-511	0
Norske Skog Pan Asia Co. Pte. Ltd.	640	-2 582	-1 653
Total	**-760**	**-6 738**	**-600**

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

See Note 25 in the group accounts for specification of shares in subsidiaries and other shares.

5. FINANCIAL ITEMS

	NOTE	2010	2009	2008
Dividends received		824	3 285	1 561
Interest revenue		101	233	296
Interest expense		-1 180	-1 394	-1 939
Exchange rate gains and losses		202	2 987	-3 436
Impairment of shares in subsidiaries	4	-760	-6 738	-600
Other financial items		-33	7	248
Total		**-846**	**-1 620**	**-3 870**

6. DERIVATIVES

	31.12.2010		31.12.2009		31.12.2008	
DERIVATIVES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
NET INVESTMENT HEDGE						
Forward contracts	2	-27	91	-15	39	-2
Cross-currency contracts	0	-5	0	-6	139	-22
Total	**2**	**-32**	**91**	**-21**	**178**	**-24**
FAIR VALUE HEDGE [1]						
Interest-rate swaps	5	0	1	0	916	-33
Total	**5**	**0**	**1**	**0**	**916**	**-33**
CASH FLOW HEDGE [2]						
Interest-rate swaps	0	0	0	0	0	-44
Total	**0**	**0**	**0**	**0**	**0**	**-44**
OTHER DERIVATIVES [3]						
Interest-rate swaps	73	-64	154	-91	0	-76
Forward rate agreements	10	-13	1	-3	9	-15
Currency options	30	-54	12	-19	127	-230
Forward contracts	161	-43	175	-11	56	-288
Commodity contracts	2 374	0	3 895	-36	4 740	-17
Embedded derivatives	0	0	0	0	0	0
Total	**2 648**	**-174**	**4 237**	**-160**	**4 932**	**-626**
TOTAL VALUE						
Interest-rate swaps	78	-64	155	-91	916	-153
Forward rate agreements	10	-13	1	-3	9	-15
Currency options	30	-54	12	-19	127	-230
Forward contracts	163	-70	266	-26	95	-290
Cross-currency contracts	0	-5	0	-6	139	-22
Commodity contracts	2 374	0	3 895	-36	4 740	-17
Embedded derivatives	0	0	0	0	0	0
Total	**2 655**	**-206**	**4 328**	**-181**	**6 026**	**-727**

1) Included in the line Other non-current assets. The notional principal amount of the underlying debt in the fair value hedge was NOK 200 million at 31 December 2010 (NOK 200 million at 31 December 2009 and NOK 7 549 million at 31 December 2008).
2) The cash flow hedge programme was terminated in March 2009 due to the repayment of the EUR 500 million bank facility.
3) Includes: active management portfolio, interest rate swaps not subject to hedge accounting, embedded derivatives in physical contracts, financial commodity hedging contracts, physical commodity contracts within the scope of IAS 39 and rolling cash flow hedging. Norske Skog does not use hedge accounting for rolling cash flow hedging and hedging of commodity costs. These contracts are presented at fair value through profit or loss.
The fair value of derivatives is discussed further in Note 2 and Note 9 in the group accounts.

7. MATURITY OF INTEREST-BEARING NON-CURRENT LIABILITIES

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2010

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

MATURITY OF THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2009

	DEBT BANKS	BONDS	TOTAL
2010	58	0	58
2011	25	1 853	1 878
2012	3 351	655	4 006
2013	25	0	25
2014	25	924	949
2015	25	990	1 015
2016	25	0	25
2017	25	4 101	4 126
2018	25	0	25
2019	25	0	25
2020	25	0	25
2033	0	1 155	1 155
Total	**3 634**	**9 677**	**13 311**

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

8. PAYROLL COSTS, PENSION COSTS AND PENSION OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2010	2009	2008
Salaries including holiday pay	676	673	801
Social security contributions	187	236	235
Pension costs	-57	76	58
Other employee benefit expenses	68	67	105
Total	**874**	**1 052**	**1 199**

The company is required by law to have a pension scheme for all employees. The company's pension plan is compliant with the requirements in the Norwegian Act relating to mandatory occupational pension. Detailed information on salary and other compensation for senior employees as well as information regarding audit fees can be found in Note 13 to the group accounts.

MAN-LABOUR YEARS	31.12.2010	31.12.2009	31.12.2008
Norske Skogindustrier ASA	1 590	1 679	1 813

NET PERIODIC PENSION COST	2010	2009	2008
Current service cost	50	64	60
Interest cost	54	60	68
Expected return on plan assets	-51	-66	-78
Accrual national insurance contributions	7	9	11
Expensed portion of changes in early retirement plan	-2	-2	-2
Recognised curtailment and settlement	-122	0	0
Actuarial gains and losses	7	11	-1
Net periodic pension cost	**-57**	**76**	**58**

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

	31.12.2010	31.12.2009	31.12.2008
Projected benefit obligations	-1 044	-1 614	-1 691
Plan assets at fair value	908	1 124	1 164
Plan assets in excess of/less than obligations (-)	**-136**	**-490**	**-527**
Differences in estimates not taken to income statement	-26	271	360
Net plan assets/pension obligations (-)	**-162**	**-219**	**-167**
Accrual national insurance contributions	-24	-53	-44
Pension liabilities in the balance sheet	**-186**	**-272**	**-211**
Pension assets in the balance sheet	**0**	**0**	**0**

See Note 14 in the group accounts for assumptions and further information.

9. PAY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

According to the provision in section 6-16a of the Norwegian Public Limited Companies Act (cf. section 5-6, third subsection), the annual general meeting (AGM) shall consider the board's declaration regarding the determination of pay and other remuneration for senior executives in the coming financial year. The board will propose the declaration at the AGM for consideration and a vote.

The board of Norske Skogindustrier ASA has had a remuneration committee since 2000, which considers issues relating to the compensation of the chief executive officer (CEO) and other members of corporate management. When the methods for assessing salary and possible bonuses, options and other incentive schemes are to be determined, the committee will ensure that the size and scope of compensation and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to long-term value creation for all the shareholders.

Fixed salary
The board has not established any upper and/or lower limits to the amounts which can be paid to senior executives in the company as fixed salary in the coming fiscal year. See also Note 13 to the group accounts.

Variable elements
In addition to fixed salary, the company has a bonus and incentive programme designed to help harmonize the priorities of corporate management with the strategies and goals for the business established by the board:

Annual bonus agreements
The company has operated bonus schemes for executives and employees for a number of years, to ensure that important commercial goals receive adequate priority. These annual bonus agreements for corporate management provide a maximum payout corresponding to six months' pay. The performance figures are based on financial, operational and individual criteria.

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

The programme was continued for 2008 and 2009, and also for 2010 with some changes. The maximum annual bonus from the programme is set to NOK 4 mill for CEO and NOK 2 mill for other members of corporate management (instead of a fixed number of shares), the bonus after tax must be used to buy shares until the total shareholding in the company corresponds a certain number of shares (200 000 for the CEO and 100 000 for other members of corporate management) and the number of companies in the defined reference group was reduced to 12, including Norske Skog. It is proposed to continue this programme for 2011

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

Pension plans
Norske Skogindustrier ASA introduced a new defined contribution plan with effect from 1 January 2011, with a contribution of 4% for earnings between 1 and 6 G (the Norwegian national insurance base amount) and 8% between 6 and 12 G. The previous scheme with pensionable age of 67 and providing a pension of approximately 65% of ordinary salary at retirement, and 60% from the age of 77 including national insurance, was closed from 31 December 2010, and covers employees who were born prior to 1 January 1959 and who were employed in the company before the closure. The company has a supplementary scheme for the part of salary which exceeds 12 G. For corporate management there is a separate early retirement pension scheme from 64 to 67 years, previously referred to as insured supplementary plans. It was decided to terminate these insured supplementary plans with effect from 1 January 2007 and they were replaced by a book reserve arrangement for the pension part and group life- and disability insurance for the risk parts. The corporate management team is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80 G.

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

10. LOSSES ON ACCOUNTS RECEIVABLE

	2010	2009	2008
Receivables written off during the period	3	0	0
Payments received on items previously written off	0	0	1
Change in provision for bad debt	1	-2	0
Total	**4**	**-2**	**1**

11. OTHER GAINS AND LOSSES

	2010	2009	2008
Gains and losses on disposal of non-current tangible assets	19	9	40
Changes in value on commodity contracts [1)]	-342	-863	-139
Other realised gains and losses	-486	28	23
Total	**-809**	**-826**	**-76**

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

12. TAX

TAX EXPENSE	2010	2009	2008
Current tax expense	-3	0	0
Change in deferred tax	116	-468	1 024
Total	**114**	**-468**	**1 024**

INCOME TAX RECONCILIATION	2010	2009	2008
Profit/loss before income taxes	-542	-2 212	-2 857
Computed tax at nominal tax rate of 28%	152	619	800
Exempted income/non-deductible expenses	136	811	352
Impairment of shares in subsidiaries	-222	-1 944	-171
Adjustment previous years	1	19	-1
Other items	46	26	43
Total tax expense	**114**	**-468**	**1 024**

DEFERRED TAX	2010	2009	2008
Net deferred tax liability 1 January	501	-71	762
Deferred tax charged in the income statement	-116	468	-1 024
Reclassification of group tax allocations	0	103	191
Net deferred tax liability/asset (-) 31 December	**384**	**501**	**-71**

DEFERRED TAX – DETAILS	31.12.2010	31.12.2009	31.12.2008
Fixed assets, excess values and depreciation	239	126	96
Pensions	-52	-76	-59
Provisions and other liabilities	35	-77	-198
Currency translation differences and financial instruments	1 066	1 512	1 271
Deferred tax current items	-40	22	8
Tax losses and tax credit to carry forward	-862	-754	-998
Net deferred tax liability/asset(-)	**384**	**501**	**-71**

LOSSES TO CARRY FORWARD AND TAX CREDITS	31.12.2010	31.12.2009	31.12.2008
Losses to carry forward	2 817	2 461	3 282
Tax credits	202	202	199
Total losses to carry forward and tax credits	**3 019**	**2 663**	**3 481**
Deferred tax asset	**862**	**754**	**998**

13. INVENTORIES

	31.12.2010	31.12.2009	31.12.2008
Raw materials and other production input	342	338	345
Finished goods	362	422	328
Total	**704**	**760**	**673**

14. INTERCOMPANY RECEIVABLES/LIABILITIES

	31.12.2010	31.12.2009	31.12.2008
INTERCOMPANY RECEIVABLES			
Crown Forest Industries Ltd.	251	235	247
Norske Skog Industries Australia Ltd.	3 368	0	0
Norske Skog Holdings B.V.	780	1 000	1 429
Norske Skog Walsum GmbH	497	1 017	1 284
Other intercompany receivables	34	34	42
Total	**4 930**	**2 286**	**3 002**
CURRENT INTERCOMPANY RECEIVABLES			
Norske Skog Bruck GmbH	66	0	0
Klosterøya AS	103	90	41
Lysaker Invest AS	0	0	158
Nornews AS	13	11	9
Norske Skog Golbey SA	0	103	136
Norske Skog Holdings B.V.	361	225	185
Norske Skog US Recovered Paper Inc.	6	19	28
Norske Skog USA Inc.	0	0	133
Oxenøen Eiendom AS	0	0	3
Pisa Papel de imprensa SA	34	69	72
Reparco Netherland B.V.	0	10	21
Wood and Logistics AS	0	15	4
Other current intercompany receivables	14	32	55
Total	**597**	**576**	**845**

NON-CURRENT INTERCOMPANY LIABILITIES	31.12.2010	31.12.2009	31.12.2008
4246799 Canada Inc.	0	0	838
Lysaker Invest AS	58	57	55
Nornews AS	55	54	52
Norske Skog Bruck GmbH	0	0	564
Norske Skog Golbey SA	75	1 397	2 129
Norske Skog Holding AS	41	40	39
Norske Skog Industries (UK) Ltd.	0	128	3 091
Norske Skog Pan Asia Co. Pte. Ltd.	0	107	544
Norske Treindustrier AS	7 355	7 303	6 067
Norske Skog (Thailand) Company Ltd.	3 524	0	0
Total	**11 109**	**9 086**	**13 379**

All long-term intercompany debt falls due for repayment at least 12 months after the balance sheet date. The majority of this debt has a considerably longer term to maturity.

CURRENT INTERCOMPANY LIABILITIES	31.12.2010	31.12.2009	31.12.2008
Klosterøya AS	0	1	0
Lysaker Invest AS	57	4	0
Norske Skog Asia Pacific Pte. Ltd.	0	0	22
Norske Skog Bruck GmbH	0	105	136
Norske Skog Deutschland GmbH	42	27	50
Norske Skog Eiendom AS	75	67	5
Norske Skog Golbey SA	187	280	169
Norske Skog Holding AS	9	11	14
Norske Skog Holland B.V.	13	11	18
Norske Skog Industries Australia Ltd.	888	536	410
Norske Skog Pan Asia Co. Pte. Ltd.	225	22	0
Norske Skog Tasman Ltd.	181	125	87
Norske Skog UK Ltd.	28	23	40
Norske Skog Walsum GmbH	101	585	3
Norske Treindustrier AS	1 357	1 393	347
NSI Insurance A/S	0	33	0
Oxenøen Eiendom AS	196	213	245
Oxenøen Utvikling AS	0	0	67
Wood and Logistics AS	91	70	54
Other current intercompany liabilities	131	110	128
Total	**3 581**	**3 616**	**1 796**

15. OTHER CURRENT ASSETS

	31.12.2010	31.12.2009	31.12.2008
Total prepaid expenses	5	85	115
Derivatives	832	635	5 110
Short-term investments	0	0	12
Current investments	45	0	0
Total	**883**	**720**	**5 237**

The main portion of the group's financial instruments (energy contracts and derivatives) was reclassified from current to non-current assets during 2009 (see Note 7 in the group accounts).

16. EQUITY

The share capital of the company as at 31 December 2010 was NOK 1 899 456 260 and consisted of 189 945 626 shares, each with a face value of NOK 10. The number of treasury shares was 41 862. The company purchased 100 000 shares during 2010. The number of shares sold during the year was 289 631 in relation to the share savings programme for employees. The shares were sold at NOK 8.31.

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

SPECIFICATION OF DISTRIBUTABLE EQUITY	31.12.2010
Other paid-in equity	7 000
Uncovered loss allocated to other paid-in equity	-2 112
Gain/loss on treasury shares	48
Other paid-in equity	**4 936**
Revaluation reserve	-1 708
Deferred tax asset	-92
Research and development	-49
Distributable equity	**3 087**

PRINCIPAL SHAREHOLDERS [1]	OWNERSHIP %
Viken Skog BA	5.74
AT Skog BA	3.51
Folketrygdfondet	3.12
Skagen Vekst	2.96
Goldman Sachs & Co. – Equity, USA (NOM)	2.95
Skandinaviska Enskilda Banken, Sweden (NOM)	2.71
SEB Enskilda ASA	2.66
Varma Mutual Pension Insurance, United Kingdom	2.21
State Street Bank and Trust Co., USA (NOM)	1.90
Skagen Kon-Tiki	1.85
Allskog BA	1.82
Bank of New York Mellon, USA (NOM)	1.77
Uthalden AS	1.72
Astrup Fearnley AS	1.62
DnB NOR Bank ASA	1.33
Awilco Invest AS	1.21
AS Havlide	1.21
AS Herdebred	1.11
Citibank N.A. New York Branch, USA (NOM)	1.10
The Northern Trust Co., United Kingdom (NOM)	1.10

(NOM = Nominee accounts)

[1] The shareholder list is based on VPS' shareholder register as at 31 December 2010. More information regarding shareholders in nominee accounts can be found under Principal shareholders on page 122.

	NUMBER OF SHARES
SHAREHOLDERS IN THE CORPORATE ASSEMBLY	
Elected by the shareholders	
Tom Ruud, Oslo (chair)	410
Tom Rathke, Bergen (deputy chair)	5 843
Emil Aubert, Porsgrunn	815 591
Ragnhild Borchgrevink, Bærum	711
Jens Nicolai Jenssen, Hommelvik	745
Mikael Løken, Elverum	12 000
Even Mengshoel, Lillehammer	860
Elected by the employees	
Harald Bjerge, Norske Skog Saugbrugs	21 306
Trond Bjørken, Norske Skog Skogn	2 056
Stig A. Stene, Norske Skog Skogn	1 099
Observers elected by the employees	
Kjetil Bakkan, Norske Skog Skogn	585
Jan Magnar Hansen, Norske Skog Saugbrugs	130
SHAREHOLDERS ON THE BOARD OF DIRECTORS	
Elected by the shareholders	
Eivind Reiten, Oslo (chair of the board) (0), Mocca Holding AS (37 914)	37 914
Gisèle Marchand, Oslo (deputy chair of the board)	838
Halvor Bjørken, Verdal	8 690
Helge Evju, Skollenborg	195
Alexandra Bech Gjørv, Oslo	6 000
Ingrid Wiik, Bærum	8 003
Elected by the employees	
Paul Kristiansen, Norske Skog Saugbrugs	6 200
Svein Erik Veie, Norske Skog Skogn	501
Inge Myrlund, Norske Skog Follum	3 535
SHAREHOLDERS AMONG CORPORATE MANAGEMENT	
Sven Ombudstvedt (1 805), Elle Holding AS (248 000)	249 805
Jan-Hinrich Clasen	8 972
Rune Gjessing	9 057
Terry Hamilton	5 996
Gaute Hjelmbrekke Andreassen	17 700
Audun Røneid	6 914

17. GUARANTEES

The company has not guaranteed any debt on behalf of its subsidiaries as at 31 December 2010 (NOK 9 million at 31 December 2009 and NOK 1 256 million at 31 December 2008). Parent company guarantees amount to NOK 322 million (NOK 337 million at 31 December 2009 and NOK 409 million at 31 December 2008).

PricewaterhouseCoopers AS
Postboks 748 Sentrum
NO-0106 Oslo
Telefon 02316

To the Annual Shareholders' Meeting of Norske Skogindustrier ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Norske Skogindustrier ASA, which comprise the financial statements for the parent company and the financial statements for the group. The financial statements for the parent company comprise the balance sheet at December 31, 2010, income statement, statement of comprehensive income, changes in equity, cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements for the group comprise the balance sheet at December 31, 2010, income statement, statement of comprehensive income, changes in equity, cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

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

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

Opinion on the financial statements for the parent company

In our opinion, the financial statements for the parent company give a true and fair view of the financial position of Norske Skogindustrier ASA as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with simplified IFRS according to the Norwegian accounting act § 3-9.

Opinion on the financial statements for the group

In our opinion, the financial statements for the group give a true and fair view of the financial position of the group Norske Skogindustrier ASA as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and documentation

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

Oslo, 2 March 2011
PricewaterhouseCoopers AS

Erling Elsrud
State Authorised Public Accountant (Norway)

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

(2)

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the accounts for the period 1 January to 31 December 2010 have been prepared in accordance with prevailing accounting practices, and that the information in the accounts provides a correct impression of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the annual report provides a correct overview of the development, result and position of the company and the group, along with a description of the key risk and uncertainty factors which the company and the group faces.

OXENØEN BRUG, 2 MARCH 2011 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Eivind Reiten
Chair

Gisèle Marchand
Deputy chair

Halvor Bjørken
Board member

Helge Evju
Board member

Alexandra Bech Gjørv
Board member

Paul Kristiansen
Board member

Inge Myrlund
Board member

Svein Erik Veie
Board member

Ingrid Wiik
Board member

Sven Ombudstvedt
President and CEO

STATEMENT FROM THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

The corporate assembly recommends that the general meeting approves the board's proposal for income statement and balance sheet for 2010 for Norske Skogindustrier ASA and the group, and endorses the board's proposal for the coverage of the deficit.

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

OXENØEN BRUG, 10 MARCH 2011 – THE CORPORATE ASSEMBLY OF NORSKE SKOGINDUSTRIER ASA

Tom Ruud
Chair

CORPORATE GOVERNANCE 2010

CORPORATE GOVERNANCE IN NORSKE SKOG

Norske Skog's goal is to create competitive shareholder values in the paper industry. The company has established clear strategies and management systems to achieve this goal. The overall strategic guidelines involve producing at the lowest possible price, seeking out growth that strengthens profit and focusing on core activities. Good principles for corporate governance and a clearly defined allocation of roles and responsibilities between the company's governing bodies have been adopted by the board. These are based on the Norwegian recommendation for corporate governance of 21 October 2010, which can found at www.nues.no and www.oslobors.no/ob/cg.

Norske Skog's business and strategic choices are based on the core values transparency, honesty and cooperation. In 2010, the company has revised its Steering Documents within the areas of health and safety, environment, people, financial management and reporting, as well as for business conduct. The new Steering Documents have been approved by the board and form the basis for ethical, legal and sustainable behaviour in Norske Skog. The documents also clarify how Norske Skog's values will have practical value in daily operations, and how we exercise our corporate responsibility. In addition, the Steering Documents make reference to the company's management principles and Power of Attorney structure as framework conditions for the business.

ACTIVITIES

The company's objective is defined in its articles of association: To operate wood processing industry and associated activities. Furthermore, the company can, through share contributions or in some other manner, participate in other business activities. Norske Skog is a world leader in the production of publication paper containing wood and maintains a strong focus on restructuring and further developing this industry.

SHARE CAPITAL AND DIVIDEND

Norske Skog's equity is adapted to the company's goals, strategies and risk profile. The board considers the company dividend profile regularly, as set out somewhere else in this report. The 2010 general meeting issued an authorisation valid until the next ordinary general meeting to purchase treasury shares for up to NOK 185 000 000 at face value, maximum 10 per cent of the outstanding shares. The purpose is primarily resale to employees for incentive schemes and other purposes.

EQUAL TREATMENT OF SHAREHOLDERS

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

FREELY NEGOTIABLE

The company's shares are freely negotiable.

THE GENERAL MEETING

The general meeting is the company's highest authority and is chaired by the chair of the corporate assembly, in accordance with the articles of association. Notice is issued within the deadlines and guidelines of the Public Limited Liability Companies Act. The recommendations of the election committee are enclosed with the notice. The notice, documentation and proxy form will be made available at the same time at www.norskeskog.com.

Maximum participation is facilitated for the company's general meeting. The deadline for registering participation is three days before the day of the general meeting. In 2010, 33 per cent of the share capital was represented through personal participation or through proxy. Representation through proxy gives the right to vote on each individual matter to be discussed and candidates to be elected. Proxies may have an open, as well as a limited mandate. All shareholders may add issues to the agenda of the general meeting through written notice to the board no later than one month before the meeting is held. Resolution of issues that have not been declared in the notice require unanimity at the general meeting.

The entire board was present at the 2010 ordinary general meeting. The company's auditor and all of the election committee members were also present.

THE ELECTION COMMITTEE

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

THE CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

Pursuant to Norwegian law, Norske Skog has a corporate assembly, consisting of 12 members elected by the shareholders and six members elected by and among the employees, for a term of one year. In addition, the employees have three observers. The corporate assembly elects its own chair and deputy chair for a year at a time. The majority of the company's foreign shareholders are less active in connection with the election of members to the governing bodies. The Norwegian forest owner

federations have traditionally been a major shareholder in the company and are still broadly represented in the corporate assembly.

The corporate assembly shall carry out supervision of the board's and the CEO's management of the company

The board currently has nine members, and has been composed to ensure competence, diversity and teamwork. Members of the board are elected for one year at a time. The shareholder-elected members of the corporate assembly elect shareholders' board members; whereas, employees' board members are elected by and among Norske Skog's employees. In 2010, Norske Skog satisfied the requirement for gender representation among shareholder-elected board members.

The members of the board shall act independently and in a manner ensuring that no-one achieves unreasonable advantages. The company's rules of procedure for the board stipulate that members must inform the board of any personal and/or significant business relationships which could give rise to questions concerning their independence and objectivity. The CEO's authorisations entail that the board will handle the company's contractual relationships only in exceptional cases. Furthermore, Norske Skog's Steering Documents instruct all employees to seek to avoid conflicts of interest, and encourage openness regarding any conflicts of interest.

All shareholder-elected board members are independent of the company management and significant business connections, and the majority of the shareholder-elected board members are independent of the company's main shareholders. This applies to board members Eivind Reiten, Gisèle Marchand, Alexandra Bech Gjørv and Ingrid Wiik. The board works independently of the company management, but the CEO attends the board meetings. Other members of the corporate management attend as required. The members of the board are encouraged to own shares in the company.

THE WORK OF THE BOARD OF DIRECTORS

The board determines the overall objectives for the company's strategic development, and regularly considers the vision, goals and strategies. The board prepares an annual plan for its work. In 2010, the board's main focus was the company's strategic development, sale of assets, profitability improvement and reduction of the company's net debt.

The board is continually informed regarding all important aspects of the company's activities, including challenges related to health, safety and environment (HSE) as well as corporate responsibility. The board is regularly briefed on the company's activities to promote compliance with relevant regulations. The board's rules of procedure ensure a clear allocation of roles and responsibilities between the board and the administration. The board evaluates its work and expertise annually. The election committee is briefed regarding the conclusion of the evaluation. The board has established an audit committee and a remuneration committee. In cases where the chair cannot or should not lead the board's work, the deputy chair takes over. In 2010, the attendance at the board meetings was 96 per cent.

RISK MANAGEMENT AND INTERNAL CONTROL

Norske Skog applies a group-wide risk management system, based on COSO's Enterprise Risk Management framework (Committee of Sponsoring Organizations of the Treadway Commission). This is a practical management tool used to identify, evaluate, handle and report risk.

The system is based on the management teams in each business unit and in selected corporate functions annually consider potential risk factors and prepare a risk report with a proposed action plan. An overall risk report is submitted to and discussed in corporate management. The CEO annually submits the risk report to the board, including a description of which risk-reducing measures that have been implemented, as well as potential new risk-reducing measures.

Norske skog has overall governing documents including Steering Documents, notification procedures, mandate for the internal audit department, rules of procedure for the board and a Power of Attorney-structure, as well as routines for internal control over financial reporting.

Norske Skog's systems for internal control of financial reporting are founded on the criteria in COSO's Internal Control – Integrated Framework. The framework consists of five components: control environment, risk assessments, information and communications, and follow-up. Routines for internal control over financial reporting are defined in Norske Skog's financial handbook and in a separate handbook for interim accounting (Financial Closing Manual and Financial Closing Checklist). The company uses a standardised model for the periodic financial closing which entails that all critical processes in the closing of the financial accounts are described in detail, and responsibilities are clearly defined, in terms of execution, documentation and control.

The follow-up of the company's internal control routines takes place through the management's daily activities. In addition, the system is safeguarded through regular monitoring and testing carried out by the company's internal audit department. In 2010, the board has continued its focus on internal control and follow-up of the company's ethical guidelines.

A compliance officer has been hired to ensure that Norske Skog's managers and employees comply with relevant rules and regulations, as well as internal rules. Compliance is a line responsibility. Detailed procedures govern handling of misconduct and possible notice to the CEO and/or chair of the board.

BOARD REMUNERATION

The remuneration to members of the board is stipulated by the general meeting, and reflects responsibility, expertise and time spent. The remuneration is not linked to results, and share options are not issued to board members. See next page for overview of board remuneration.

REMUNERATION TO EXECUTIVE EMPLOYEES

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

INFORMATION AND COMMUNICATION

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

TAKE-OVER OF THE COMPANY

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

AUDITOR

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

REMUNERATION TO CORPORATE MANAGEMENT AND ELECTED POSITIONS IN NORSKE SKOG

THE CORPORATE ASSEMBLY

The remuneration is stipulated annually by the general meeting. The remuneration for the chair of the corporate assembly is NOK 160 000 per year. Other members receive a remuneration of NOK 6 200 per meeting. Committee meetings are remunerated with NOK 6 200 per meeting. The total disbursement to the members of the corporate assembly including committee work was NOK 707 300 in 2010.

THE BOARD

Remuneration is stipulated annually by the corporate assembly. The annual remuneration for the chair of the board is NOK 530 000, the deputy chair receives NOK 380 000, and the other board members NOK 290 000. Committee meetings are remunerated with NOK 6 200 per meeting. The total disbursement to the board, including NOK 12 400 per meeting for attending deputy board members and for committee work, was NOK 3 364 700 in 2010.

CEO AND CORPORATE MANAGEMENT

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

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

INTERNAL BOARD REMUNERATION

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

THE AUDIT COMMITTEE

The chair of the audit committee is remunerated with NOK 80 000 per year. The other members of the audit committee receive a remuneration of NOK 53 000.

SHARE PURCHASES FOR EMPLOYEES

The board has decided not to offer discounted shares to employees of Norske Skog and subsidiaries owned with more than 90 per cent in 2011. In 2010, employees were offered to purchase shares at a discount. The shares were paid through salary deductions over 12 months. The scheme also included shareholder-elected members of the corporate assembly and board.

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

At year-end 2010, the members of the corporate assembly held a total of 870 304 shares in Norske Skog. Correspondingly, the members of the board held 71 914 shares. In total, the corporate management members held 298 444 shares.

SHARES AND SHARE CAPITAL

NORSKE SKOG'S SHAREHOLDER POLICY

The shareholder policy is as follows:

- Norske Skog's goal is to provide competitive return for the shareholders.
- Norske Skog's shares shall be freely negotiable and based on the principle one share – one vote.
- The dividend policy shall be competitive and responsible.
- Norske Skog's capital structure shall be adapted to the company's strategy and business risk.
- The work of the board and the corporate management shall be based on the principle of equal treatment of all the company's shareholders.

DIVIDEND PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend be paid for the accounting year 2010.

SHARE INVESTMENT SCHEME

Norske Skog has had a share investment scheme since 1996. The shares sold are taken from Norske Skog's own holdings. During the sale of shares in 2010, 256 persons purchased 289 631 shares in total. As a result of declining interest and due to the costs related to the scheme, it has been decided that no shares will be sold to employees in 2011.

LONG-TERM INCENTIVE PROGRAMME

Since 2007, Norske Skog has offered a long-term incentive programme for the corporate management, based on relative return on shares. The disbursements under this programme depend on the return (dividend + share price development) from Norske Skog's shares in relation to a defined group of listed paper industry companies, including Norske Skog. The scheme will take effect if Norske Skog is among the companies in the upper half of this reference group. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The potential profit increases in stages from 30 per cent and reaches 100 per cent if Norske Skog is among the companies in the top quartile. The development is measured in three-year periods, and a new period starts every year. There was no disbursement for the first period, from the first quarter of 2007 to the first quarter of 2010. Neither will there be any disbursement for the second period, which ran from the first quarter of 2008 to the first quarter of 2011. The next periods started in the first quarter of 2009 and the first quarter of 2010, respectively, with potential disbursements in 2012 and 2013.

Maximum disbursement has been set at NOK 4 million for the CEO and NOK 2 million for other members of the corporate management. Of the disbursed net amount, 50 per cent must be used to purchase Norske Skog shares until the held shares amount to 200 000 for the CEO and 100 000 for other members of corporate management.

The long-term incentive programme has no dilution effect.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2010, a total of 444.1 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 527.5 million in 2009. On average, each share was traded 2.4 times in 2010.

The Norske Skog share price was NOK 13.85 on 30 December 2010, compared with NOK 9.41 on 4 January 2010. The highest price in 2010, based on close-of-trading prices, was NOK 14.35 on 28 December, and the lowest price was NOK 6.82 on 25 May.

On 31 December 2010, the share capital in Norske Skog was NOK 1 889 456 260, divided among 189 945 626 shares with a nominal value of NOK 10 each. All shares have equal rights. There were no changes in the company's share capital in 2010, and there are no authorisations for the board to expand the share capital.

At the beginning of 2010, Norske Skog owned 231 493 treasury shares. In May, 100 000 shares were purchased, and 289 631 shares were sold to employees in connection with the share investment scheme. Norske Skog's holding of treasury shares was 41 862 shares as of 31 December 2010. The board has been authorised to buy back up to 10 per cent of the outstanding shares.

As of 31 December 2009, the largest individual Norwegian shareholder was Viken Skog, with an ownership interest of 5.7 per cent. In total, the Norwegian forest owner federations owned 13.3 per cent of Norske Skog. As of 31 December 2010, foreign ownership was 36 per cent, compared with 25 per cent on 31 December 2009. The foreign shareholders are to a large extent registered through investment banks, and based on the gathered information, none of them own more than five per cent.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 24 779 shareholders in total as of 31 December 2010, of which 1 291 resided outside of Norway.

INFORMATION TO THE FINANCIAL MARKET

For several years, it has been a priority for Norske Skog to provide relevant and timely information to the financial market. Around 20 Norwegian and international companies follow Norske Skog and publish analyses of the company, directed towards both the equity and bond markets. An overview of these companies can be found on Norske Skog's website.

FINANCIAL CALENDAR FOR 2011

- 3 February	Result for the fourth quarter of 2010 and preliminary financial reporting for the full year
- 14 April	General meeting
- 5 May	Result for first quarter 2011
- 4 August	Result for second quarter 2011
- 3 November	Result for third quarter 2011

KEY FIGURES RELATED TO SHARES

	Definitions	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Nominal value (NOK/share)		10	10	10	10	10	10	10	10	10	10
Average number of shares excluding shares held in treasury (1 000)		189 904	189 663	189 501	189 412	189 258	142 878	132 430	132 415	132 194	120 604
Net earnings per share after tax (NOK)	1	-12.97	-6.36	-14.33	-3.26	-14.84	-5.98	4.95	3.04	8.79	20.68
Cash flow per share after tax (NOK)	2	2.09	8.95	10.43	11.43	14.60	21.42	22.04	22.45	27.89	11.00
Dividend per share (NOK)		0.00	0.00	0.00	0.00	5.50	5.50	6.00	6.00	6.00	6.00
Price/earnings ratio	3	-	-	-	-	-	-	26.50	41.80	11.10	8.20
Price/cash flow ratio	4	6.62	1.07	1.29	3.95	7.35	5.01	5.90	5.70	3.50	15.30
Payout ratio (%)		-	-	-	-	-	-	121.2	197.4	68.3	29.0
Number of shares 31 December (1 000)		189 946	189 946	189 946	189 946	189 946	189 946	133 137	133 137	133 137	133 137
Share prices high		14.35	17.60	45.85	118.50	114.00	124.86	146.50	139.00	175.50	168.50
Share prices low		6.82	7.93	13.15	30.75	83.00	86.50	110.00	86.50	82.50	115.00
Share prices 31 December		13.85	9.55	13.50	45.20	107.50	107.25	131.00	127.00	98.00	168.00
Trading volume (Oslo Stock Exchange) 1 000 shares		444 134	527 525	786 990	659 648	230 507	186 297	157 839	119 400	107 649	116 458
Number of shareholders 31 December		24 779	26 936	26 812	23 871	22 967	23 646	23 851	23 212	21 083	22 587
Number of foreign shareholders 31 December		1 291	1 320	1 355	1 400	1 361	1 355	1 271	1 222	1 210	1 092
Foreign shareholding 31 December		35.9%	25.1%	40.5%	48.9%	67.0%	56.9%	38.2%	37.6%	43.1%	41.3%
Market value (NOK million)		2 630	1 812	2 564	8 586	20 419	20 372	17 441	16 908	13 047	22 367

DEFINITIONS

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

MEMBERS OF CORPORATE BODIES

AS OF 31 DECEMBER 2010

CORPORATE ASSEMBLY

Members elected by the shareholders:	Number of shares
Tom Ruud, Oslo (chair)	410
Tom Rathke, Bergen (deputy chair)	5 843
Emil Aubert, Porsgrunn	10 465
- Holta & Co AS	369 183
- Aubert Invest	161 042
- H. H. Holtas Familielegat	130 185
- A/S Timber Co.	128 144
- Sonja og Emil Auberts legat	16 572
Ragnhild Borchgrevink, Oslo	711
Maalfrid Brath, Oslo	0
Ann Kristin Brautaset, Oslo	0
Jens Nicolai Jenssen, Hommelvik	745
Mikael Løken, Elverum	12 000
Even Mengshoel, Lillehammer	860
Otto Søberg, Bærum	0
Karen Helene Ulltveit-Moe, Bærum	0
Olav Veum, Fyresdal	0

Employee-elected members:	
Trond Andersen, Saugbrugs	0
Harald Bjerge, Saugbrugs	21 306
Trond Bjørken, Skogn	2 056
Erik Josephson, Follum	0
Freddy Sollibråten, Follum	0
Stig A. Stene, Skogn	1 099

Employee-elected observers:	
Kjetil Bakkan, Skogn	585
Marianne Grønvold, Follum	0
Jan Magnar Hansen, Saugbrugs	130

Shareholder elected alternate members:	
Henrik A. Christensen, Oslo	0
Maria Moræus Hanssen, Oslo	0

Employee-elected alternate members:	
Morten Bagaasen, Follum	2 028
Geir Ove Brenne, Skogn	0
Øystein Bruce, Saugbrugs	1 010
Thor Granaune, Skogn	3 029
Tor Øystein Henningsen, Follum	576
Tor Salater, Skogn	1 276
Carl F. Nilsen, Saugbrugs	0
Frank Rene Pedersen, Saugbrugs	1 049
Jørn Steen, Follum	0

BOARD OF DIRECTORS

Eivind Reiten, Oslo (chair) (0) Mocca Holding	37 914
Giséle Marchand, Oslo (deputy chair)	838
Halvor Bjørken, Verdal	8 690
Helge Evju, Skollenborg	195
Alexandra Bech Gjørv, Stavanger	6 000
Ingrid Wiik, Bærum	8 003
Paul Kristiansen, Halden	6 200
Svein Erik Veie, Levanger	501
Inge Myrlund, Jevnaker	3 535

Employee-elected alternate board members (personal):	
Jonas Kartum (for Paul Kristiansen), Tistedal	38
Magne Johansen (for Svein Erik Veie), Levanger	0
Stein-Roar Eriksen (for Inge Myrlund), Hønefoss	0

CORPORATE MANAGEMENT

CEO Sven Ombudstvedt	1 805
- Elle Holding AS	248 000
Senior vice president Jan-Hinrich Clasen	8 972
Senior vice president Rune Gjessing	9 057
Senior vice president Terry Hamilton	5 996
Senior vice president Gaute H. Andreassen	17 700
Senior vice president Audun Røneid	6 914

AUDITOR

PricewaterhouseCoopers	0


KONECRANES

PRINCIPAL SHAREHOLDERS

Principal shareholders at 31 December 2010 [1]	NUMBER OF SHARES	%
VIKEN SKOG BA	10 897 825	5.74%
ACADIAN ASSET MANAGEMENT	7 530 672	3.96%
AT SKOG BA	6 671 000	3.51%
FOLKETRYGDFONDET	5 924 431	3.12%
JPMORGAN ASSET MANAGEMENT	5 632 674	2.97%
SKAGEN VEKST	5 622 000	2.96%
DIMENSIONAL FUND ADVISORS	5 255 949	2.77%
SEB ENSKILDA ASA	5 050 000	2.66%
HIGHLINE CAPITAL MANAGEMENT	4 946 500	2.60%
VARMA MUTUAL PENSION INSURANCE	4 204 561	2.21%
SKAGEN KON-TIKI	3 509 610	1.85%
ALLSKOG BA	3 458 990	1.82%
UTHALDEN A/S	3 260 000	1.72%
AVENIR FUND MANAGEMENT	3 172 244	1.67%
ASTRUP FEARNLEY A/S	3 071 219	1.62%
BRANDES INVESTMENT PARNERS	2 913 980	1.53%
AVIVA INVESTORS	2 522 826	1.33%
DNB NOR BANK ASA	2 522 177	1.33%
AWILCO INVEST AS	2 300 000	1.21%
A/S HAVLIDE	2 296 466	1.21%
DELPHI-FONDENE	2 176 000	1.15%
A/S HERDEBRED	2 103 005	1.11%
MJØSEN SKOG BA	1 970 560	1.04%
HOME CAPITAL AS	1 896 942	1.00%
STATE OF NEW JERSEY	1 827 612	0.96%
ALLSKOG HOLDING AS	1 802 424	0.95%
DEUTSCHE ASSET MANAGEMENT	1 600 000	0.84%
ETERA MUTUAL PENSION INSURANCE	1 591 800	0.84%
STATOIL PENSJONSKASSE	1 574 703	0.83%
SKIENS AKTIEMØLLE ASA	1 552 361	0.82%
FIDUCIA AS	1 500 000	0.79%
DEUTSCHE BANK AG FRANKFURT	1 446 602	0.76%
ALFAPLAN AS	1 420 000	0.75%
UBS WEALTH MANAGEMENT	1 175 456	0.62%
NORDEA BANK PLC FINLAND	1 139 560	0.60%
DANSKE BANK A/S	1 130 688	0.60%
ONTARIO PERS	1 121 833	0.59%
CANADA LIFE	1 119 252	0.59%
ALFRED BERG	978 425	0.52%
NO OF SHARES <0.5%	70 055 279	36.88%
TOTAL	**189 945 626**	**100.00%**

[1] The data is provided by RD:IR and VPS, through the Nominee ID service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Norske Skog share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis. For a list of the 20 largest shareholders as of 31.12.2010 from the official VPS list, see Note 16 to the annual accounts for Norske Skogindustrier ASA.

ARTICLES OF ASSOCIATION FOR NORSKE SKOGINDUSTRIER ASA

LAST AMENDED IN GENERAL ASSEMBLY 22 APRIL 2010

ARTICLE 1 THE COMPANY FORM AND NAME

The company is a public limited liability company.
The company's name is Norske Skogindustrier ASA.

ARTICLE 2 OBJECTIVE

The objective of the company is to operate wood processing activities and associated activities. The company may participate in other commercial activity by subscribing to shares or in other ways.

ARTICLE 3 REGISTERED OFFICE

The company is registered in Norway, and has its corporate management and registered office in Bærum municipality.

ARTICLE 4 SHARE CAPITAL AND SHARES

The company's share capital amounts to NOK 1 899 456 260, divided into 189 945 626 shares each with a nominal value of NOK 10.

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

ARTICLE 5 BOARD OF DIRECTORS

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

The corporate assembly elects the chair and deputy chair of the board every year. The corporate assembly will determine the remuneration payable to directors. The board of directors is responsible for appointing a chief executive, to be known as the president and chief executive officer, and for determines his/her remuneration. "The board of directors appoints a chief executive or named employees to sign for the company.

ARTICLE 6 CORPORATE ASSEMBLY

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

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

ARTICLE 7 ELECTION COMMITTEE

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

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

The election committee will have the following tasks:

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

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

ARTICLE 8 GENERAL MEETING

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

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

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

The annual general meeting will:

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

Matters which a shareholder wants to put before the general meeting for discussion and voting must be communicated in writing to the board at least seven days prior to the deadline for issuing a notice of a general meeting enclosing a proposed motion or reason for putting the matter on the agenda. Notice of the general meeting will be given, and the general meeting will be chaired, by the chair or deputy chair of the corporate assembly or, in their absence, by the chair of the board of directors.

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

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Norske Skog