07 NORSKE SKOG ANNUAL REPORT

Norske Skog

MAIN FINANCIAL FIGURES

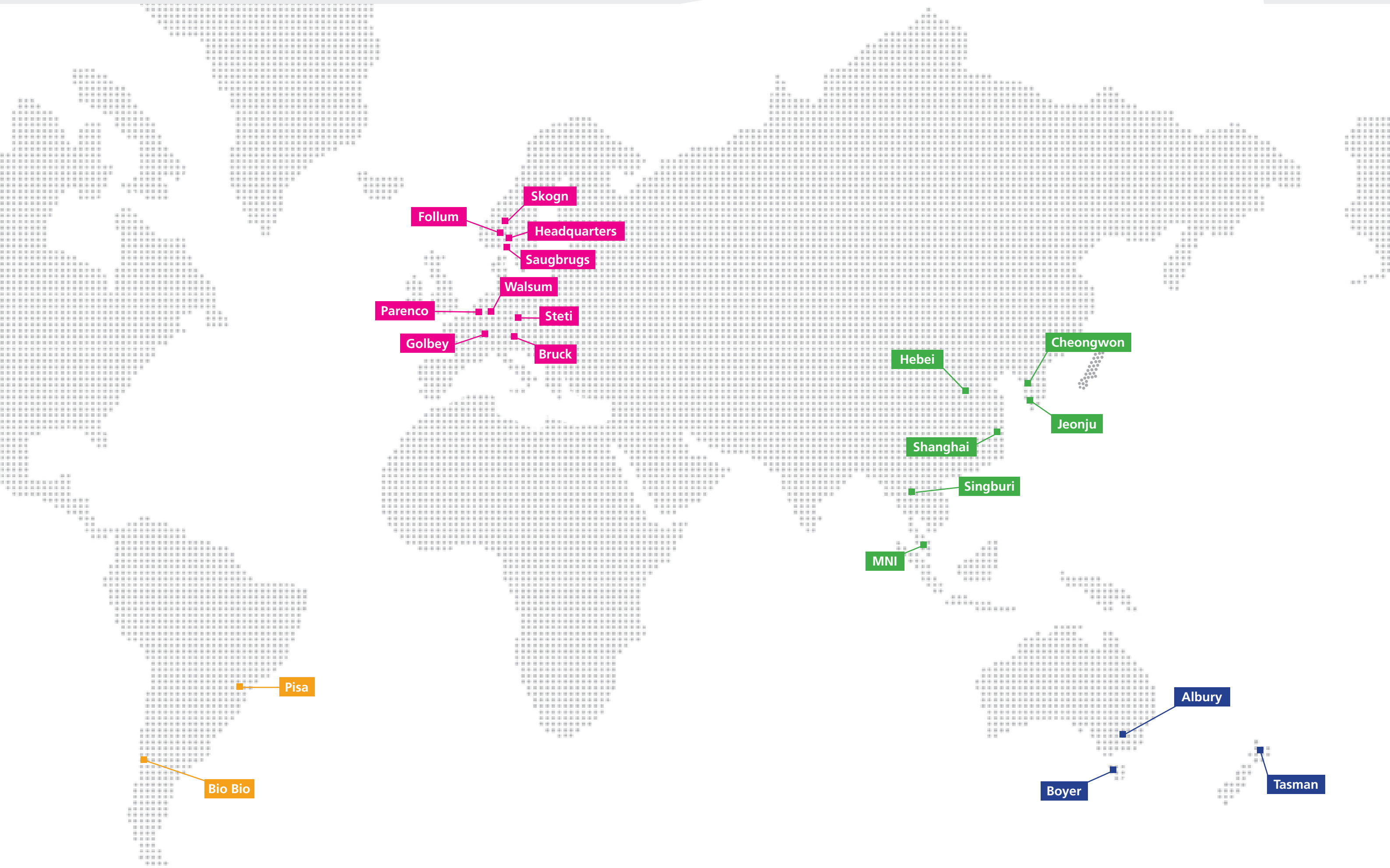
DEFINITIONS		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Profit and loss account (NOK mill)											
Operating revenue		27 118	28 812	25 726	25 302	24 068	23 471	30 354	26 635	18 054	14 908
Gross operating earnings	1	8 395	3 932	4 220	4 303	4 686	5 198	8 419	6 599	3 818	3 103
Operating earnings		677	(2 527)	630	757	1 536	1 306	5 096	4 211	2 129	1 780
Earnings before financial expenses	2	785	(2 275)	(51)	868	1 383	1 833	5 581	4 575	2 252	1 948
Earnings before taxation		235	(3 480)	(1 004)	210	770	806	3 894	3 021	1 825	1 417
Earnings for the year		(618)	(2 809)	(854)	621	402	1 162	2 494	1 958	300	1 020
Balance sheet (NOK mill)											
Fixed assets		29 307	37 577	43 740	36 861	39 219	38 197	45 417	43 717	18 828	17 586
Current assets		13 953	7 653	8 293	7 238	7 119	6 769	10 855	17 510	6 086	6 663
Total assets		43 260	45 230	52 033	44 099	46 338	44 966	56 272	61 227	24 914	24 249
Shareholder's equity incl. minority int.		15 957	18 550	22 679	18 894	19 416	17 921	19 526	22 351	11 727	10 029
Long term debt		21 533	18 802	21 700	20 052	21 402	18 814	30 858	31 906	9 021	9 564
Current liabilities		5 770	7 878	7 654	5 153	5 520	6 210	5 888	6 970	4 166	4 656
Total liabilities and shareholder's equity		43 260	45 230	52 033	44 099	46 338	42 945	56 272	61 227	24 914	24 249
Net interest bearing debt		16 409	17 321	19 063	16 871	17 759	18 204	22 820	20 535	7 618	7 082
Profitability											
Gross operating margin %	3	30.9	13.6	16.4	17.0	19.5	22.1	27.7	24.8	21.1	20.8
Net operating margin %	4	2.5	(8.8)	2.4	3.0	6.3	5.6	16.8	15.8	11.8	11.9
Net profit margin %	5	(2.3)	(9.7)	(3.3)	2.6	1.7	5.0	8.2	7.4	7.2	6.8
Return on assets %	6	1.8	(4.7)	(0.1)	1.9	3.0	3.6	9.5	10.6	9.2	9.4
Return on equity % *	7	(3.6)	(13.6)	(4.1)	3.4	2.2	6.2	11.9	11.5	12.0	10.7
Equity ratio	8	36.9	41.5	43.6	42.8	41.9	39.9	34.7	36.5	47.1	41.4
Net interest bearing debt/equity		1.05	0.96	0.84	0.89	0.91	1.02	1.17	0.92	0.65	0.71
Return on capital employed %	9.15	3.0	3.6	2.8	2.5	3.6	3.2	13.7	13.1	11.0	11.7
Net earnings per share after tax (NOK)	10	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17	14.01	11.36
Net earnings per share fully diluted (NOK) *	10	(3.26)	(14.84)	(5.98)	4.95	3.04	8.79	20.68	19.17	14.01	11.36
Cash flow per share after tax (NOK)	11	11.43	14.60	21.42	22.04	22.45	27.89	58.47	48.18	23.29	31.85
Cash flow per share fully diluted (NOK) *	11	11.43	14.60	21.42	22.04	22.45	27.89	23.29	48.18	23.29	31.85
Liquidity											
Liquid assets (NOK)	12	1 886	485	902	889	930	868	4 158	8 629	803	2 312
Cash flow (NOK)	13	2 166	2 763	3 061	2 948	2 973	3 687	7 052	4 922	2 162	2 859
Current ratio	14	2.42	0.97	1.08	1.40	1.29	1.09	1.84	2.51	1.46	1.43

Definitions main financial figures:

1. Gross operating earnings = operating earnings + ordinary depreciation + restructuring expenses
2. Earnings before financial expenses = operating earnings + interest income + share of profit in affiliated companies
3. Gross operating margin = gross operating earnings : operating revenue
4. Net operating margin = operating earnings : operating revenue
5. Net profit margin = earnings for the year : operating revenue
6. Return on assets = earnings before financial expenses : total assets (average)
7. Return on equity = earnings for the year : equity (average)
8. Equity ratio = equity : total assets
9. Return on capital employed = operating earnings before restructuring costs : capital employed (average) (see 15)
10. Net earnings per share after tax = earnings for the year : average number of shares *)
11. Cash flow per share after tax = cash flow : average number of shares *)
12. Liquid assets = cash and bank deposits + short term investments
13. Cash flow = net cash flow from operating activities (from statement of cash flow)
14. Current ratio = current assets : current liabilities
15. Capital employed = total assets less affiliates interest free current liabilities and interest bearing assets

* When calculating financial ratios per share after full conversion net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.

The World
of Norske Skog



Contents

Events of 2007

January

- Construction starts on the geothermal power station at Kawerau, where Norske Skog Tasman and New Zealand's Mighty River Power are cooperating on the project.
- Launch of the 3C 'Combat Climate Change' initiative. This project is supported by 46 large companies from across the globe, and is a roadmap for fighting climate change. Norske Skog is one of the original participants.

February

- Norske Skog launches a Norwegian bond loan with five years maturity and floating interest rate. The new loan is well received in the market.

March

- Norske Skog announces the de-merger of most of the properties in Norway that are not related to paper production. The properties will be held by a wholly-owned subsidiary. The most important properties are Klosterøya in Skien, the headquarters with surrounding property in Bærum outside of Oslo, and a farming and residential property in Trondheim.

April

- Kim Wahl steps in as new chair of the board for Norske Skog.

May

- WWF (World Wide Fund for Nature) and Norske Skog join forces on a project that makes environmental information available in schools in Thailand. For one year environmental issues will be put on the agenda, including the climate, local issues and the environmental challenges surrounding the Mekong River. The project is called "Young Readers for the Environment."

June

- Norske Skog raises 500 million (approximately NOK 4 billion) in a Euro-denominated bond loan, with a maturity of 10 years.

July

- Norske Skog purchases Statoil's shares in Industrikraft Midt-Norge AS (IMN) and signs an agreement with Nord-Trøndelag Elektrisitetsverk AS (NTE). This brings Norske Skog's share percentage in IMN up from 10 per cent to 40 per cent. With the increased share percentage in IMN, Norske Skog takes a more active role in improving the energy situation in mid-Norway and contributes to further industrial development in the region. The planned energy production at Skogn is based on natural gas and biomass.

September

- Norske Skog strengthens its supply of recovered paper by establishing a trading arm. Headquartered in Oslo, the Reparco group will operate in Asia and grow existing operations in the United States and Europe.
- As the European market for newsprint suffers from overcapacity, Norske Skog decides to reduce production of newsprint in Europe by 200 000 tonnes in 2008 to meet this situation.
- Norske Skog receives the first Farmand prize that has ever been awarded for a sustainability report.

October

- Norske Skog and WWF cooperate on Young Readers and the environment in Thailand, meeting with Thai teachers who will work on the programme. Thai schoolchildren will receive newspapers and environmental textbooks distributed at school from February 2008.

November

- The 'asset review' is started, where all of Norske Skog's paper machines are analysed for profitability and possible closure.
- Rune Gjessing is appointed new senior vice president, strategy.
- Andreas Enger is elected new chair of the board in Industrikraft Midt-Norge at the company's extraordinary general meeting.
- Norske Skog signs a long-term deal for delivery of newsprint to the British media corporation News International Limited.
- Norske Skog and Canadian tax authorities agree on closure of a tax issue concerning a subsidiary of what was then called Fletcher Challenge, acquired by Norske Skog in 2000. Norske Skog pays CAD 42.5 million as a final payment.

December

- Announcement of write-downs and an accelerated schedule for the asset review process, where the profitability of all of the paper machines is to be analysed.
- The new TMP plant at Norske Skog Follum starts production.
- The investor group Unionen AS demand an extraordinary general meeting, which is their right as a shareholder owning more than 5 per cent of the shares. The extraordinary general meeting is scheduled for 10 January 2008.

A demanding year

2007 was a demanding year, characterised by continued cost pressure, excess capacity and low prices in many markets.

Our financial results were far from satisfactory. Many employees feel that the future is uncertain, while the shareholders have seen their investments in the company decrease in value. We must reverse this trend. This is the great challenge facing Norske Skog and me.

The prices of raw materials, energy and transport have shown a strong increase in recent years, whereas excess capacity prevents us from achieving corresponding price increases for our own products.

In addition, the falling consumption of publication paper in the USA and a weak US dollar have caused producers to export more of their production to Europe and South America.

The imbalance between production capacity and demand remains the industry' s largest problem. It is essential to Norske Skog that we have an organisation and management which, through decisions and actual measures, anticipate market developments. Both Norske Skog and a number of our competitors have either implemented or announced permanent shutdown of newsprint production capacity in 2008. These are measures which will contribute to a more correct relationship between newsprint supply and demand.

Although our profitability is too low, we have a good market foundation. Norske Skog is the preferred supplier of print paper customers in all of our main markets.

We also see signs of improvement in magazine paper markets. This is the result of reduced excess capacity through several permanent shutdowns during the past year. In addition, we have seen a more positive development in the magazine paper demand.

In 2006, we introduced an ambitious improvement programme, which aimed to improve our result by NOK 3 billion per year from 2009, measured against 2005 as the base year. This programme has been an important contribution to the fact that we, in spite of everything, have managed to maintain positive margins during the past year.

We had a positive total cash flow of NOK 2.2 billion after interest and tax in 2007. The instalment profile of our debt is manageable, partly because we refinanced EUR 500 million in loans in 2007. It is still important to Norske Skog to maintain a strong focus on reducing the debt through the strategic choices and decisions which are made.

Norske Skog has also established a separate company for international recovered paper trading. At present, we are the world' s largest consumer of recovered paper for production of newsprint, and we have a global organisation with expert competence in this area.

In 2008, we also strengthened our effort in the field of bioenergy. A company will be established in cooperation with Norwegian forest owners which to begin with, will build a pilot facility for the production of biodiesel based on timber. The pilot facility will be built at Norske Skog Follum in Norway.

The global environmental challenges also affect Norske Skog. We are setting the bar for our environmental results higher and higher, and our customers are pushing us to ensure that our production should affect the environment as little as possible. This is welcome attention. Good environmental results will be an important competitive advantage in the coming years. In 2007, Norske Skog took part in founding the Combat Climate Change (3C) initiative, a global initiative by the largest industrial companies in the world to reduce greenhouse gas emissions. Norske Skog aims to reduce the company's emissions of CO_2 by 25 per cent by 2020.

In connection with the measures scheduled for implementation to reduce excess capacity and costs in 2008, many skilled employees in several countries will unfortunately become redundant. Norske Skog will assume responsibility to help the affected find new work to the greatest extent possible.

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
CEO & PRESIDENT

The imbalance between production capacity and demand remains the industry's largest problem.

The world is using ever more publication paper

The world's consumption of publication paper has never been higher than in 2007. However, the development differs from market to market.

The total consumption of wood-containing publication paper was 71 million tonnes in 2007, up from 70 million tonnes in the record year 2006. Newsprint growth came primarily in the emerging markets in Asia, South America and Eastern Europe, whereas the development was stable in Australasia and showed some decline in Western Europe.

In the US, demand for newsprint dropped almost 10 per cent, resulting in major surplus capacity for North American producers. The magazine paper segment saw healthy demand growth both in Europe and in North America, although prices came under some pressure, especially in the first half of the year.

The decline in domestic newsprint demand, supported by the weak US dollar, has resulted in a strong increase in exports of newsprint from North America. The exports from North America contributed to price pressure, especially in Europe, but also to some degree in South America. European producers saw a real decline in their newsprint deliveries of almost 2 per cent as a result of the competition from North America. The development in the Asian markets was also characterised by surplus capacity and price pressure.

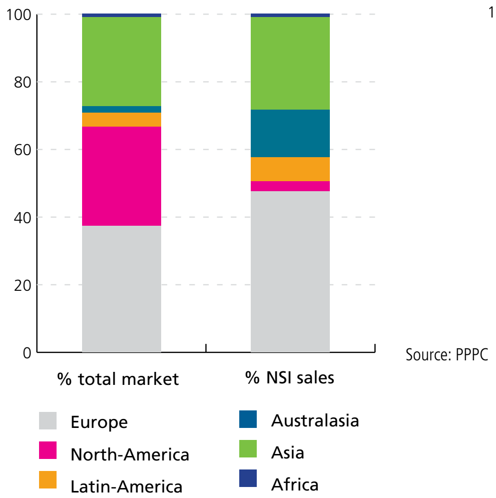
The development in these large markets, along with increased costs for input factors such as recycled fibre, energy and transport, are the main reasons for Norske Skog's unsatisfactory economic results for 2007.

NEWSPRINT

EUROPE: Several of the world's leading paper producers announced permanent or temporary shutdowns of production capacity in 2007. Norske Skog implemented temporary production curtailments totalling 70 000 tonnes

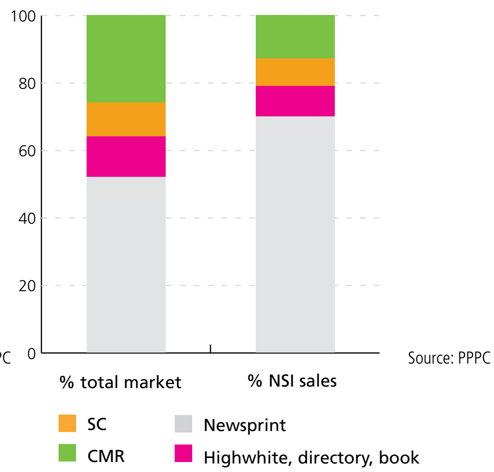
Publication papers by region

(tonnes)



Publication papers by type

(tonnes)



at European newsprint mills. Further temporary curtailments of 200 000 tonnes have been decided for 2008. In November 2007, the company started a full review of all paper machines with a view to take further measures. A general trait of the European market is that many established newspapers are losing ground, both with regards to circulation and advertising volume, but this is to a large extent offset by the emergence of new free newspapers.

Consumption development in Europe is expected to remain stable through 2008, although imports, primarily from North America, will represent an element of uncertainty for domestic producers

ASIA: The demand for newsprint continued to grow strongly through 2007. This was largely driven by China and India, with growth of 12 and 2 per cent, respectively. China now consumes 3.6 million tonnes of newsprint annually. Thailand and South Korea also saw growth in demand after several years of decline and stagnation.

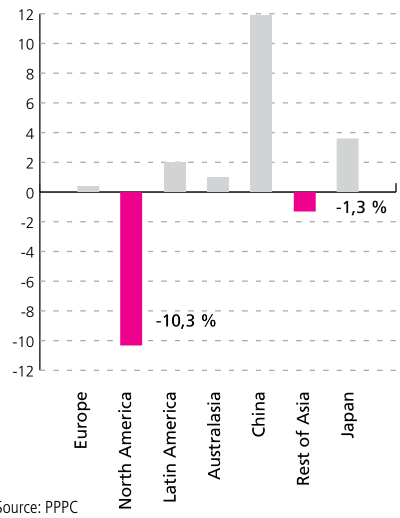
As a result of continued addition of new production capacity in China, as well as imports from North America and Europe in particular, the market situation is still characterised by surplus capacity and low prices. In spite of this, Norske Skog increased its sales volumes in China in 2007, to 410 000 tonnes. In the second half of 2007, customer acceptance of a minor price hike was achieved as compensation for increased raw materials costs.

In the years 2007/2008, China will see additional modern production capacity of 700 000 tonnes. The increase is partially balanced by the expectation that old machines with a total capacity of 250 000-300 000 tonnes will be taken out of production in 2008/2009.

China more than doubled its export of newsprint in 2007, to 600 000 tonnes, primarily to other Asian countries. Seen as a whole, the Asian region still depends on significant imports.

Newsprint demand by region

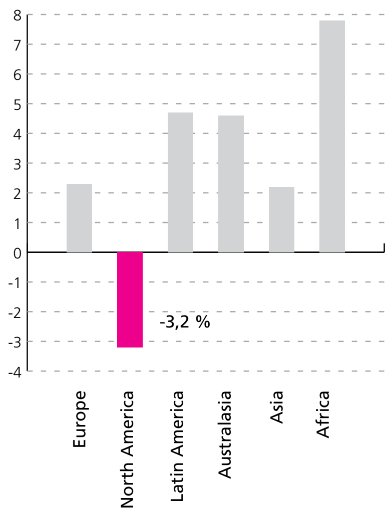
(annual growth 2006-2007)



Source: PPPC

Publication papers demand by region

(% growth 2006-2007)



Groundbreaking agreement in Europe

In November 2007, Norske Skog entered a multi-year newsprint supply agreement with the UK media group News International Limited.

Norske Skog Skogn will be the sole supplier of newsprint to News International's new large printing facility, Eurocentral, outside of Glasgow, which will print the Scottish editions of newspapers such as The Sun, The Times, The Sunday Times and News of the World.

The company, predominantly owned by Rupert Murdoch, will also open another large printing facility in Broxbourne near London in early 2008. Norske Skog will supply 25 per cent of the paper for this facility. The agreement with News International amounts to a substantial part of Norske Skog Skogn's annual production capacity for years to come.

Chief executive Christian Rynning-Tønnesen calls the agreement "groundbreaking" in the European newsprint market.

"This provides us with the opportunity to cooperate even more closely with our customers and contribute to intensify the work to reduce costs in the value chain."

The Murdoch companies are among Norske Skog's largest global customers. Norske Skog continues to have long-term delivery agreements with News Corporation's enterprises in Australasia.

Leader in all markets

For the first time ever, Norske Skog tops the list of preferred newsprint suppliers in all of the company's main markets.

MTG Information carries out the global and independent survey Competitive Perception annually. In 2007, Norske Skog received the highest score of all producers when European newsprint customers were asked: "If you had to buy newsprint from only one supplier, which would you choose?"

This means that Norske Skog maintains its position as the preferred newsprint supplier in Europe, after topping the list for the first time in 2006.

Norske Skog is now the preferred supplier in all of the company's main markets, and in addition to Europe, Norske Skog tops the list in Brazil and the rest of South America, Australasia and Asia.

Continued high growth in Chinese demand is expected through 2008, both as a result of the Summer Olympics in Beijing and the country's increasing urbanisation. Growth in India is also expected to remain high. The rest of Asia will continue to see stable/flat demand.

AUSTRALASIA: Consumption of newspaper grades in Australia and New Zealand remained stable in 2007. In general, newspapers saw slightly falling circulation. This was offset by an increased number of pages per edition as a result of a good development in the national economies. The development is expected to continue through 2008.

Norske Skog is the only producer of newspaper grades in the region. The comparatively small volumes of regional imports now includes Chinese supply from non-Norske Skog mills, however the overall volume of imports is not expected to increase.

LATIN AMERICA: The Latin American newsprint market increased by 2 per cent in 2007. The growth was particularly strong in the last quarter. Brazilian newspapers increased both their circulation and advertisement volume by about 10 per cent. In Argentina, the region's third largest market, consumption of newsprint grew by almost 13 per cent.

Despite increasing imports from North America, prices in general only partially followed the decline in US reference prices. This was in part due to the tight supply/demand balance the region experienced in 2007.

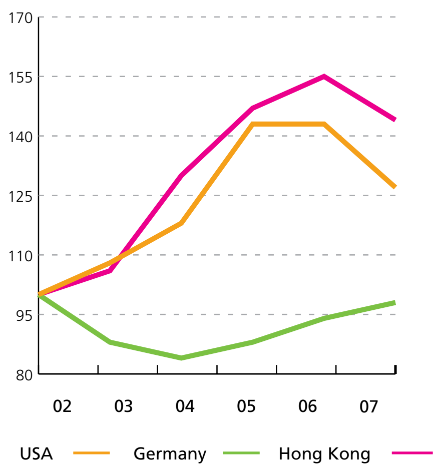
MAGAZINE PAPER

The market for the two main magazine paper segments, SC and LWC, was characterised by surplus capacity and price pressure through the first half of 2007. However, the market balance improved substantially in step with increasing demand and various structural measures, including the closure of more than 1 million tonnes of capacity of lightweight coated paper. Development for SC was also positive and several closures were either implemented in 2007 or announced for 2008.

The second half of 2007 was characterised by an improving market balance and rapidly rising prices in North America. Price increases will also occur in Europe in 2008, although the SC pricing development is somewhat more uncertain as a result of the start-up of Myllykoski's new swing machine of 380 000 tonnes in Germany.

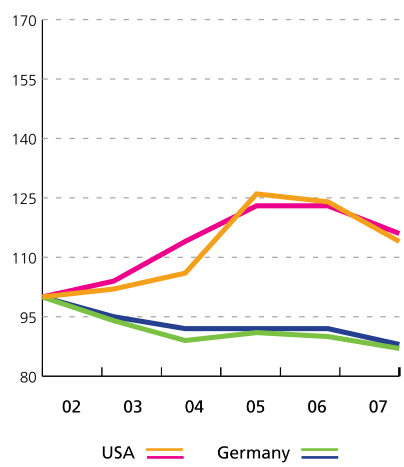
Newsprint price index

(Local currency base 2002)



SC price index

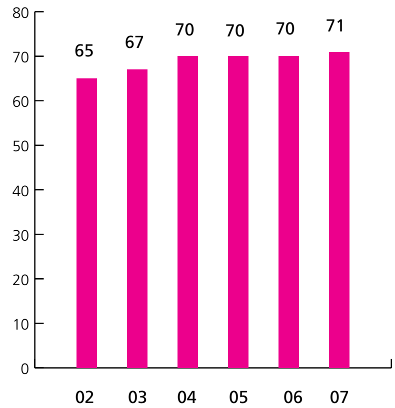
(Local currency base 2002)



Source: RISI

World publication market demand

(million tonnes)



Source PPPC

Norske Skog products

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

1 Nornews

Newspapers today must cover a broad range of activities, and must present them in new ways to new readers. Norske Skog's Nornews brand is a high-quality newsprint product recognised for its excellent printability and runnability characteristics. It is suitable for use on all types of cold set newspaper printing presses. Newsprint from Norske Skog is manufactured at 16 production units around the world using a combination of virgin and recycled fibres.

Product brand: Nornews

End use: Newspapers, free-sheets, directories, supplements, insert/flyers

Printing method: Cold set web offset, flexo, letterpress

Mills: Albury, Bio Bio, Boyer, Bruck, Cheongwon, Follum, Golbey, Hebei, Jeonju, Parenco, Pisa, Shanghai, Singburi, Skogn, Steti, Tasman

2 Norbright, Norstar and NorX

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

Product brand: Norbright, Norstar, NorX

End use: Supplements, inserts/flyers, direct mail, newspapers, freesheets, directories, magazines, books

Printing method: Cold set web offset, heat set web offset, letterpress

Mills: Bio Bio, Boyer, Follum, Golbey, Parenco, Pisa, Tasman

3 Norset

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

Product brand: Norset

End use: Magazines, catalogues, supplements, inserts/flyers, direct mail, books

Printing method: Heat set web offset

Mills: Follum

4 Directory Paper

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

Product brand: Bio Bio Directory, Tasman Directory

End use: Telephone directories, catalogues

Printing method: Heat set web offset, cold set web offset

Mills: Bio Bio, Tasman

5 NorSC

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

Product brand: NorSC

End use: Magazines, catalogues, inserts/flyers, direct mail, supplements

Printing method: Heat set web offset, rotogravure

Mills: Saugbrugs

6 Norcote

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

Product brand: Norcote

End use: Magazines, catalogues, supplements, direct mail, inserts/flyers

Printing method: Heat set web offset, rotogravure

Mills: Bruck, Walsum

PRODUCTION

More changes necessary

Cost increases and overcapacity in the last few years have reduced profitability to a level that is not financially sustainable.

Fundamental cost improvements in the operation and administration of the company are being implemented. The approach must be at many levels. On the one hand the Turnaround programme, started in 2006, focuses on numerous cost-cutting and profitability improvement initiatives at all business units and at the corporate headquarters. As a part of the Turnaround programme, Norske Skog Production System (NSPS) is being implemented, where mills share best practice focusing on cost reduction and efficiency.

But as the market situation worsened during 2007, even more effective measures were needed. After the announcement of a 200 000 tonne reduction in 2008 European newsprint production, it was determined in November that permanent closures were necessary.

Every paper machine worldwide was analysed to determine the candidates for temporary or permanent closures, looking at costs, profitability, market outlook and conversion options in the asset review process. The results were announced 7 February 2008, and the recommendations were many, including the shutdown of Norske Skog Steti, Norske Skog Cheongwon and the closure of PM2 at Norske Skog Follum. In addition there will be a reorganisation of the head office with a significant staff reduction. Several properties not related to production are recommended sold, including the head office property at Oxenøen.

Growing our recovered paper business

Norske Skog is planning to grow considerably grow its business of supply and trading of recovered paper globally. There is fierce competition for recovered fibre which will increasingly be sourced and traded on a global scale.

The Reparco Group has been established with headquarters in Oslo and three operational offices; Europe, Los Angeles and Shanghai. Reparco operates four recovered paper processing plants in Europe.

Reparco will capitalise on the existing consistent level of supplies of recovered paper to the Norske Skog mills in order to grow, merchanting all grades of recovered paper.

For more information go to www.reparco.net

REPARCO
A Norske Skog Company

Production capacities 31 December 2007 (1 000 tonnes)

MILL	COUNTRY	NEWSPRINT	OTHER PAPER	SC UNCOATED PAPER	LWC MAGAZINE PAPER	TOTAL CAPACITY
EUROPA:						
Norske Skog Skogn	Norway	595				595
Norske Skog Saugbrugs	Norway		550		550	550
Norske Skog Follum	Norway	60	215		140	415
Norske Skog Golbey	France	640				640
Norske Skog Bruck	Austria	125			265	390
Norske Skog Steti	Czech Rep.	130				130
Norske Skog Walsum	Germany				435	435
Norske Skog Parenco	Netherlands	460				460
Total Europe		**2 010**	**215**	**550**	**840**	**3 615**
ASIA:						
Norske Skog Jeonju	Korea	825				825
Norske Skog Cheongwon	Korea	190				190
SNP Shanghai	China	145				145
HNLC Hebei	China	330				330
Norske Skog Singburi	Thailand	125				125
Total Asia		**1 615**				**1 615**
AUSTRALASIA:						
Norske Skog Tasman	New Zealand	270	50			320
Norske Skog Albury	Australia	270				270
Norske Skog Boyer	Australia	200	85			285
Total Australasia		**740**	**135**			**875**
LATIN AMERICA:						
Norske Skog Pisa	Brazil	185				185
Norske Skog BioBio	Chile	60	65			125
Total South America		**245**	**65**			**310**
Total consolidated capacity		**4 610**	**415**	**550**	**840**	**6 415**
MNI (Norske Skog 34 per cent share)			**85**			**85**

The energy market

Oil and coal prices nearly doubled in 2007, but the increase did not manifest itself fully in the continental energy prices until the fourth quarter. Prices mostly varied between 30-40 EUR/MWh in the first three quarters, whereas we witnessed an increase to just below 60 EUR/MWh in the fourth quarter.

The first phase of the CO2 quota trading scheme ended on 31 December. The price has practically been zero in 2007, as the supply of quotas has significantly exceeded demand. Phase 2 will last from 2008 to 2012. In the middle of February 2008, the prices were just above 20 EUR/tonne.

Precipitation was very abundant in Norway, especially in the summer months. The spot price for the year as a whole was 220 NOK/MWh. A strong price increase is expected in 2008 due to the increase in CO2 prices as well as continued high oil and coal prices.

The duration of these contracts varies, depending on market and fuel type. In general, we have long-term energy contracts in Norway, South America and Australasia. These also include agreements recently entered into in Australia, New Zealand and Brazil. Electricity prices in Asia are government regulated, and have not risen to the same level as in Europe.

PRODUCTION

Turnaround on track

The profit improvement programme – aiming to increase the gross operating profit (EBITDA) by NOK 3 billion annually by the end of 2008 is on track, but eroded by changes in external factors such as increased energy, fibre and wood costs.

The goal of the Turnaround programme is to improve the EBITDA (earnings before interest, taxes, depreciation, and amortisation) by NOK 3 billion as compared to the 2005 result before adjusting for external factors. The programme was launched in 2006. By Q4 2007 the improvements had reached NOK 2 billion annualised, before adjustments for external factors. During the same time frame, costs have increased by NOK 2.8 billion annually, due to external factors.

The improvements are in the areas of:

- energy efficiency
- materials usage
- productivity
- production and maintenance costs
- sales and logistics
- staff reductions

The Turnaround programme is continuing at full strength. The business units have aggressive targets that are closely tracked and monitored on a quarterly basis. Every business unit is then rated on a scorecard that ranks profit improvement progress. Managers are held accountable for the results.

The original goals meant reducing the staff by approximately 1 000 people, and that goal will be reached by the end of 2008. Payroll costs were reduced by NOK 305 million on an annual basis in 2007.

NORSKE SKOG PRODUCTION SYSTEM (NSPS)

NSPS was established as part of the Turnaround programme. It is a system for continuous improvement that aims to generate cash and to strengthen Norske Skog's improvement culture.

Currently, the NSPS programme comprises a globally mobile team of 12 production experts who work alongside with local employees throughout the company. The team has participated in six improvement programmes, each lasting for four months. The BUs that have finished the first phase of their NSPS programmes are Golbey, Albury, Skogn, Parenco, Walsum and Hebei. The global NSPS team is now moving on to most remaining BUs in 2008.

In 2007, a new intranet portal, Share Point, was launched as an important tool in NSPS. It brings a wealth of information and networks together in one place for knowledge sharing. Best practices have documents and process descriptions on file – including descriptions of how to solve operational problems and how to systemise for improvement of operational performance.

Included in Share Point are five main areas: Norske Skog Production System (NSPS), technical knowledge network, technical support and development

reports, benchmarking and statistics, and the global know-how directory.

So far, the results of NSPS are encouraging. Significant commitment and energy is being generated throughout the business for the improvement process.

Three examples of the many NSPS improvements are:

Norske Skog Skogn: the focus on TMP heat recovery, steam turbine utilisation and reduced usage of oil and the electrical boiler have resulted in a gain of NOK 3.16 million at the end of 2007.

Norske Skog Parenco: the NSPS process evaluated the optimisation strategies for steam supply and electricity purchasing, finding energy costs could be further reduced by operating the condensing steam turbine differently. With the new strategy, less steam is used for making electricity when the price of electricity purchased from the grid is low. When the strategy is fully optimised the mill anticipates saving EUR 1.5 million per year. The new strategy also reduces the use of natural gas in the mill and greenhouse gas emissions to the environment.

Norske Skog Walsum: until now, approximately EUR 750 000 of annual savings has been achieved developing follow-up tools and tracking length losses on PM10. The pilot is now completely handled by Walsum people, with transfer to the line planned completed by March 2008.

Energy strategy is key

Energy prices have stabilised at a high level, making energy supply and efficient energy use a vital part of current and future business strategy.

Energy costs showed an improvement in 2007 compared to 2006, with a reduction in total energy costs per tonne paper globally of 6 per cent. Nevertheless, the situation is challenging, with a per tonne increase of 35 per cent in the period between 2002 and 2007. Analysts predict energy prices to stay at a high level.

There is an even greater focus on decreasing energy use per tonne of paper produced, and the results from the programmes started in 2006 are starting to show. Despite higher market prices, mills have implemented various energy saving initiatives. Norske Skog Parenco continued with various cost-cutting programmes, and has become a model of energy saving practices for other mills.

Another project that will bear fruit in 2008 is at Norske Skog Tasman in New Zealand. The mill will benefit from the construction of a geothermal power station that is scheduled for start-up at the end of 2008. Since commencing on-site in January 2007 the turbine-generator building has been completed and the installation of mechanical and electrical equipment is well underway. The end of 2008 will see the plant generating approximately a third of the Eastern Bay of Plenty requirements as well as providing electricity pricing stability to Norske Skog Tasman.

CAPITAL MARKET

A turbulent year in the financial markets

Norske Skog operates in a capital-intensive industry, with the major part of its business located outside of Norway. The international capital market therefore influences the group in several areas.

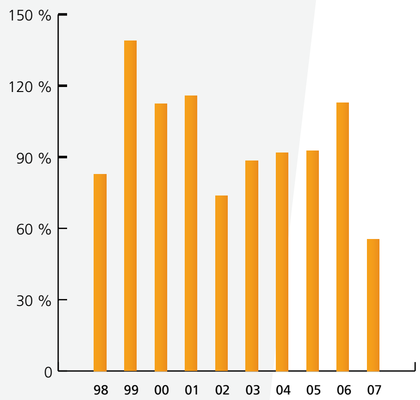
The liquidity in the international loan market affects the price of and access to loan capital. In addition, the price is influenced by development in the international interest market. Another area of great significance is the development in the currency market. This influences both the group's cash flow and balance sheet, in addition to currency fluctuations also influencing newsprint and magazine paper prices and trade flows. The development in the international capital markets is therefore important to Norske Skog.

The year 2007 has in many ways been turbulent in the financial market. The US dollar has fallen in value, reaching its lowest level in years. However, even more important are the disturbances triggered by the problems in the US housing mortgage market for borrowers with low credit ratings, the socalled subprime market. In the second half of 2007, this had a dramatic effect on liquidity and interest margins in both the banking and bond markets.

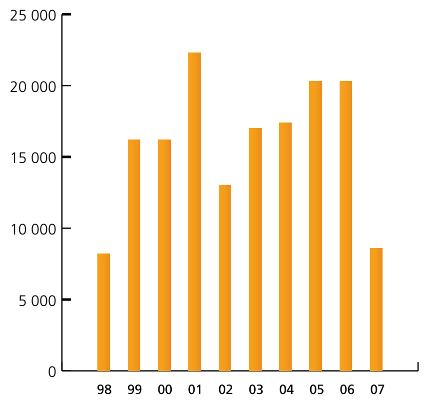
Last year was characterised by some unrest for Norske Skog as well. The group's credit rating from Moody's was downgraded from Ba1 with a stable outlook to Ba2 with evaluation for further downgrades. Standard & Poor's BB rating was maintained, but the outlook was changed from stable to negative. In the aftermath of the problems in the subprime market, Norske Skog's loan margins have increased significantly. This can be illustrated by looking at the price for five-year credit default swap, which was about 100 basis points (1 per cent) at the start of 2007, but which was 400 basis points (4 per cent) at year-end.

However, the loan market was still very good in the first half of 2007, characterised by good liquidity and attractive borrowing terms. Norske Skog raised two loans in this period. In February, a NOK 1 billion bond loan was raised in the Norwegian market, while a EUR 500 million loan was raised in the European market in June. Both loans have contributed to improve the group's instalment profile. In spite of these borrowings, questions were raised during the autumn of 2007, concerning the group's loan profile and ability to cover the instalment charges in the future, especially the loan instalments which fall due in 2010 and 2011, which are relatively large. Norske Skog will, in line with its policy, work to refinance these loans well before they fall due. However, market conditions will also be taken into consideration to ensure the most attractive terms possible.

Market value as % of book value



Market value Norske Skog at 31 Dec.
(NOK mill)



Financing

Norske Skog is working to ensure good financial flexibility through a long-term instalment structure, good diversification of loan sources and a good liquidity position.

A 10-year loan was taken out in the European bond market in 2007. This was the group's first borrowing in this market. However, Norske Skog has raised long-term loans in the US bond market in both 2001 and 2003. The borrowing in Europe contributes to strengthen the group's position in the financial market as it secures improved access to a new and improved investor base. In addition, Norske Skog raised a Norwegian bond loan of NOK 1 billion with a maturity of 5 years. Both loans contributed to improve the group's instalment profile.

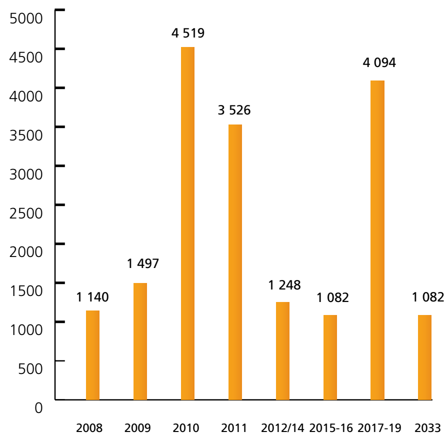
A steady and long-term instalment profile for the borrowing portfolio is an important objective to reduce the refinancing risk and ensure a good ability to fulfil the loan commitments in years with an economic downturn It is an objective that the borrowing portfolio should have an average term to maturity of at least five years. As of 31 December 2007, the average term to maturity was 5.4 years. The bar chart below shows the instalment structure for the group's loans as of 31 December 2007.

Norske Skog wishes to spread its financing over various banks, investor groups and markets. The purpose of such diversification is to reduce the group's financing risk. The following diagram shows the composition of the group's loan sources as of 31 December 2007.

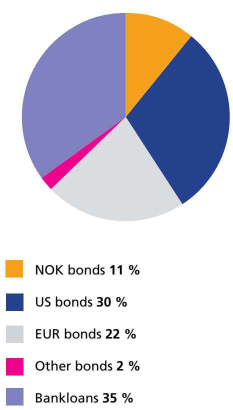
Norske Skog seeks to reduce liquidity risk by maintaining a solid liquidity reserve. Liquidity risk means the risk of Norske Skog not being able to refinance or service its financial commitments at maturity. The liquidity reserve consists of bank deposits and short-term investments, as well as committed undrawn credit ceilings with a term to maturity of more than one year. At year-end, this liquidity amounted to NOK 7.8 billion and consisted of bank deposits of NOK 2 billion and two syndicated bank facilities of USD 500 million and EUR 400 million, falling due in 2009 and 2012, respectively. These credit facilities contain the following requirements as regards key financial figures;

- net equity (equity with intangible assets deducted) must amount to at least NOK 9 billion, and
- net interest-bearing debt/equity must not exceed 1.4.

Repayment schedule long-term debt



Funding sources



CAPITAL MARKET

Financial risk management

Norske Skog's global activities entail a complex risk picture. A series of operational and financial factors may have negative effects on the result and balance sheet and the group is working actively to manage this risk.

CURRENCY HEDGING OF CASH FLOW

Norske Skog's cash flow is distributed among various currencies. Exchange rate fluctuations may have a significant effect on the group's income and costs. The purpose of currency hedging is to reduce the effects of currency exchange rate fluctuations on cash flow and equity.

Norske Skog's strategy is to hedge 50– 100 per cent of the next 12 months' net cash flow per currency. This hedging contributes to reducing the effects of currency exchange rate fluctuations on the group's cash flow measured in NOK. Efforts are made to ensure that the cash effects from the hedging instruments coincide with the currency effects on the underlying cash flow. It is not always possible to achieve this effect for currencies with capital restrictions, so that the current cash flow hedging is limited for these currencies. However, such currencies are monitored specifically through a separate risk analysis.

INTEREST RISK HEDGING

The objective of the interest risk management is to secure low and predictable interest costs over time. An interest policy based on floating interest rates has traditionally been practical for Norske Skog. Interest costs will then mostly be decided by the monetary policy, and the correlation between money market interest rates and prices and newsprint and magazine paper demand has historically been good. In recent years, the newsprint and magazine paper prices have been under pressure, while the group has experienced cost pressure on important input factors. In a situation where the group's cash flow is weakened due to difficult sector-specific market conditions, predictable interest costs will have greater priority. Norske Skog will then expand the fixed interest rate period and implement a greater percentage of fixed interest rates. When the economic situation improves and the sensitivity as regards increased interest costs is reduced, a greater share of the debt will normally be subject to floating interest terms. The duration targets are stipulated separately for each loan currency and the choice of instrument is adapted to where in the interest cycle the individual currency is. For example, option structures may be chosen where the interest level is considered to be relatively high.

CURRENCY HEDGING OF THE BALANCE SHEET

The company's balance sheet may be affected by currency factors. The bulk of Norske Skog's assets are recorded in other currencies than NOK. Balance sheet risk arises when converting these assets. Norske Skog primarily seeks to identify this risk through the group recording liabilities and assets in the same currencies. In addition, the hedging will be arranged to seek to distribute the debt in the currencies

where the company' s cash flow is positive. However, the hedging will be arranged so that financial key figure requirements in the group's loan agreements are protected if a risk of currency fluctuations should arise, thus causing a breach of these terms .

OTHER INPUT FACTORS

The most important risk factors for Norske Skog's result development are the development in newsprint and magazine sales prices, as well as the price development for important input factors, such as timber, recovered paper and energy.

Norske Skog mainly seeks to identify the risk in these areas through long-term contracts which contribute to secure supplies and deliveries, in addition to these contributing to stabilising the prices to some extent.

Financial instruments are used only to a small degree to hedge sales and raw materials prices, as no effective market has developed to hedge this exposure. The exception is for energy, where financial instruments are used to some degree.

Although long-term contracts contribute to reduce the operating and cash flow risk, such contracts may result in accounting exposure. It is not uncommon for such long-term contacts to contain price clauses related to currency or other types of indexes, which can be classified as built-in derivatives under the accounting rules. If the contracts contain such built-in derivatives, IAS 39 requires that they must be valued, either with the entire contract or separately. Norske Skog has built-in derivatives in several of their long-term contracts. Changes in underlying currency exchange rates or indexes which are decisive for the contract price may thus result in large value fluctuations which affect the result and the balance sheet.

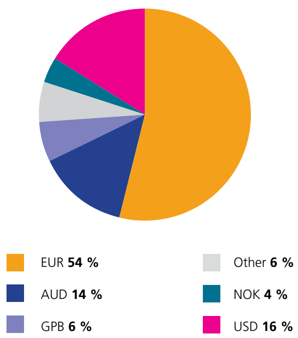
INSURANCE

Norske Skog has a global insurance programme which is managed centrally. Only insurance coverage required by law in the individual country is managed locally. The group works actively to strengthen the injury and damage-preventing effort and all plants have high operating and maintenance standards.

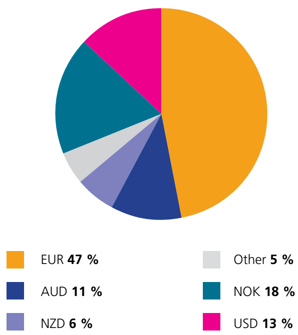
An insurance-technical review was held in 2006 for all buildings and safety arrangements at the plants, with satisfactory results. Machine inspections will be held at all plants in 2007 and 2008. These processes provide an important contribution to mapping, documenting and strengthening the effort to prevent injuries and damage. This work is an important contributor to the fact that no significant damage incidents or personal injuries have occurred in the operation in 2007.

Norske Skog has chosen to insure part of its exposure in its own insurance company, NSI Insurance. The company covers the parts of the insurance risk for property and interruptions, as well as transport risk. A long-term agreement was entered into in 2007 for the group's property and interruption insurance. This provides continuity and predictability, as well as administrative cost savings.

12 month hedged cash flow
Distribution of revenue



12 month hedged cash flow
Distribution of costs



Long-term incentive programme

During the general meeting on12 April 2007, it was decided to introduce a long-term incentive programme for the group management, based on relative share return. The disbursements under this programme depend on the return from Norske Skog's shares being among the eight best within a defined group of 16 listed paper industry companies, including Norske Skog.

The scheme will yield a profit if Norske Skog is among the companies in the upper half of this reference group. 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. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The development is measured in three-year periods, and a new period starts every year. The first period started in Q1 2007, with possible disbursement in 2010.

The maximum annual allocation will amount to the value of 35 000 shares before tax for the group chief executive and 17 500 shares before tax for other members of the group management. A ceiling has also been set, so that the maximum allocation for any given year is 1.25 times the annual wage. A minimum of 50 per cent of the allocation from this programme must be used to acquire shares which are retained until total share ownership amounts to one gross annual wage.

Previously, Norske Skog had an incentive programme in the form of synthetic options for the group management. The latest allocation under this programme took place in July 2006, when the group chief executive was awarded 60 000 share options and each member of the group management was awarded 30 000 share options. As of 31 December 2007, there are 420 000 synthetic options outstanding, of which 90 000 are for the group chief executive.

As mentioned above, the share options are synthetic, meaning that if they are exercised, an amount equal to the difference between market value and exercise price will be disbursed. The amount is handled as wages, and the net amount after tax must be used to buy shares in Norske Skog at market value, with a subsequent commitment term of three years. As a result, the period from share options are awarded and until any gain can be realised will be about six years. The share options are valid as long as the holder is a permanent employee and has not resigned from his/her position, and will remain unchanged until they fall due according to established agreements.

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

Specification of outstanding share options as of 31 December 2007:

Allocation year	Exercise period	Number of share options	Exercise price
2005	01.07. – 31.12.2008	150 000	95
2006	01.01. – 30.06.2009	270 000	81.50

Norske Skog's shareholder policy

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

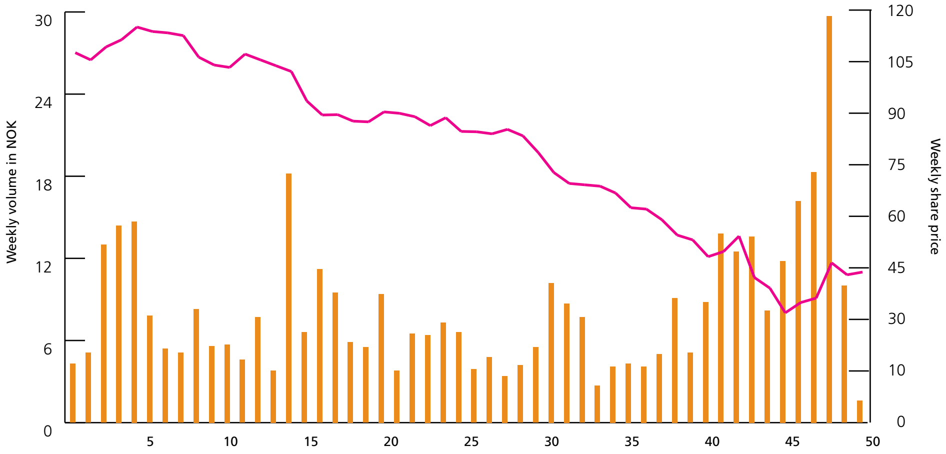
- Norske Skog's goal is to provide the best return for shareholders in the paper industry.
- Norske Skog's shares shall be freely negotiable and based on the principle of one share – one vote.
- The dividend policy shall be competitive and responsible.
- Norske Skog's capital structure shall be adapted to the company's strategy and business risk.
- The work of the board and the executive management shall be based on the principle of equal treatment of all the company's shareholders.

The share savings scheme

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

During the sale of shares in the winter of 2007, 784 employees participated, buying 187,295 shares in total.

Weekly volume and share price 2007



Shares and share capital

As of 31 December 2007, the company's share capital was NOK 1 899 456 260 distributed on 189 945 626 shares, each with a nominal value of NOK 10. All shares have equal rights in the company.

As of 31 December 2007, the largest single Norwegian shareholder was Unionen AS with 11 282 200 shares, corresponding to an ownership interest of 5.9 per cent. At the same time, Viken Skog owned 5.7 per cent and the Norwegian forest owner federations owned 14.9 per cent in total.

Several Norwegian investors had an active acquisition strategy through the year, causing the foreign ownership to drop from 67 per cent at year-end 2006, to 49 per cent as of 31 December 2007. With the exception of employees in Norske Skog's companies outside of Norway, the foreign shareholders are to a large degree registered through investment banks. Based on flaggings in recent years, we know that the asset management companies Capital International (including Capital Guardian), Franklin Resources and Third Avenue each owned between 5 and 10 per cent at the turn of the year.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 25 271 shareholders in total as of 31 December 2007, of which 1 400 resided outside Norway.

At the beginning of the year, Norske Skog owned 631 731 of its own shares. Of these, 187 295 shares were sold to our own employees, and the rest was sold in May 2007 in connection with the demerger of real estate. For legal reasons, Norske Skog could not own any of our own shares at the time of the demerger, but 600 000 shares were repurchased when the demerger had been completed. This is still the number we hold as of 31 December 2007.

The board has been authorised to buy back up to 10 per cent of the outstanding shares. The authority is valid until the 2008 general meeting and we shall seek to extend it.

Dividend

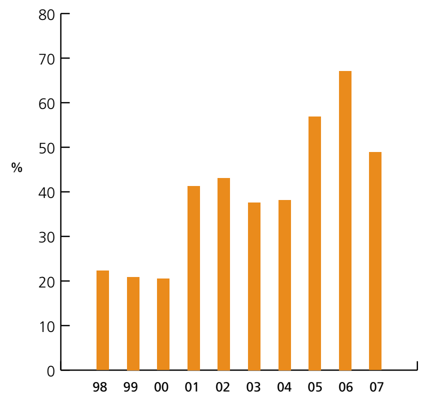
The dividend policy was adopted in 2005 and is as follows:
Norske Skog wants to disburse competitive and stable dividend to the shareholders. As an average during a business cycle, the dividend should be 15 – 25 per cent of the cash flow from operations, after paid financial costs and taxes.

Proposed dividend for 2007
Due to Norske Skog's relatively low cash flow for 2007 and the company's financial situation, the board recommends that no dividend should be disbursed for the accounting year 2007.

Trading of the Norske Skog share

The company's shares have been listed on the Oslo Stock Exchange since 1976, and the share has been among the most traded ones for many of those years. In 2007 645 million Norske Skog shares were traded, which is more than double the number traded in 2006. The trading volume increased a great deal during the autumn, in line with the falling share price. On average, each Norske Skog share was traded 3.4 times in 2007.

Ownership by non-Norwegians



Investor relations in Norske Skog

Investor relations, which comprises information to the Norwegian and international financial markets, is given high priority in Norske Skog. The objective is to increase the knowledge about the company and the understanding of the industry. This creates the trust necessary to make the investors interested in Norske Skog.

Norske Skog's activity regarding Investor Relations is based on our core values: Transparency, Honesty and Cooperation. Our work is conducted according to these principles:

- Equal treatment
- Availability – Rapid response to inquires
- Consistency – Periodic and scheduled IR programme
- Transparency - Honest communications and a high degree of detail
- Reliability - Standardised data
- Efficiency – Coordinated and timely distribution of information
- Proactivity – Predicting that inquiries may come
- Caution – when commenting on future prospects

Relevant and timely information is an important part of the information work vis-à-vis the stock market. Below is Norske Skog's financial calendar for the year 2008:

- The fourth quarter of 2007 and preliminary financial accounts for the entire year – 7 February 2008
- General meeting – 24 April 2008
- first quarter of 2008 – 7 May 2008
- second quarter of 2008 – 6 August 2008
- third quarter of 2008 – 5 November 2008

Electronic information via the internet is growing in importance. On Norske Skog's website (www.norskeskog.com) you can find Norske Skog's annual and interim reports, press releases and stock exchange notifications, presentations, share information, general company information, contact addresses, corporate governance information and more. The Investor relations section of the website is currently being upgraded. From 2008, a printed edition of the quarterly reports will only be distributed to those who request it.

In addition to printed and electronic information, Norske Skog holds webcast conferences for the Norwegian and international financial markets every quarter. In spite of this, physical meetings with analysts and investors are more important than ever. In 2007, more than 200 presentations and investor meetings were held in Norway and in many other countries. As previously, the bulk of these have been held in the UK and the USA, where most of the foreign shareholders are. As we have issued several international bond loans, credit analysts have also become an important target group. In 2007, Norske Skog participated with speakers at six international conferences and seminars for the equity market and two conferences for the credit market.

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

Norske Skog's shares are qualified for several unit trusts which invest in companies with high environment and sustainability standards.

The stock market in 2007

The all-share index on the Oslo Stock Exchange (Oslo Benchmark Index) increased by 10 per cent through 2007. At the beginning of 2008, share prices fell dramatically.

The Norske Skog share had a historically weak development in 2007, the share price falling almost 60 per cent, and with a negative return of 53.6 per cent when including dividend. The lowest quote for the share came in November, with a subsequent increase in the share price of about 50 per cent until the turn of the year. For long periods, the share price fluctuated greatly from day to day.

Most other paper industry companies also had a negative market price trend in 2007, but to a lesser degree than Norske Skog. One of the main reasons for Norske Skog's weak development is assumed to be uncertainty in the stock market about the company's debt situation, which is connected to the development in the credit market.

Share price information [1]

	NOK/share
Official tax assessment price 31 December 2007 [2]	38.68
Share price 28 December 2007	45.20
Share price 29 December 2006	107.50
Average share price 2007	80.57
Average share price 2006	99.92
Highest share price 2007 (2 February)	118.50
Lowest share price 2007 (22 November)	30.75
Highest share price last 5 years (11 March 2002) [3]	158.79
Lowest share price last 5 years (22 November 2007)	30.75

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

2) For use when determining the assets of Norwegian shareholders as of 31 December 2007, and calculated as 80 per cent of the market price.

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

Principal shareholders 31 December 2007

(> 0.5% OWNERSHIP)	NUMBER OF SHARES	%
JPMORGAN CHASE BANK, GBR (NOM)	17 429 588	9.18
UNIONEN AS	11 282 200	5.94
VIKEN SKOG BA	10 897 825	5.74
STATE STREET BANK AND TRUST CO., USA (NOM)	8 671 181	4.57
AT SKOG BA	6 715 000	3.54
MORGAN STANLEY & CO INTL PLC., GBR	5 314 301	2.80
FOLKETRYGDFONDET	4 190 355	2.21
BEAR STEARNS SECURITIES CORP., USA (NOM)	3 603 162	1.90
SKAGEN VEKST	3 500 000	1.84
ALLSKOG BA	3 458 990	1.82
MJØSEN SKOG BA	3 312 270	1.74
BANK OF NEW YORK, BEL (NOM)	2 971 805	1.56
GOLDMAN SACHS & CO - EQUITY, USA (NOM)	2 943 640	1.55
CREDIT AGRICOLE INVESTOR SERVICES, FRA (NOM)	2 670 310	1.41
TOM HAGEN FUNDS AS	2 550 000	1.34
CLEARSTREAM BANKING S.A., LUX (NOM)	2 549 447	1.34
MELLON BANK AS, USA (NOM)	2 543 909	1.34
NORDEA BANK NORGE ASA	2 351 226	1.24
REDERIAKTIESELSKAPET HENNESEID	2 069 303	1.09
FRANKLIN TEMPLETON LENDING, C/O JPMORGAN CHASE BANK, LUX	2 006 460	1.06
BANK OF NEW YORK, USA (NOM)	1 903 342	1.00
A/S HAVLIDE	1 864 048	0.98
ALLSKOG HOLDING AS	1 802 424	0.95
GOLDMAN SACHS INT. - EQUITY, GBR (NOM)	1 780 911	0.94
THE NORTHERN TRUST CO., GBR (NOM)	1 679 565	0.88
RBC DEXIA INVESTOR SERVICES TRUST, GBR (NOM)	1 360 735	0.72
BAYERISCHE HYPO UND VEREINSBANK AG, GER (NOM)	1 325 615	0.70
HSBC BANK PLC, GBR (NOM)	1 291 342	0.68
HSBC TRINKAUS & BURKHARDT, GER (NOM)	1 222 355	0.64
A/S HERDEBRED	1 211 685	0.64
STATE OF NEW JERSEY PENSION FUND, C/O BANK OF NEW YORK, USA	1 107 800	0.58
DZ BANK INTERNATIONAL S.A., LUX (NOM)	1 060 100	0.56
SKIENS AKTIEMØLLE ASA	1 045 975	0.55
NORTHWESTERN MUT. SER. FUND-IEP C/O BROWN BROTHERS HARRIMAN & CO., USA	978 371	0.52
STOREBRAND LIVSFORSIKRING AS	968 981	0.51
NUMBER OF SHARES >0.5%	121 634 221	64.04
Total number of shares	**189 945 626**	**100.00**

* NOM = Nominees

Key figures related to shares

		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Nominal value (NOK/share)		10	10	10	10	10	10	10	20	20	20
Average number of shares ex. shares held in treasury (1000)		189 258	189 258	142 878	132 430	132 415	132 194	120 604	102 159	92 829	89773
Average number of shares after full conversion (1 000)		89 258	189 258	142 878	132 430	132 415	132 194	120 604	102 159	92 829	89773
Net earnings per share after tax (NOK)	1	-3.26	-14.84	-5.98	4.95	3.04	8.79	20.68	19.17	14.01	11.36
Net earnings per share after full conversion (NOK)	1	-3.26	-14.84	-5.98	4.95	3.04	8.79	20.68	19.17	14.01	11.36
Cash flow per share after tax (NOK)	2	11.43	14.6	21.42	22.04	22.45	27.89	11.00	48.18	23.29	31.85
Cash flow per share after full conversion (NOK)	2	11.43	14.6	21.42	22.04	22.45	27.89	11.00	48.18	23.29	31.85
Dividend per share (NOK)		0.00	5.50	5.50	6.00	6.00	6.00	6.00	6.00	5.50	4.25
Price/earnings ratio	3	-	-	-	26.5	41.8	11.1	8.2	7.9	12.1	7.9
Price/cash flow ratio	4	3.95	7.35	5.01	5.9	5.7	3.5	15.3	3.1	7.3	2.8
Payout ratio (%)		-	-	-	121.2	197.4	68.3	29.0	26.9	33.6	31.9
Number of shares 31.12. (1 000)	A share	189 946	189 946	189 946	133 137	133 137	133 137	133 137	67 972	57 592	57 592
	B share	-	-	-	-	-	-	-	25 172	25 172	18 832
	Total	**189 946**	**189 946**	**189 946**	**133 137**	**133 137**	**133 137**	**133 137**	**93 144**	**82 764**	**76 424**
Share prices high (A)		118.50	114.00	124.86	146.50	139.00	175.50	168.50	172.10	172.51	110.81
Share prices low (A)		30.75	83.00	86.50	110.00	86.50	82.50	115.00	90.11	82.80	66.97
Share prices 31.12.	A free	45.20	107.50	107.25	131.00	127.00	98.00	168.00	150.59	169.67	90.11
	B share	-	-	-	-	-	-	-	146.00	168.50	95.50
Trading volume (Oslo Stock Exchange)	1.000 stk.	659 648	230 507	186 297	157 839	119 400	107 649	116 458	54 118	46 424	47 650
Number of shareholders 31.12.	A free	23 871	22 967	23 646	23 851	23 212	21 083	22 587	19 431	17 900	18002
	B share						-	14 915	14 693	13 746	13 796
	Total	**23 871**	**22 967**	**23 646**	**23 851**	**23 212**	**21 083**	**22 587**	**21 779**	**19 884**	**18753**
Number of foreign shareholders 31.12.	A free	1400	1 355	1 355	1 271	1 222	1 210	1 092	546	483	203
	B share				-	-	-	-	133	110	88
	Total	**1 400**	**1 355**	**1 355**	**1 271**	**1 222**	**1 210**	**1 092**	**589**	**518**	**222**
Foreign shareholding 31.12.	A free	48.9 %	67.0 %	56.9 %	38.2 %	37.6 %	43.1 %	41.3 %	25.1 %	27.6 %	27.6 %
	B share				-	-	-	-	8.3 %	5.6 %	6.0 %
	Total	**48.9 %**	**67.0 %**	**56.9 %**	**38.2 %**	**37.6 %**	**43.1 %**	**41.3 %**	**20.5 %**	**20.9 %**	**22.3 %**
Market value (NOK mill.)		**8 586**	**20 419**	**20 372**	**17 441**	**16 908**	**13 047**	**22 367**	**16 284**	**16 278**	**8 191**

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

a) When calculating financial ratios per share after full conversion net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds.
A restricted and A free shares were merged at the turn of the year 1994/95. The A and B share classes were merged in May, 2001.

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

Corporate governance in Norske Skog

Norske Skog's activities are based on our core values: transparency, honesty and cooperation. These constitute the basis both for cooperation between employees from many different countries and cultures, and for our ethical business conduct. Our ethical guidelines were revised in 2007, and now also include protection of persons who report questionable matters. The new guidelines have been published on the company's website www.norskeskog.com. Norske Skog's corporate governance report has been adopted by the board and is based on the Norwegian recommendation which can be found at www.nues.no and www.oslobors.no.

ACTIVITIES

The purpose of the company is to operate wood processing and related activities. The company can also participate in other commercial activities through share contributions or other means. Norske Skog is a world leader in the production of publication paper containing wood and maintains a strong focus on restructuring and further developing this industry. In addition, the company wishes to develop other related activity areas on a global basis, such as purchase/sale and distribution of recovered paper, both for own raw materials consumption and resale. Towards the end of 2007, Norske Skog and Norges Skogeierforbund (Norwegian Forest Owners' Federation) decided to establish a joint venture for wood-based biodiesel production. A prototype facility for biodiesel will be built in connection with Norske Skog Follum.

SHARE CAPITAL AND DIVIDEND

Norske Skog's equity is adapted to the company's goals, strategies and risk profile. The board considers the company dividend profile regularly. See page 21 of the annual report for more information. The 2007 general meeting issued an authorisation valid until the next ordinary general meeting to purchase own shares for up to NOK 185 000 000, maximum 10 per cent of the outstanding shares. The purpose is resale to employees, as well as partial settlement of long-term remuneration programmes.

EQUAL TREATMENT OF SHAREHOLDERS

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

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

FREELY NEGOTIABLE

The company's shares are freely negotiable.

THE GENERAL ELECTION

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

Maximum participation is facilitated for the company's general meeting. The deadline for registering participation is three days before the day the general meeting is held. In 2007, 47.44 per cent of share capital was represented through personal participation or through proxy. Proxies with an open or limited mandate can be used.

All shareholders can raise issues for the agenda of the general meeting, provided that these are communicated to the board in writing no later than one month before the general meeting is held. Issues which have not been stated in the summons require the consent of all shareholders represented at the general meeting to add them to the agenda.

In 2007, the entire board, with the exception of board members Annette Brodin Rampe and Kåre Leira, was present during the general meeting. The two mentioned board members were unable to attend. All members of the election committee were present, as was the company's auditor.

Following an initiative from a shareholder group representing about 6 per cent of the shares, a summons was issued at the end of the year for an extraordinary general meeting on 10 January 2008.

THE ELECTION COMMITTEE

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

THE CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

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

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

The board currently has nine members, cf. page 23, with broad composition as regards competence and diversity to promote a good team effort. The corporate assembly elects board members for one year at a time, cf. Section 5 of the bylaws.

The members of the corporate assembly are elected by the shareholders, while the employee representatives are elected by and among Norske Skog's employees. In 2007, Norske Skog conformed with the applicable requirements for shareholders representation of both genders in governing bodies.

The majority of the members of the board are independent of the company's main shareholders. This applies to the following board members: Kim Wahl, Øivind Lund, Giséle Marchand and Ingrid Wiik.

The board works independently of the company's management, however, the CEO and other group management

The corporate governance is regulated by:

- Norske Skog's bylaws (cf. page 35)
- The Public Limited Liability Companies Act of 13 June 1997 No. 45
- Instructions for the board of Norske Skog
- Instructions for and authorisations issued to the CEO
- Mandate for the audit committee
- Mandate for the compensation committee
- Corporate governance recommendations (see http://www.oslobors.no/ob/cg)
- Norske Skog's guidelines for ethical business conduct (www.norskeskog.com)
- Norske Skog's core values: transparency, honesty and cooperation

Nomination committee 2007:

- **Helge Evju**
  (chair, corporate assembly), Chair Viken Skog and Norges Skogeierforbund
- **Idar Kreutzer**
  CEO, Storebrand ASA
- **Gunn Wærsted**
  CEO, SpareBank 1 Gruppen
- **Ole H. Bakke**
  CEO, Allskog

members attend all board meetings. The members of the board are encouraged to own shares in the company.

THE WORK OF THE BOARD OF DIRECTORS

The board determines the overall objectives for the company's strategic development, and regularly considers the vision, goals and strategies. The board prepares an annual plan for its work. In 2007, the board gave considerable attention to the company's strategic development and enhancing profitability, and as well as the structure in the international wood processing industry.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

BOARD REMUNERATION

The remuneration to members of the board is stipulated by the general meeting, and reflects responsibility, competence and time spent. The remuneration is not linked to results, and share options are not issued to the board members. All remuneration to the members of the board are stated on page 31.

REMUNERATION TO EXECUTIVE EMPLOYEES

The board stipulates wages and other remuneration to the General Manager and other executive employees according to instructions and input from the compensation committee.

Compensation to and remuneration of executive employees shall contribute to long-term creation of value for all company shareholders. In accordance with the provisions of the law, guidelines and principles for stipulating the wages of executive employees, as well as an account of the executive wage policy for the previous fiscal year must be subject to special consideration by the general meeting.

INFORMATION AND COMMUNICATION

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

TAKE-OVER OF THE COMPANY

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

AUDITOR

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

No special guidelines have been set for daily executive management's access to use the auditor for other assignments, but this is monitored specifically by the audit committee. The external auditor's fee is approved by the general meeting. For details, see page 31.

Remuneration related to employment and board 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 145 000 per year. Other members receive a remuneration of 5 600 NOK per meeting. Committee meetings are remunerated with NOK 5 600 per meeting. These amounts are fixed. The total disbursement to the members of the corporate assembly including committee work was NOK 707 900 in 2007.

The board:

Remuneration is stipulated annually by the corporate assembly. The annual remuneration for the chair of the board is NOK 510 000; the deputy chair receives NOK 365 000, and the other board members NOK 280 000. Committee meetings are remunerated with NOK 5 600 per meeting. These amounts are fixed. The total disbursement to the board, including NOK 5 600 per meeting for attending deputy board members and for committee work, was NOK 2 846 800 in 2007.

The group chief executive officer (CEO):

Wages 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 provisions. Wages and other remuneration for the CEO and other information relating to pension matters and pay after termination of employment are detailed in Note 5 in the group accounts. Please refer to pages 20, 38 and 41 for an account of long-term incentive and bonus programmes for the CEO, and page 92 for a statement on executive wages.

The group management:

The remuneration committee reviews the principles for wage determination and other terms for the other group executive employees as well. Please refer to pages 38 and 41 for an account of long-term incentive and bonus programs for executive employees, and page 92 for a statement on executive wages.

Internal board remuneration:

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

The audit committee:

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

Other matters:

Information relating to share options and bonus schemes for executive employees is detailed in Note 5 to the group accounts. Reference is also made to pages 20, 38 and 41, as well as page 92 for a statement on executive wages.

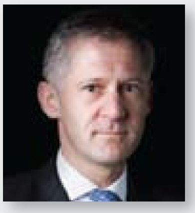
Share purchases for employees:

All employees in Norske Skogindustrier ASA and in subsidiaries where Norske Skog owns more than 90 per cent receive an offer to purchase shares at a discount every year. The shares are paid through wage deductions over 12 months. In 2007, the offer included all employees worldwide, except for China. This is due to Norske Skog owning less than 90 per cent in the activities there and legal framework conditions. The scheme also includes shareholder-elected members of the corporate assembly and the board.

Norske Skog share ownership of elected officials and the group management:

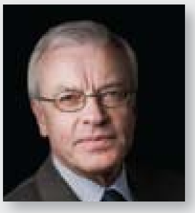
At year-end 2007, the members of the corporate assembly held a total of 111 023 shares in Norske Skog. Correspondingly, the members of the board held 109 477 shares. The group management held a total of 31 559 shares and 420 000 share options.

The members of the board



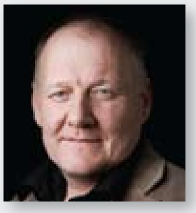
Kim Wahl
(48)

Chair of the board, elected in 2007. Partner and deputy chair, Industri Kapital Ltd. MBA from Harvard University, Boston. Deputy chair of the board of Kwintet AB, Sweden and chair of the board of Stiftelsen Voxtra.



Øivind Lund
(62)

Deputy chair since 2005. Board member since 2000. Dr.ing. and business studies graduate. CEO ABB Norge 1998-01. Head of the ABB group's global quality and productivity improvement 2001-03. National head of ABB in Turkey 2003-2006. Chair of the board of Yara ASA since 2004, Tandberg Storage ASA since 2007 and Marine Accurate Well ASA since 2007.

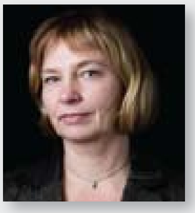


Halvor Bjørken
(53)

Board member since 2000. Forest owner. Chair of the board of Allskog BA, deputy chair of the Norwegian Forest Owners' Association, Industriflis and Din Tur AS. Chair of the board of Allskog Holding AS and Skogtiltaksfondet. Member of the board of Midt-Norsk Tømmerimport and the corporate assembly of the insurance company Skogbrand.

Giséle Marchand
(49)

Board member since 2002. CEO of Eksportfinans ASA. Deputy chair of Scandinavian Property Development ASA, board member of Oslo Børs VPS Holding ASA, GK Kredittforsikring AS and Stiftelsen Norsk Lederskap.



Kari Broberg
(52)

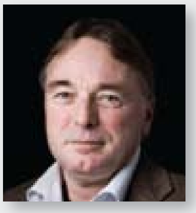
Board member from 2007. Business graduate, farmer and runs her own corporate consultancy business. Board member of Cargonet, Hapro, EidsivaVekst, NOPO-norske potetindustrier and Innovasjon Norge Oppland.

Ingrid Wiik
(63)

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

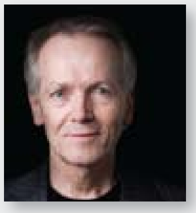
Kåre Leira
(60)

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



Stein-Roar Eriksen
(53)

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



Trond Andersen
(60)

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

Corporate management of Norske Skog

Christian Rynning-Tønnesen (48)
PRESIDENT AND CEO

With Norske Skog from 1 April 2005. MSc engineering, Norwegian Institute of Technology (NTH). Researcher, Sintef, 1984-1985. Refinery analyst and product coordinator, Esso Norge, 1985-1989. Consultant and energy specialist, McKinsey, 1989-1992. Vice president, strategic planning, north European supply and market, and executive vice president strategy and finance, Statkraft, 1992-2005. Senior vice president finance and CFO, Norske Skog, 2005-2006.

Andreas Enger (45)
CHIEF FINANCIAL OFFICER

With Norske Skog since 2006. MSc engineering, Norwegian Institute of Technology (NTH), MBA, Insead. Partner, McKinsey, 1996-2003, executive vice president, strategy and business development, Petroleum Geo-Services (PGS), 2003-2005, president, Midelfart Holding AS 2005-2006. Senior vice president finance and CFO, Norske Skog 2006-.

Jan-Hinrich Clasen (50)
SENIOR VICE PRESIDENT EUROPE

With Norske Skog in 1992-96 and since 1999 MSc and PhD in engineering, Technical University Clausthal, Germany. Sales vice president magazine, Norske Skog, 1992-96.Managing director, Ahrensburg magazine printer, Axel Springer Verlag AG, Germany, 1997-99. Senior vice president sales and marketing, Norske Skog 2004-2006, business unit general manager Norske Skog Walsum, Duisberg, Germany, 2006-2008, senior vice president Europe, Norske Skog from 7 February 2008.

Kristin Slyngstad Klitzing (43)
SENIOR VICE PRESIDENT HR AND ORGANISATION

With Norske Skog since 2007. BA in sociology (organisation and management) from the University of Oslo, as well as economics studies at the Norwegian School of Economics and Business Administration in Bergen. Trainee, international product manager and director marketing services Europe, GE Healthcare, 1988-2004. Senior company adviser for recruitment and selection at Mercuri Urval AS, 2004-07.

Vidar Lerstad (63)
SENIOR VICE PRESIDENT ASIA, AUSTRALASIA AND SOUTH AMERICA

With Norske Skog since 1989. MSc in business economics, Norwegian School of Economics and Business Administration. With Norsk Hydro 1970-1974. Counsellor and trade attaché, Export Council of Norway, Oslo and Brussels, 1975-1980. Marketing vice president, Tandberg 1980-1984. Managing director, Scancem cement factory, Togo, 1984-1989. Managing director, Norske Skog Golbey, France, 1989-1994. Managing director, Norske Skog Sales, 1994-1996. Vice president sales and marketing, Norske Skog, 1996-1999. Managing director, international area, 1999-2000. Senior vice president, Asia region, 2000-2002. Executive vice president, Norske Skog South America, 2002-2004. Senior vice president strategy, 2004-2005, acting CFO, 2005-2006, acting chief executive and senior vice president, Norske Skog 2006.

Rune Gjessing (45)
SENIOR VICE PRESIDENT STRATEGY

With Norske Skog since 2002, bachelor of wood science, University of British Columbia, Canada, master of business administration (MBA) in finance and marketing, Simon Fraser University, Canada, holds the chartered financial analyst designation, financial and market analyst, Simons Consulting Group, Vancouver BC, 1992-1999, equilty analyst, paper & forest products, National Bank Financial, Vancouver BC, 1999-2002, director, investor relations & corporate secretary, Norske Skog, 2002-2006, vp corporate controlling, Norske Skog, March 2006-August 2006, vp strategic business analysis, Norske Skog, August 2006-November 2007. Senior vice president strategy, Norske Skog 2007-.

Ketil Lyng, Eric Dolce, Peter Chrisp and Antonio Dias left the corporate management during the first quarter 2008.

Members of corporate bodies

Number of shares as of 31 December 2007 in parentheses.

CORPORATE ASSEMBLY

Elected by shareholders:
Helge Evju, Skollenborg (chair) (195)
Idar Kreutzer, Oslo (deputy chair) (0)
Emil Aubert, Porsgrunn (543 870)
Ole H. Bakke, Trondheim (53)
Øyvind Birkeland, Tønsberg (0)
Ann Kristin Brautaset, Oslo (0)
Kirsten C. Idebøen, Bærum (0)
Birgitta Rødstøl Næss, Halden (0)
Christian Ramberg, Bø i Telemark (71)
Tom Ruud, Oslo (410)
Turid Fluge Svenneby, Spydeberg (142)
Halvard Sæther, Lillehammer (5 925)

Alternates:
Svein Haare, Hønefoss (0)
Hege Huse, Oslo (0)
Kjersti Narum, Stange (977)
Siv Fagerland Christensen, Sola (0)

Elected by employees:
Øystein Bruce, Saugbrugs (410)
Roy Helgerud, Follum (0)
Bjørn Inge Hoem, Follum (0)
Paul Kristiansen, Saugbrugs (0)
Randi Nessemo, Skogn (0)
Stig A. Stene, Skogn (75)

Observers elected by employees:
Geir Ove Brenne, Skogn (0)
Terje A. Bråten, Follum (25)
Christer Clausen, Saugbrugs (0)
Jan Magnar Hansen, Saugbrugs (130)
Marit Holmen, Saugbrugs (0)
Jan O. Johnsen, Skogn (721)
Jørn Kristensen, Follum (0)
Tor Salater, Skogn (700)
Jørn Steen, Follum (10)

BOARD OF DIRECTORS

Kim Wahl, Bærum (chair) (100 000)
Øivind Lund, Drammen (deputy chair) (1 995)
Halvor Bjørken, Verdal (4 001)
Kari Broberg, Lena (0)
Giséle Marchand, Oslo (838)
Ingrid Wiik, Bærum (660)
Trond Andersen, Saugbrugs (0)
Stein Roar Eriksen, Follum (0)
Kåre Leira, Skogn (1 532)

Alternates for worker directors:
Kjetil Bakkan (for Kåre Leira) (300)
Kjell R. Evju (for Stein Roar Eriksen) (151)
Hilde Redi (for Trond Andersen) (0)

CORPORATE MANAGEMENT TEAM

CEO Christian Rynning-Tønnesen (3 263)
SVP Peter Chrisp (1 066)
SVP Antonio Dias (4 880)
SVP Eric d'Olce (2 503)
SVP Andreas Enger (2 410)
SVP Rune Gjessing (2 162)
SVP Kristin Klitzing (410)
SVP Vidar Lerstad (8 440)
SVP Ketil Lyng (6 425)

Auditor:
PricewaterhouseCoopers (0)

Articles of association for Norske Skogindustrier ASA

(Last amended by the general meeting 12.04.2007)

Article 1 The company's form and name

The company is a public limited company.
The company's name is Norske Skogindustrier ASA.

Article 2 Objects

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

Article 3 Registered office

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

Article 4 Share capital and shares

The company's share capital amounts to NOK 1 899 456 260, divided into 189.945.626 shares each with a nominal value of NOK 10. The company's shares will be registered with the Norwegian Central Securities Depository (VPS).

Article 5 Board of directors

The company's board of directors will consist of a minimum of seven and a maximum of 10 directors. Directors are elected by the corporate assembly for terms of two years. No person can be elected to the board after reaching the age of 70.
The corporate assembly will elect the chair and deputy chair of the board for terms of one year. The corporate assembly will determine the remuneration payable to directors. The board of directors is responsible for appointing a chief executive, to be known as the president and chief executive officer, and for determining his/her remuneration. The board of directors can authorise its members, the chief executive or certain other designated employees to sign for the company.

Article 6 Corporate assembly

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

Article 7 Election committee

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

Article 8 General meeting

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

The annual general meeting will:

1. Adopt the annual accounts, including the directors' report, and the consolidated accounts, and approve the profit and loss account and balance sheet.

2. Determine the application of the profit or coverage of the loss for the year in accordance with the approved balance sheet, including the declaration of any dividend.

3. Determine possible remuneration to be paid to members and alternate members of the corporate assembly.

4. Elect the shareholders' representatives and alternate representatives in the corporate assembly.

5. Elect three members of the election committee.

6. Approve the auditor's fee.

7. Deal with any other business stated in the notice of the meeting.

Article 9 Amendments

Any amendments to the articles of association will be made by the general meeting. A valid resolution requires a three-fourths (3/4) majority of the votes cast, and these votes must represent three-fourths (3/4) of the share capital represented at the general meeting.

Report of the Board of Directors

Norske Skog has been through another demanding year, with implementation of temporary newsprint production curtailments in Europe after a period of increasing stock levels and prospects of a weaker supply and demand balance. The paper industry is characterised by two main challenges; cost increases and overcapacity. These are the main causes of the weak profitability.

In the geographical regions where Norske Skog has mills, demand for the company' s products was unchanged or on the rise in 2007 compared with 2006. In North America, where Norske Skog has no production, newsprint demand fell sharply, and this has affected the global market balance negatively.

There were marginal changes in Norske Skog's overall production and sales volumes in 2007 compared with 2006. The achieved average prices measured in NOK for all sales were 2 per cent lower than in 2006. This is due to lower prices in local currency in several markets, and the fact that the NOK grew stronger through 2007.

Also in 2007, Norske Skog and other paper industry experienced substantial cost increases, primarily on recovered paper. The cost increases, the effects of a stronger NOK and reduced production towards the end of the year are the reasons for not meeting the expectations of a better result in 2007 than in 2006.

Measures for debt reduction, permanent reduction of the costs, and improved market balance are Norske Skog's main focus areas.

Although the company has no problems servicing its debt, the uncertainty in the credit markets has been negative for Norske Skog, with the company's debt attracting substantial attention and the share price falling sharply. The board has started processes to reduce Norske Skog's debt, both through new improvement measures and sale of properties not related to production.

Through the improvement programme launched in 2006, the company aims to reduce costs by NOK 3 billion per year from 2009, compared with the basis year 2005, adjusted for input factor and sales prices. At the end of 2007, the continuous improvements equalled NOK 2 billion per year, but this has been more than offset by increased costs and lower paper sales prices.

The board decided to review all the group's paper machines to identify which machines should be permanently shut down to create a better balance between production capacity and demand. The purpose of the process is to phase out the least profitable part of the production, and give priority to operating, investing in and utilising the capacity of the most profitable and advanced plants.

COMMENTS TO THE ACCOUNTS

COMPARABILITY

When comparing 2007 and 2006, it must be taken into consideration that Norske Skog shut down five paper machines in 2006. The activities at Norske Skog Union ceased in the first quarter of 2006, one paper machine at Norske Skog Tasman shut down on 1 August and two machines at Norske Skog Jeonju shut down in September 2006. In spite of this, sales and production volumes were only marginally reduced from 2006 to 2007. In both years, the accounts were affected by write-down of tangible fixed assets and goodwill, and in 2007, significant amounts were taken to income in the form of value of long-term energy contracts.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating income in 2007 was NOK 27.1 billion (NOK 28.8 billion in 2006). The reduction is due to lower prices in most markets with the exception of newsprint in

Europe, in addition to a stronger NOK. The operating profit before special items was NOK 1 060 million (NOK 1 476 million). The reduced operating profit is due to lower income as mentioned above, in addition to strong cost increases for recovered paper and to some extent for wood. Depreciation in 2007 was NOK 348 million lower than in the previous year due to write-downs made in 2006.

Special items included in the operating profit in 2007 amounted to minus NOK 383 million (minus NOK 4 003 million) and the operating profit after special items was NOK 677 million in 2007 (minus NOK 2 527 million). The main elements in the special items are the change in value of energy contracts of NOK 4 729 million (NOK 135 million), derivatives of minus NOK 370 million (minus NOK 541 million) and various other items of NOK 98 million (NOK 120 million). The accounts for 2006 also included a provision for restructuring of minus NOK 484 million. In 2007, tangible fixed assets and goodwill was written down by NOK 4 840 million in total (NOK 3 233 million).

Write-down of fixed assets and goodwill as well as change in value of energy contracts has been made on the basis of the fact that politically determined energy contracts in Norway expire in 2010, the expected long-term newsprint price trends and the exchange rate developments for the US dollar.

Energy contracts in Norway have been included in the balance sheet with an amount of NOK 4 488 million, and this account entry is a result of the fact that parts of the volume exceed expected future needs. A corresponding evaluation will be made in the settlement of accounts in the coming years, and the amount will be amortised over the years 2008 – 2020. Write-downs of fixed assets at Norske Skog Follum and Norske Skog Saugbrugs amount to NOK 2 030 million in total. Write-down of goodwill and other intangible assets amounts to NOK 2 810 million in total and applies for all practical purposes to the Australasia segment, where the goodwill has been depreciated in its entirety. After this, there is only one insignificant goodwill item left in Norske Skog's balance sheet.

Net financial items amounted to NOK 479 million (NOK 1 155 million) in 2007. Net interest costs were NOK 1 002 million (NOK 976 million). Net NOK 639 million was recognised as income from currency hedging in 2007. Much of this is unrealised gains.

The tax cost for 2007 was NOK 918 million (a gain of NOK 463 million in 2006). This amount includes NOK 777 as an estimated tax cost of recognising energy contracts in Norway as income and write-down of fixed assets. In addition, an amount of NOK 250 million is included, which is the final settlement of a matter stemming from a subsidiary of what was then Fletcher Challenge and which was acquired in 2000. In this matter, an agreement was reached between Norske Skog and Canadian tax authorities in November 2007.

The net loss after tax and minority interests was NOK 618 million (NOK 2 809 million). Loss per share was NOK 3.26 (NOK 14.84).

The cash flow from operations, less financial costs paid and taxes paid, was NOK 2 166 million (NOK 2 763 million). The reduction is due to somewhat weaker operations, and the fact that taxes paid was significantly higher in 2007 than in 2006. Cash flow per share was NOK 11.43 (NOK 14.60). The deviation between operating profit and net cash flow from operations is mainly due to depreciation and write-down of intangible assets and tangible fixed assets, as well as recognition of change in value of energy contracts as income. The board and management consider Norske Skog to have the necessary self-financing to maintain the current capacity.

DIVIDEND PROPOSAL

In light of Norske Skog's relatively weak result for 2007 and the company's financial situation, the board's recommendation to the general meeting is that no dividend should be disbursed for the accounting year 2007.

BALANCE SHEET

As of 31 December 2007, total assets were NOK 43 260 million, a decrease of NOK 1 970 million from the previous year-end. Fixed assets (including goodwill) were reduced by NOK 8 270 million as a result of currency effects, write-downs and ordinary depreciations which are higher than capitalised investments. Other assets have increased by NOK 6,300 million due to relatively large short-term investments and as a result of the value of Norwegian energy contracts being included in the balance sheet with slightly less than NOK 4.5 billion.

Currency changes in 2007 reduced the assets by NOK 1 942 million, debt by NOK 1 260 million and equity by NOK 682 million.

Net interest-bearing debt was NOK 16 408 million as of 31 December 2007, a reduction of NOK 912 million from the previous year-end. The reduction is mainly due to currency effects. In June 2007, a bond loan of 500 million euro with a term of 10 years was taken out. A significant part of this loaned amount is posted as a short-term investment in the balance sheet as of 31 December 2007.

At the end of the year, Norske Skog had a liquidity reserve including undrawn credit facilities of NOK 7.8 billion. The average term of the interest-bearing debt was 5.9 years. Loans which fall due in 2008 amount to NOK 1.1 billion. As of 31 December 2007 Norske Skog's debt was rated Ba2 by the rating agency Moody's, and in January 2008, the rating agency Standard & Poor's downgraded Norske Skog's debt from BB+ to BB.

As of 31 December 2007, equity (excluding minority interests) was NOK 15 592 million (NOK 18 100 million). In addition to the deficit of NOK 618 million, the reduction in equity is related to conversion differences and disbursement of dividend for the accounting year 2006. As of 31 December 2007, equity per share was NOK 82.20 and the gearing (net interest-bearing debt/equity) was 1.05, compared with 0.96 at the previous year-end.

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

INVESTMENTS

Capitalised investments in 2007 amounted to NOK 1.7 billion, unchanged from 2006. The largest individual item was the Pisa PM2 project with NOK 380 million. The project consists of moving and upgrading a used paper machine from the defunct paper mill Norske Skog Union in Norway to Norske Skog Pisa in Brazil. Other major projects are the final part of a quality improvement project at Norske Skog Saugbrugs, and the moving of the TMP plant from Norske Skog Union to Norske Skog Follum.

THE ACTIVITIES IN THE SEGMENTS

EUROPE NEWSPRINT

In 2007, the segment included the newsprint mills Norske Skog Skogn, Norske Skog Golbey, Norske Skog Parenco and Norske Skog Steti, in addition to two of the paper machines at Norske Skog Follum and one of the paper machines at Norske Skog Bruck. The production capacity in 2007 was about 2.2 million tonnes, which is 34 per cent of Norske Skog's overall capacity.

The operating income in 2007 was NOK 8,954 million (NOK 9 058 million) and the operating profit was NOK 886 million (NOK 768 million). Depreciations were NOK 260 million lower in 2007 than in 2006, which is why the operating profit before depreciation was NOK 142 million weaker in 2007 than in 2006. Measured in local currency, the newsprint prices in Europe were higher in 2007 than in the preceding year, but this was offset by adverse currency developments and price increases for input factors, primarily recovered paper. Increased deliveries to Europe from Canada throughout 2007 made it necessary to implement production curtailments towards the close of the year. For the year in total, the deliveries were 4 per cent lower than in 2006, and the production was 3 per cent lower.

In November 2007, Norske Skog entered into a multi-year delivery agreement for newsprint with the British media group News International Ltd. Most of the volume will be delivered from Norske Skog Skogn, and amounts to a significant part of the mill's production capacity.

The demand for standard and improved newsprint in Europe showed a marginal decline in 2007 compared with 2006. Reduced demand in mature markets such as the UK and Germany was mostly offset by growth in several markets in Southern and Eastern Europe.

EUROPE MAGAZINE PAPER

The segment includes the mills Norske Skog Saugbrugs and Norske Skog Walsum, in addition to one paper machine at Norske Skog Follum and one at Norske Skog Bruck. The production capacity in 2007 was about 1.4 million tonnes, which is 21 per cent of Norske Skog's overall capacity.

The operating income in 2007 was NOK 6 662 million (NOK 6 762 million) and the operating loss NOK 72 million (NOK 282 million). The segment's result was very weak and due to low prices, a substantial negative currency effect and increased costs. The low prices are related to the continued excess capacity. There was a small increase in both sales and production volumes compared with 2006.

Demand for magazine paper was good in Europe in 2007, with an increase of 4–5 per cent for both uncoated (SC) coated (CMR) magazine paper.

ASIA

In 2007, the segment included Norske Skog Jeonju and Norske Skog Cheongwon in Korea, Norske Skog Singburi in Thailand and the two the mills Heibei and Shanghai in China. The production capacity in 2007 was 1.6 million tonnes, which is 25 per cent of Norske Skog's overall production capacity.

The operating income in 2007 was NOK 5,511 million (NOK 6 096 million) and the operating profit was NOK 178 million (NOK 252 million). With the exception of that which is produced in Korea and elivered locally, this is a weak result for the Asian activities. This is related to low prices in China and several other Asian markets and a strong price increase for recovered paper, which is the dominant raw material.

Based on preliminary figures, the newsprint demand in Asia increased by 3 per cent in 2007. In China, the increase was about 8 per cent, in India 6 per cent and in South Korea 3 per cent. The price level in China and in several other markets is assumed to have hit bottom towards the end of 2007.

AUSTRALASIA

The segment includes the mills Norske Skog Albury and Norske Skog Boyer in Australia, and Norske Skog Tasman in New Zealand. The production capacity is about 900 000 tonnes, or 13 per cent of Norske Skog's overall capacity.

The operating income in 2007 was NOK 3 865 million (NOK 3 897 million) and the operating profit was NOK 268 million (NOK 68 million). When comparing against 2006, it must be taken into regard that substantial rebuilds took place at two of the mills in 2006, and that PM1 at Norske Skog Tasman was discontinued 1 August 2006. This rationalisation project has yielded lower regular costs and distribution costs, so that the operating profit before depreciation as a percentage of the operating income was 26 per cent in 2007. This meets with the company's internal profit requirements. Little precipitation in parts of the year resulted in the risk of production curtailments at Norske Skog Albury, and volumes were transferred from other Norske Skog mills to meet customer demand. The volumes were mostly transferred from Norske Skog Golbey in France and Norske Skog Jeonju in Korea.

The demand for standard and improved newsprint increased by around 2 per cent in Australasia in 2007. Prices in Australia were reduced by 7 per cent as of 1 July 2007, due to the price formula in the long-term contracts. A price reduction was also implemented in New Zealand from the same date.

SOUTH AMERICA

The segment includes the mills Norske Skog Pisa in Brazil and Norske Skog BioBio in Chile, with an overall production capacity of 310,000 tonnes. Norske Skog is the largest producer of newsprint in South America.

The operating income in 2007 was NOK 1 281 million (NOK 1 399 million) and the operating profit was NOK 142 million (NOK 289 million). The result in 2006 contained NOK 60 million recognised as income from a previous provision made in connection with an electricity grid transmission fee dispute. Apart from this, the weaker result is mainly due to substantially lower newsprint prices. The prices mostly follow the trend in North America, and there is reason to believe that they hit bottom towards the end of 2007.

Based on preliminary figures, newsprint demand in South America increased by 8 per cent in 2007. In Brazil, the largest single market, demand increased by 1 per cent. However, the customer's newsprint inventories were substantially reduced, and the underlying consumption in Brazil is assumed to have increased by more than 10 per cent.

COST DEVELOPMENT FOR IMPORTANT INPUT FACTORS

WOOD

The demand for wood for traditional and new areas of usage is growing in line with the requirements relating to sustainable development. The EU' s goal of 20 per cent renewable energy in 2020 will affect the balance between demand and access to wood in Europe. The measures the individual European countries will implement to increase the production of bio-energy are largely unresolved.

In the Nordic region, wood costs rose as a result of increased export fees for timber from Russia. The impact has been greatest in Finland with the effects spreading to Norway at the beginning of 2008. Major storm windfalls in Continental Europe gave good access to wood and reduced prices. The economic boom in the sawmill industry caused high production and good access to wood chips for the wood processing industry.

In Brazil, Norske Skog benefited from long-term contracts at favourable prices. The volumes in the contracts are sufficient to cover the volumes necessary when PM2 at Pisa starts up in 2009.

In Australasia, timber prices have stabilised after the price increases which took place in 2006.

RECOVERED PAPER

There was a strong price increase for recovered paper in 2007. During the course of the year, much new recovered fibre-based production capacity started up in Asia, which put pressure on recovered paper prices in the entire global market. In addition, freight rates to Asia increased as of the fourth quarter, adding even more pressure on the prices in this area.

In the fourth quarter, Norske Skog started the implementation of a plan for development of trade with return fibre, in addition to the normal purchasing activities. Reparco Global Holding AS was established with the main office in Oslo.

ENERGY

Norske Skog's total energy costs were about NOK 4.3 billion in 2007, which is approx. NOK 300 million lower than in 2006.

Energy is still the largest single cost in the production and the focus to reduce consumption has remained strong in 2007. This has caused the energy costs per produced tonne to drop by almost 10 per cent from 2006 to 2007.

In addition to the focus on reducing the consumption of energy, Norske Skog has reduced its exposure to changes in energy prices, both through entering into long-term delivery contracts and through a comprehensive hedging programme.

HEALTH AND SAFETY

Norske Skog's objective is zero injuries for our employees. Developments have been positive through many years, and Norske Skog has become one the best in the industry in this field.

The H1 factor (the number of injuries per million working hours) was 1.6 in 2007. In 2005, the corresponding figure was 1.2, whereas the H1 factor was 1.6 in 2006. Most injuries are personal finger and hand injuries from crushing or cuts. In total, 24 injuries which resulted in absence from work were reported in 2007 for Norske Skog globally. This is in line with the figure in 2006.

Norske Skog emphasises systems for exchanging experience between the different business units as one of the pillars in the work to achieve the best possible health and safety results.

The use of chemicals is a challenge for the health and safety work in Norske Skog. The REACH project was carried out in 2007. With this project in place, we have established a platform for registration and follow-up of the use of chemicals at all European mills.

Sick absence in Norske Skog was 3 per cent in 2007, compared with 2.7 per cent in 2006. This result is far better than the paper industry average and for the industrial sector in general. The good results can be attributed to long-term work focussing on the individual employee's health.

Norske Skog has over a number of years been a driving force in the effort to develop a global health and safety network in the processing industry. We are now seeing the effects of this work in Europe, with common rules and greater mutual understanding of which factors create permanent good results within health and safety.

ORGANISATION, MANAGEMENT AND EMPLOYEES

THE GROUP MANAGEMENT

Following the reorganisation in February and March 2008, the Norske Skog group management team consists of Christian Rynning-Tønnesen (CEO), Andreas Enger (CFO), Kristin Klitzing, (vice president HR and organisation), Rune Gjessing (vice president strategy), Vidar Lerstad (vice president for Asia, Australasia and South America) and Jan Clasen (vice president for Europe). The two latter are each responsible for their respective business unit portfolios.

Rune Gjessing was included in the group management team in the beginning of November 2007 with responsibility for strategy and business development. This work was previously part of the finance organisation.

EMPLOYEES

At year-end 2007, Norske Skog had 7 512 permanent employees. This is a reduction from 8 053 at year-end 2006. The reduction in the number of employees is part of the profit improvement programme which was started in 2005, and the work of improving efficiency and reducing the staff continues in 2008.

GENDER BALANCE AND EQUALITY

The paper industry has traditionally had few female employees. This is still the case, and for Norske Skog, the total share of female employees is slightly above 10 per cent. In administrative functions, the female percentage is 39.

Norske Skog's board of directors consists of six shareholder-elected members, and three members elected by and among the employees. There is an equal number of men and women among the shareholder-elected members, while the employee representatives are all men.

Norske Skog's board of directors thus consists of six men and three women. An exception from the gender balance requirement for employee-elected board members is granted for companies with a total female percentage of less than 20 per cent. Norske Skog therefore meets the gender balance requirement for the boards of Norwegian public limited companies.

DIVERSITY

As a global company, Norske Skog sees great value in having an internationally diverse administration and management. At the end of 2007, 15 nations were represented among the employees at the main office.

EFFORTS IN 2007

Norske Skog has seen profits fall over several years. This is met by measures to turn the trend, and the group management launched a very comprehensive improvement programme in 2005. The objective is a cost improvement of NOK 3 billion, and the measures are very demanding for the company's employees. A great effort is being made at all Norske Skog plants, and the board would like to take this opportunity to thank all our employees for their efforts in 2007.

RESEARCH AND DEVELOPMENT

Norske Skog's research and development work is carried out at the individual business units. The work is coordinated centrally to exploit synergy effects and ensure learning across the organisation. The initiatives in the work come from each individual unit.

About 60 persons are involved in this work in Norske Skog. The priority areas are: improved utilisation of raw materials and energy, general efficiency improvements in the production, reduced environmental impact from the production and measures to meet quality requirements from customers. Norske Skog's experts are also involved in a number of projects to improve printing processes for our customers.

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

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

Research and development costs are not capitalised.

WAGE DETERMINATION AND INCENTIVE PROGRAMME FOR LEADING EMPLOYEES

According to the new provisions in Section 6-16 a) of the Public Limited

Liability Companies Act, the board's declaration relating to stipulation of wages and other remuneration to the company's leading employees was presented to the general meeting. A complete overview of remuneration to the leading employees has been included in Note 5.

The previous scheme of synthetic options to the group management has been changed to remuneration based on the relative return of the Norske Skog share compared with a select number of companies within relevant, comparable activities.

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

A separate bonus scheme has also been established for achieved results related to the profit improvement programme. The objective of the programme is a result improvement of NOK 3 billion for the group as a whole, and the bonus is disbursed in proportion with achieved results. The minimum for disbursement of bonus is improvements totalling NOK 2 billion. This scheme includes all employees in the company.

THE BOARD OF DIRECTORS

The board of Norske Skogindustrier ASA has nine members. Six are elected by the shareholders and three are elected by and among the employees.

In March 2007, the former chair of the board, Lars Wilhelm Grøholt, notified the election committee that he would not seek re-election as chair. Kim Wahl was proposed by the election committee as the new chair and was elected by the corporate assembly on 12 April 2007.

The board of Norske Skog consists of Kim Wahl (chair), Øivind Lund (deputy chair), Halvor Bjørken, Giséle Marchand, Ingrid Wiik, Kari Broberg, Kåre Leira (employee-elected), Trond Andersen (employee-elected) and Stein-Roar Eriksen (employee-elected).

PARTLY OWNED COMPANIES AND OTHER ACTIVITIES

MALAYSIAN NEWSPRINT INDUSTRIES (MNI)

Norske Skog owns 33.65 per cent of MNI, which is the only newsprint mill in Malaysia. Norske Skog uses the equity method in the consolidation of MNI, which means that Norske Skog's share of MNI's result after tax is included in the income statement under the item "Percentage of result in associated companies". In 2007, this share amounted to NOK 23 million (NOK 35 million).

NORSKE SKOG EIENDOM AS

The general meeting in Norske Skog decided to demerge the properties Klosterøya (Skien), Eidsverket (Aurskog-Høland), Ranheim (Trondheim) and Oxenøen (Bærum) and put them in a new sub-group, Norske Skog Eiendom AS, which is wholly owned by Norske Skogindustrier ASA. The group balance sheet was not affected by the transaction.

BIODIESEL

In December 2007, Norske Skog decided to establish a company, in cooperation with Norwegian forest owners, for the building of a prototype facility for production of biodiesel based on timber. Norske Skog will own 60 per cent of the company. The prototype will be co-localised with Norske Skog Follum. The company's equity will start out at NOK 30 million, which means that Norske Skog will contribute NOK 18 million. The prototype facility is estimated to cost between NOK 100 and 200 million.

RISK MANAGEMENT

Norske Skog maps and manages operational and financial risk factors systematically. An updated overview and assessment of these are reported to the board and the management annually. This overview contains an evaluation of the most important risk factors by business unit, as well as an evaluation of the group's financial risk picture.

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

Norske Skog has little own forest and fibre resources or own energy production. For the most part, attempts are made to cover access to such input factors through long-term contracts, which ensure stable framework conditions. The group has long-term contracts in Australasia and South America which ensures long-term, stable raw materials access for the business units there. At the end of 2007, Norske Skog entered into a five-year agreement which ensures raw materials access for the Norwegian units.

Energy is an important input factor in the production of paper and is primarily ensured through the establishment of long-term energy contracts. Both in Norway, South America and Australasia, long-term contracts have been entered into which cover 80 per cent of expected consumption. Such long-term contracts usually have a price-reducing effect and thus contribute to reducing the risk vis-à-vis the result and cash flow. However, such contracts can result in an accounting exposure as the contracts may contain price clauses where the future price is adjusted vis-à-vis currencies and/or various indices. If the contracts contain such built-in derivatives, it is a requirement that they must be valued, either with the entire contract or separately. Furthermore, distinction is made between contracts for own use and contracts which are not considered to be for own use. The long-term energy contract in Norway is expected to provide excess energy which can be resold in the market. According to the accounting rules, this must be recognised in the balance sheet and changes in value must be reported in the income statement. Due to volume and contract term, this can cause major result fluctuations if underlying indices change. However, these accounting effects do not affect the cash flow. In addition to long-term contracts, some energy exposure is uncovered through financial hedging contracts, primarily forward contracts. This is particularly the case for Continental Europe.

The financial risk management mainly comprises currency, interest and liquidity risk.

Currency factors influence Norske Skog's cash flow and balance sheet. The group attempts to identify this risk through an active hedging programme. The group hedges 50-100 per cent of the expected cash flow denominated in foreign currency over the next 12 months. The purpose is to improve the predictability of the group's cash flow. The cash flow hedging is limited for countries with capital restrictions. At the turn of the year, the hedging percentage was 75. Forward contracts and options are used for the cash flow hedging. As the group has a substantial share of its recorded assets outside of Norway, currency fluctuations will also affect book equity and some debt-related key figures. The balance sheet is mainly hedged by adapting the currency composition of the loan portfolio to the currency composition of assets and cash flow. In addition to raising loans denominated in foreign currency, instruments such as forward contracts and currency swaps are used. In this manner, the fluctuations in equity and key debt-related figures are reduced.

The historical correlation between Norske Skog's earnings and the general economic cycle has been good. Norske Skog has therefore considered floating interest rate to give a practical risk profile, as interest rates are usually high in boom periods and lower in recession periods. In periods where the group has experienced pressure on results and cash flow due to industry-specific market conditions, increased predictability in interest payments will be given priority through an increased fixed interest share. The interest risk is managed through duration index values and e.g. interest swaps and options are used for this purpose.

The management of liquidity and refinancing risk is considered an important area. The main principle is that the group must have a steady and long-term instalment profile, where the objective is an average term for the debt portfolio of minimum five years. As of 31 December 2007, the average term was 5.9 years. In addition, the group must have a liquidity reserve in the form of bank deposits and unused credit facilities equalling 20 per cent of the turnover. As of 31 December 2007, the liquidity reserve was NOK 7.8 billion, which amounted to well above 20 per cent.

Norske Skog has some group-level loan agreements which contain two financial assumptions which have to be met. One is that the ratio between debt and equity (gearing) must not exceed 1.4, and the other is that the net equity (defined as equity less intangible assets) must at least amount to NOK 9 billion. The group complied with both these assumptions at the end of 2007 and is not expected to violate them.

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

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

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

See also the information concerning the group's risk factors in Note 29 in the group's annual accounts.

SHARES AND SHARE CAPITAL

SHARE DEVELOPMENT

The company's shares have been listed on the Oslo Stock Exchange since 1976, and the share has been among the most traded for many of those years. 645 million Norske Skog shares were traded in 2007, which is more than double the number traded in 2006. The trading volume increased a great deal during the autumn, in line with the falling share price. On average, each Norske Skog share was traded 3.4 times in 2007.

The Norske Skog share had a historically weak development in 2007, with the share price falling almost 60 per cent, and a negative return of 53.6 per cent when including dividend. The lowest quote for the share was in November, with a subsequent increase in the share price of about 50 per cent until the turn of the year. For long periods, the share price fluctuated greatly from day to day. The highest stock exchange quotation in 2007 was 118.50 NOK and lowest NOK 30.75.

Most other paper industry companies also had a negative market price trend in 2007, but to a lesser degree than Norske

Skog. The all-share index on the Oslo Stock Exchange increased by 10 per cent through 2007, but with a drop in share prices towards the close of the year and into 2008.

SHARE CAPITAL

As of 31 December 2007, the share capital in Norske Skog was NOK 1 899 456 260, distributed over 189 945 626 shares with a nominal value NOK 10 each. All shares have equal rights . There were no changes in the company's share capital in 2007, and there are no authorities for the board to expand the share capital.

At the beginning of the year, Norske Skog owned 631 731 of its own shares. Of these, 187 295 shares were sold to our own employees, and the rest were sold in May 2007 in connection with the demerger of real estate. For legal reasons, Norske Skog could not own any of our own shares at the time of the demerger, but 600 000 shares were repurchased when the demerger had been completed. This is still the number we hold as of 31 December 2007.

The board has been authorised to buy back up to 10 per cent of the outstanding shares. The authority is valid until the 2008 general meeting and the board will seek to extend it.

SHAREHOLDER STRUCTURE

The foreign ownership share was 49 per cent as of 31 December 2007, compared with 67 per cent at the previous year-end. The largest individual Norwegian shareholder as of 31 December 2007 was Unionen AS with an ownership interest of 5.9 per cent. At the same time, Viken Skog owned 5.7 per cent of the shares. The forest owner federation in Norway owned a total of 14.9 per cent.

With the exception of employees in Norske Skog's companies outside of Norway, the foreign shareholders are to a large degree registered through investment banks. Based on flaggings in recent years, we know that the asset management companies Capital International (including Capital Guardian), Franklin Resources and Third Avenue each owned between 5 and 10 per cent at the turn of the year.

Based on the information in the Norwegian Registry of Securities, Norske Skog had 25,271 shareholders in total as of 31 December 2007, of which 1,400 resided outside Norway.

SHARE-BASED INCENTIVE PROGRAMME FOR THE EXECUTIVE MANAGEMENT

At the general meeting on 12 April 2007, it was decided to introduce a long-term incentive programme for the group management, based on relative share return. The disbursements under this programme depend on the return (dividend + share price development) from Norske Skog's shares being among the eight best within a defined group of 16 listed paper industry companies, including Norske Skog. The scheme will yield a profit if Norske Skog is among the companies in the upper half of this reference group. 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. In addition, there is an absolute requirement that the return for Norske Skog's shares in the period is positive. The development is measured in three-year periods, and a new period starts every year. The first period started in Q1 2007, with possible disbursement in 2010.

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

Previously, Norske Skog had an incentive programme in the form of synthetic options for the group management team. The latest allocation under this programme took place in July 2006, when the group chief executive was awarded 60 000 share options and each member of the group management team was awarded 30 000 share options. As of 31 December 2007, there are 420 000 synthetic options outstanding, of which 90 000 are for the group chief executive.

MEASURES TO IMPROVE PROFITABILITY AND REDUCE DEBT

THE IMPROVEMENT PROGRAMMEME YIELDS RESULTS

Since August 2006, Norske Skog has worked on an improvement programme where the objective is to improve the gross operating result by NOK 3 billion per year from 2009, compared with the basis year 2005. The results are measured from improvements the company can influence, and adjusted for external factors which are considered as being beyond the control of the company.

At the end of 2007, an annual improvement of NOK 2 billion was calculated, but cost increases on input factors offset the improvement. The programme continues in 2008 and the development is reported quarterly.

NORSKE SKOG PRODUCTION SYSTEM (NSPS)

Norske Skog has developed an improved production system for the company's business units - NSPS. A team of 12 Norske Skog employees travels around to each business unit and implements NSPS. The objective is for all the business units to be operated with optimal cost effectiveness, and NSPS is therefore an important part of the NOK 3 billion improvement programme.

First, a diagnosis is prepared for the individual business unit where attitudes and mindsets in the organisation, local management structure and operating conditions are examined. The potential for improvement is identified on the basis of the diagnosis, the unit's own improvement proposals and comparison with good practice from other units.

NSPS has up to now been implemented at six of Norske Skog's 18 business units. The system will be implemented at another eight business units over the course of 2008 and the remaining four in 2009.

COST REDUCTION THROUGH ENERGY OPTIMISATION

Energy optimisation was subject to a strong focus in 2007. Several of the business units have changed their operation patterns to exploit 24-hour fluctuations in electricity prices, and investments which can lead to reduced energy requirements are prioritised. In addition, long-term energy contracts have been entered into at Norske Skog Golbey, ensuring predictable supply of competitively priced energy.

REDUCTION IN ADMINISTRATIVE COSTS

Through adopted staff reductions at the main office and other measures, the administrative costs will be reduced by NOK 150 million per year.

TEMPORARY AND PERMANENT CAPACITY REDUCTION

In September 2007, a decision was made to reduce the production of newsprint at Norske Skog's business units in Europe by 200 000 tonnes in 2008, in addition to production curtailments of 70 000 tonnes in the second half of 2007. The curtailments are divided among Norske Skog Skogn, Norske Skog Follum, Norske Skog Parenco and Norske Skog Golbey. With conversion to more flexible operating patterns, the temporary curtailments will be implemented without lay-offs or dismissals.

Furthermore, a decision was made to implement a process to assess the need for permanent production curtailments to improve the company's profitability. The process led to the board, on 4 March 2008, recommending to the corporate assembly the permanent shut down of three paper machines with a total production capacity of 450 000 tonnes, 7 per cent of the present production capacity. This is dealt with in detail in the section "Events after the balance sheet date" elsewhere in the directors' report.

DEBT REDUCTION MEASURES

The board works actively to reduce Norske Skog's debt through a number of measures which focus on increased cash flow as described earlier in this chapter. In addition come sale of not production-related properties. One example is Norske Skog's head office at Oksenøya, which was recently put on the market. Efforts are also underway to sell parts of the activities and restructure the company.

NORSKE SKOG AND SOCIETY

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

Norske Skog is a Norwegian company, listed on the Oslo Stock Exchange with headquarters and three of its 18 business units located in Norway. The company is therefore subject to particularly strong attention in Norway.

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

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

In 2007, the board reviewed and updated Norske Skog's policies and ethical guidelines and started work to simplify whistleblowing routines in Norske Skog.

The corporate communications work also aims to strengthen Norske Skog's reputation, contribute to make Norske Skog a preferred supplier and promote Norske Skog as a good place to work.

THE COMPANY'S SOCIAL RESPONSIBILITY

RECOVERED PAPER

Norske Skog's wholly and majority owned paper business units used 3.8 million tonnes of recovered paper in 2007. This makes Norske Skog one of the world's largest consumers of recovered paper as raw material for production of publication paper. The use of recovered paper is an important part of the company's energy and climate change strategies. Recovered paper requires less energy for production of new paper than fresh wood and thereby results in lower emissions of greenhouse gases.

FORESTRY

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

It is an objective that all Norske Skog business units shall possess traceability certificates for purchase of wood in order to document how much of the wood comes from certified forests by the end of 2008. The units without their own traceability certificates still have systems for tracing wood.

ENERGY, WASTE AND EMISSIONS AND DISCHARGES

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

All Norske Skog business units operate

within national laws and regulations. There have been no incidents in 2007 which resulted in serious violation of laws and regulations. In many cases, Norske Skog sets higher environmental targets than required by national and local authorities.

In 2007, the operations generated 995 000 tonnes of dry waste. Of this, 79 per cent was utilised as bioenergy. The company produced 2 800 GWh in this manner in 2007.

EMISSION OF GREENHOUSE GASES

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

ENVIRONMENTAL INVESTMENTS

Norske Skog made environmental investments of NOK 279 million in 2007. Most of the investments were made in measures to reduce water consumption, cleaning of discharges to water, and energy conservation measures.

ENVIRONMENTAL CERTIFICATION

16 of Norske Skog's 18 business units are ISO 14001 certified. The two business units which have so far not been environmentally certified are the business units Heibei and Shanghai in China, which use 100 per cent recovered paper in the production. The work to obtain environmental certification for these business units has been initiated.

SUPPORTS 3C – COMBAT CLIMATE CHANGE

Norske Skog is one of 46 international companies that have joined forces in 3C – Combat Climate Change. Through active efforts, we will contribute to lower emissions of greenhouse gases within a common, global framework.

ENVIRONMENTAL REPORTING

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

In 2007, Norske Skog was presented with the Farmand Award for the best Norwegian environmental report for 2006.

ICEM

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

GLOBAL EMPLOYEE REPRESENTATIVE FORUMS

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

This year's Global Employee Forum (GERF) was held in connection with the company's manager conference at the company's head office at Oxenøen in September. GEF members participated in the entire manager conference and also held their own meetings in connection with the conference.

The regional Australasia forum was formally established in 2007, and with it, Norske Skog has its own forums for employee representatives in Europe, South America and Australasia. The European Work Council held one meeting in 2007. One meeting was held in South America and Australasia.

The establishment of the regional forum for Australasia formally took place in 2007 after a lengthy work effort. The process showed how local culture and tradition as well as laws and agreements make it demanding to establish a common platform for employees and organised cooperation between employee representatives and management.

UN GLOBAL COMPACT

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

YOUNG READER

Through cooperation with the World Association of Newspapers (WAN), Norske Skog contributes to reading and writing training among children in large parts of the world. The programmeme is called Young Reader, and use of newspapers and magazines in schools forms the basis for the effort. More than 30 million students and teachers participated in the project in 2007.

OTHER

CLASS ACTION LAWSUIT IN THE USA

In 2004, a class action lawsuit was filed in the USA against a number of paper industry companies in North America and Europe, including Norske Skog, based on alleged violation of competition rules. On 12 December 2007, the class action lawsuit against Norske Skog was withdrawn voluntarily by the plaintiffs. The matter was closed without any form of commitments or promises being made by Norske Skog. Norske Skog remains the subject of an individual federal lawsuit and a limited number of state lawsuits in the USA.

TAX-RELATED FACTORS REGARDING A CANADIAN SUBSIDIARY

In 2007, Norske Skog and Canadian tax authorities arrived at an agreement which closed a matter stemming from a subsidiary of what was then Fletcher Challenge and which was acquired in 2000. The agreement entails that Norske Skog will pay an amount of about CAD 42.5 million (around NOK 240 million) as a final settlement. The amount is recorded as a tax cost in the 2007 accounts.

Norske Skog has previously stated that the matter could result in a claim against Norske Skog of up to NOK 4.5 billion.

EVENTS AFTER 31 DECEMBER 2007

Following a demand from the shareholder Unionen AS, an extraordinary general meeting was held in Norske Skogindustrier ASA on 10 January 2008. The following motions were on the agenda: election of election committee members, and election of corporate assembly members.

Unionen AS put forward a motion for two candidates for the corporate assembly and one candidate for the election committee. The election committee recommended that the extraordinary general meeting should not make any changes in the make-up of the corporate assembly or the election committee.

A total of 111 562 609 shares were represented at the general meeting. Of these, 92 286 038 were in favour of the motion from the election committee, while 18 454 879 were in favour of the motion from Unionen AS and 821 692 votes were blank.

On the basis of the weak results caused by cost increases and excess capacity, the board put forward the following proposal before the corporate assembly on 4 March:

1. The corporate assembly authorises the board to permanently shut down Norske Skog Steti.
2. The corporate assembly authorises the board to shut down PM2 at Norske Skog Follum indefinitely.
3. The corporate assembly authorises the board to shut down Norske Skog Cheongwon indefinitely.

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

After reports of large budget cost overruns, giving the project a total cost of USD 396 million, the board decided to stop the project on 10 March 2008. The net cost of stopping the project will be USD 82 million.

OUTLOOK FOR 2008

The board emphasises that there is significant uncertainty as regards the outlook.

Continued increased demand for newsprint and magazine paper in most markets outside of Europe is assumed, but the general economic development is more uncertain than earlier.

The global market balance will be positively influenced by implemented and announced shut-downs, both for newsprint and magazine paper.

Newsprint in Europe will have a lower price level than in 2007. Magazine paper in Europe is expected to achieve higher prices, and the price outlook for newsprint in several markets outside of Europe and North America is positive. This is related to capacity reductions and subsequent price increases implemented in North America.

There is reason to expect cost increases on wood in Europe in 2008 as a result of export tax on Russian timber. Recovered paper and energy prices are expected to remain high. A high cost level for input factors is expected to put continued pressure on operating margins.

The improvement programme, which aims to reduce costs by NOK 3 billion per year from 2009, continues as scheduled. It is assumed that the programme will deliver according to plan, but cost increases for input factors are expected to offset the effect.

2008 will be a very demanding year for Norske Skog. The board and administration will maintain a strong focus on debt reduction, improved market balance through structural measures, final implementation of the improvement programme and other cost-reducing measures decided at the beginning of 2008.

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)

The parent company in the group, Norske Skogindustrier ASA, mostly makes up the group's activities in Norway. The company's head office is located at Lysaker outside of Oslo. Norske Skog's politically determined energy contracts in Norway expire on 31 December 2010. As a consequence, Norske Skog has also changed the expected economic life to the end of 2010 for a total of five machines in Norway. Norske Skog has entered into energy contracts for volumes which are higher than the expected future need for own use. The values of the energy contracts in Norway which are not for own use influence the parent company income statement in the same manner that they influence the group accounts. Reference is made to information under Item 2.2. As a result of reduced values of underlying assets, Norske Skogindustrier ASA has written off the value of some of its subsidiaries recognised in the balance sheet. Expensed write-down of shares in subsidiaries amounts to NOK 591 million and is included under the item financial items. In addition, write-downs related to the company's mills at Skogn, Follum and Saugbrugs have been expensed. In total, write-downs related to tangible fixed assets of NOK 3,944 million have been expensed. The cash flow from operations in the parent company was minus NOK 100 million in 2007. At year-end 2007, Norske Skogindustrier ASA had 1 965 employees. 202 of these are women.

PROFIT ALLOCATION

The annual profit for Norske Skogindustrier ASA (the parent company) was NOK 1 209 million in 2007, and this has been transferred to retained other equity in its entirety. After this, the free equity in Norske Skogindustrier ASA amounts to NOK 6 092 million. On the basis of the 2007 annual accounts, the board proposes that Norske Skogindustrier ASA makes a group contribution totalling NOK 220 million to Klosterøya AS and Oksenøen Eiendom AS. The group contribution is made with no tax effect and is recognised in the accounts as increased investments in subsidiaries in 2008.

Lysaker, 12 March 2008
The Board of Directors
of Norske Skogindustrier ASA

Kim Wahl
Chair

Øivind Lund
Deputy chair

Kari Broberg
Board member

Halvor Bjørken
Board member

Giséle Marchand
Board member

Kåre Leira
Board member

Stein-Roar Eriksen
Board member

Trond Andersen
Board member

Ingrid Wiik
Board member

Christian Rynning-Tønnesen
President & CEO

INCOME STATEMENT

NOK MILLION	NOTES	2007	2006	2005
Operating revenue	**3**	**27 118**	**28 812**	**25 726**
Distribution costs		(2 400)	(2 521)	(2 349)
Cost of materials		(15 214)	(15 498)	(13 896)
Change in inventories		144	(102)	239
Employee benefit expenses	5, 6	(3 495)	(3 800)	(3 691)
Other operating expenses	5, 7, 13	(2 221)	(2 187)	(2 072)
Restructuring expenses	3, 9	-	(484)	(270)
Other gains and losses	27	4 463	(288)	263
Depreciations	3, 12	(2 878)	(3 226)	(3 072)
Impairments	3, 12	(4 840)	(3 233)	(248)
Operating earnings	**3**	**677**	**(2 527)**	**630**
Share of profit in associated companies	15	37	202	(751)
Financial items	8	(479)	(1 155)	(883)
Profit before tax		**235**	**(3 480)**	**(1 004)**
Taxes	10	(918)	463	156
Profit for the year		**(683)**	**(3 017)**	**(848)**
Attributable to minority interests	19	(65)	(208)	6
Attributable to equity holders of the company		**(618)**	**(2 809)**	**(854)**
Earnings per share / earnings per share fully diluted	24	(3.26)	(14.84)	(5.98)

BALANCE SHEET

NOK MILLION	NOTES	31.12.2007	31.12.2006	31.12.2005
Assets				
Deferred tax asset	10	11	216	324
Other intangible assets	12	132	3 056	4 837
Property, plant and equipment	3, 12, 28	28 401	33 547	35 990
Investments in associtated companies	15	234	333	1 415
Other non-current assets	6, 14, 16	529	425	1 174
Total non-current assets		**29 307**	**37 577**	**43 740**
Inventories	4	2 731	2 688	2 860
Receivables	16	3 811	3 999	4 253
Cash and cash equivalents	17	1 792	397	452
Other current assets	4, 18, 29	5 619	569	728
Current assets		**13 953**	**7 653**	**8 293**
Total assets		**43 260**	**45 230**	**52 033**
Shareholders' equity and liabilities				
Paid-in equity		12 310	12 309	12 309
Retained earnings	25	3 282	5 791	9 657
Minority interests	19	365	450	713
Total equity		**15 957**	**18 550**	**22 679**
Pension obligations	6	519	530	444
Deferred tax	10	2 033	1 804	2 776
Interest-bearing non-current liabilities	20, 28, 29	17 294	14 712	17 525
Other non-current liabilities	22, 30	1 687	1 756	955
Total non-current liabilities		**21 533**	**18 802**	**21 700**
Interest-bearing non-current liabilities	21, 29	1 141	3 114	2 587
Trade and other payables		3 702	3 833	4 197
Tax payable	10	73	123	140
Other current liabilities	4, 29	854	808	730
Total current liabilities		**5 770**	**7 878**	**7 654**
Total liabilities		**27 303**	**26 680**	**29 354**
Total equity and liabilities		**43 260**	**45 230**	**52 033**

Lysaker, 12 March 2008
The Board of Directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øivind Lund
Deputy chair

Kari Broberg
Board member

Halvor Bjørken
Board member

Giséle Marchand
Board member

Ingrid Wiik
Board member

Stein-Roar Eriksen
Board member

Trond Andersen
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTES	2007	2006	2005
Cash flow from operating activities				
Cash generated from operations		27 238	28 905	25 877
Cash used in operations		(23 547)	(24 608)	(21 906)
Cash from net financial items		(1 011)	(1 365)	(845)
Paid taxes		(514)	(169)	(65)
Net cash flow from operating activities	**11**	**2 166**	**2 763**	**3 061**
Cash flow from investing activities				
Investments in operational fixed assets	12	(1 746)	(1 722)	(2 230)
Sales of operational fixed assets		15	11	21
Net cash from sold shares in other companies [1]		87	1 213	100
Net cash used on acquisitions of shares in other companies [2]		-	-	(3 905)
Paid taxes		-	-	-
Net cash flow from investing activities		**(1 644)**	**(498)**	**(6 014)**
Cash flow from financing activities				
Net change in long-term liabilities [3]		3 307	(3 978)	(348)
Net change in current liabilities [3]		(1 355)	2 343	257
Dividend paid [4]		(1 049)	(1 046)	(807)
Sale of own shares		5	-	-
New equity [5]		-	-	3 840
Net cash flow from financing activities		**908**	**(2 681)**	**2 942**
Translation difference		(29)	(1)	24
Total change in cash and cash equivalents		**1 401**	**(417)**	**13**
Cash and cash equivalents at 1 January [6]	4, 17, 18	485	902	889
Cash and cash equivalents at 31 December [6]	4, 17, 18	1 886	485	902

[1] In 2007, the amount relates to reimbursed capital from Malaysian Newsprint Industries SDN BHD.
In 2006, the amount is related to the sale of Catalyst, Forestia and Nordic Paper while the 2005 amount relates to sale of Australian forest.
[2] The amount in 2005 relates to the acquisition of the remaining 50% of Pan Asia Paper Company.
[3] Repaid debt was NOK 7 286 million in 2007, while new debt drawn was NOK 9 238 million.
In 2006 debt repaid was NOK 5 412 million while new debt drawn was NOK 3 777 million.
[4] The amount includes dividends paid to minorities in the corporation.
[5] The 2005 amount relates to the share issue to fund the acquisition of the remaining 50% of Pan Asia Paper Company.
[6] Cash and cash equivalents includes short-term investments in note 4 as well as cash and cash equivalents.

CHANGES IN GROUP EQUITY STATEMENT

NOK MILLION	SHARE CAPITAL AND OTHER PAID IN EQUITY	RETAINED EARNINGS	HEDGING	OTHER EQUITY RESERVES	MINORITY INTERESTS	TOTAL
Equity 1 January 2005	**8 460**	**10 799**	**642**	**(892)**	**186**	**19 195**
Fair value gains financial assets	-	158	-	-	-	158
Net investment hedge	-	-	(408)	-	-	(408)
Currency translation differences	-	-	-	1 117	-	1 117
Dividend paid	-	(795)	-	-	-	(795)
Share issue	3 834	-	-	-	-	3 834
Change in holding of own shares	15	(9)	-	-	-	6
Write-up of excess value related to acquisitions	-	-	-	365	333	698
Increased minority interests related to acquisitions	-	-	-	-	188	188
Other items booked directly to equity [1)]	-	(466)	-	-	-	(466)
Profit for the year	-	(854)	-	-	6	(848)
Equity 31 December 2005	**12 309**	**8 833**	**234**	**590**	**713**	**22 679**

[1)] Mainly related to tax items booked directly to equity

NOK MILLION	SHARE CAPITAL AND OTHER PAID IN EQUITY	RETAINED EARNINGS	HEDGING	OTHER EQUITY RESERVES	MINORITY INTERESTS	TOTAL
Equity 1 January 2006	**12 309**	**8 833**	**234**	**590**	**713**	**22 679**
Fair value gains financial assets	-	-	-	-	-	-
Net investment hedge	-	-	20	-	-	20
Currency translation differences	-	-	-	(59)	(40)	(99)
Dividend paid	-	(1 041)	-	-	-	(1 041)
Share issue	-	-	-	-	-	-
Change in holding of own shares	-	23	-	-	-	23
Change in ownership in subsidiaries	-	-	-	-	(15)	(15)
Write-up of excess value related to acquisitions	-	-	-	-	-	-
Increased minority interests related to acquisitions	-	-	-	-	-	-
Other items booked directly to equity	-	-	-	-	-	-
Profit for the year	-	(2 809)	-	-	(208)	(3 017)
Equity 31 December 2006	**12 309**	**5 006**	**254**	**531**	**450**	**18 550**
Equity 1 January 2007	**12 309**	**5 006**	**254**	**531**	**450**	**18 550**
Fair value gains financial assets	-	-	-	-	-	-
Net investment hedge	-	-	1 039	(242)	-	797
Cash flow hedge	-	-	12	-	-	12
Currency translation differences	-	-	-	(1 680)	(16)	(1 696)
Dividend paid	-	(1 045)	-	-	(4)	(1 049)
Share issue	-	-	-	-	-	-
Change in holding of own shares	1	-	-	14	-	15
Change in ownership in subsidiaries	-	-	-	-	-	-
Write-up of excess value related to acquisitions	-	-	-	-	-	-
Increased minority interests related to acquisitions	-	-	-	-	-	-
Other items booked directly to equity	-	11	-	-	-	11
Profit for the year	-	(618)	-	-	(65)	(683)
Equity 31 December 2007	**12 310**	**3 354**	**1 305**	**(1 377)**	**365**	**15 957**

Number of shares held by the company is disclosed in note to the parent company.

1. GENERAL INFORMATION

Norske Skogindustrier ASA ("the company") and its subsidiaries (together "the group") produce, distribute and sell publication paper. This includes newsprint and magazine paper. The Group has 19 fully and partly owned mills on four continents.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Lysaker outside Oslo. The company is listed on the Oslo Stock Exchange.The consolidated accounts were authorized for issue by the Board of Directors in Norske Skogindustrier ASA on 12 March 2008.

2. ACCOUNTING POLICIES

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

The consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union (EU). Information required by IFRS 1 and recommended by the Oslo Stock Exchange is presented in a separate note.

Consolidation

a) Subsidiaries

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

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

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

b) Associates

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

The Group's share of post-acquisition profits or losses made by its associates is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

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

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"). For the activities in South America, USD is the functional currency. The consolidated financial statements are presented in NOK, which is the Company's functional and presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the entity's functional currency at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the profit and loss account. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rate are recognised in the profit and loss account, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss.

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 profit and loss account are translated at average exchange rates.
(iii) all resulting exchange differences are recognised as a separate equity component (cumulative translation adjustment).

Exchange differences arising from translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account 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 mainly comprise mills, machinery and offices. All property, plant and equipment (PPE) are shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure directly attributable to the acquisition of the items.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

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 profit and loss account. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

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/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

b) Patents and licences
Trademarks and licences are recognised at cost. They have a definite useful life and are carried at 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
Computer software licences acquired are capitalised on the basis of the costs incurred to acquire the specific software and bring it into use. These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer programmes are recognised as an expense as they are incurred. Costs which are directly associated with the production of identifiable and unique software products controlled by the group, and which will probably 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 (not exceeding three years).

Impairment of assets

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

Investments

The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, investments held to maturity and financial assets available for sale. 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 if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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 and where there is no intention of trading. 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 in the balance sheet.

c) Financial assets available for sale
Financial assets available for sale 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.

Financial instruments

Accounting for financial instruments 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.

The various types of financial instruments used for hedging interest risks are assessed as separate portfolios. These portfolios are then assessed at market value. In cases where the contracts entered into are classified as hedging transactions, revenues and costs are accrued and classified in the same way as the underlying balance sheet items.

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 analysis refined to reflect the issuer's specific circumstances.

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.

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 on the balance sheet.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when objective evidence exists that the group will be unable to collect the entire amount due in accordance with the original terms of each receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

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 profit and loss account over the period of the borrowing using the effective interest method.

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. Value above/below par is expensed when purchasing Norske Skog bonds.

Income taxes

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 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.

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.

Tax on current taxable profit and deferred income tax are determined using tax rates enacted or currently enacted by the balance sheet date.

The Groups 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.

Employee benefits

a) Pension obligations

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

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

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

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

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

b) Share-based remuneration

The group has an option programme which provides cash settlement if the option is exercised. The value of the option is recognised in the profit and loss account over the period from when the option is awarded to expected exercise date.

c) Bonus arrangements

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

Provisions

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

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 management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The increase in the liability as a result of getting one year closer to maturity is recognised as an interest cost in the profit and loss account.

Revenue recognition

Sale of goods

Revenue comprises the fair value of the sale of goods, net of value added tax, rebates and discounts and after eliminating sales within the group. Revenue is recognised when the significant risks and rewards of ownership of the goods has been transferred to the buyer. This will depend upon the buyer's delivery terms and will be in the range from the finalization of the production to deliverance of the goods to the buyer.

Dividend income

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

Interest income

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

Leases

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

Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Finance leases are recognised in the balance sheet to the fair value of the lease property, or if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charge and reduction of the outstanding liability, giving a constant periodic rate of interest on the remaining balance of the liability. The leased property is depreciated according to the same principles applied for other non-current assets. 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 where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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 goodwill and tangible fixed assets

The group performs annual tests to assess the decline in value of goodwill and tangible fixed assets. The recoverable amount from cash-generating units is determined by calculating utility value. These calculations require the use of estimates.

The capitalised value of goodwill and tangible fixed assets within the cash-generating units is measured against the utility value of goodwill 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 utility value within cash-generating units, which could in turn mean a future decline in the value of goodwill and tangible fixed assets.

Calculating the utility value of goodwill and tangible fixed assets within the cash-generating units is based on discounted cash flows. Uncertainties exist in relation to future cash flows. Trend prices have been applied when determining future cash flows. Changes in these trend prices will have the effect of altering the value of cash flows and thereby also utility value within the cash-generating units. Significant changes in trend prices could accordingly mean a future fall in the value of goodwill and tangible fixed assets.

The required rate of return applied when discounting future cash flows is crucial for the calculated value of goodwill and tangible fixed assets. Viewed in isolation, a future increase in the required return when discounting future cash flows will reduce utility value, which could in turn mean a future decline in the value of goodwill 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 the management's best judgement. The group faces no specific requirements relating to environmental obligations. Possible future requirements could mean an increase in group costs.

Implemented changes in presentation, measurement and recognition caused by new accounting standards or interpretations effective in 2007 or later

IFRS 7 Financial instruments: Disclosures
Disclosures and accompanied changes in IAS 1 Presentation of financial statements – Capital disclosures introduces new disclosure requirements related to financial instruments. The standard does not influence the classification or measurement of financial instruments.

IAS 23 Borrowing costs (amendment)
The amendment requires capitalisation of all borrowing costs to the extent the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The borrowing costs are capitalised as part of the acquisition cost of the asset and depreciated accordingly.
The amendments to IAS 23 are mandatory for annual accounts beginning 1 January 2009 or later. The group has applied the revised wording from IFRS was introduced in the consolidated accounts in 2005.

IFRIC 8 Scope of IFRS 2
The interpretation gives guidance on the treatment of transactions in relation to the issuing of equity instruments where the compensation is lower than fair value of the instrument issued.The interpretation has not impacted the group's presentation, measurement or recognition of the above mentioned transactions.

IFRIC 10 Interim Financial Reporting and Impairment
The interpretation states that a reduction in fair value of goodwill, equity instruments or other financial instruments can not be reversed at a subsequent balance sheet date.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
The interpretation gives guidance on the accounting treatment of treasury shares.
The interpretation has not impacted the group's presentation, measurement or recognition of the above mentioned transactions.

New interpretations and amendments to previously issued standards
Listed below are the new interpretations where early adoption is permitted but not mandatory. The group has not implemented these in 2007.

IFRS 8 Operating segments
The standard is mandatory from 1 January 2009. The group will implement the standard in 2008.

IFRIC 12 Service Concession Arrangements
The interpretation gives guidance on contractual agreements where a party from private or public sector participates in development, operation and maintenance of infrastructure in public sector. The interpretation is mandatory from 1 January 2008. The interpretation is not expected to have any impact on the group's accounts.

IFRIC 13 Customer Loyalty Programmes
The interpretation gives guidance on the accounting where goods and services are offered as part of a customer loyalty programme. The interpretation is mandatory from 1 January 2008. The interpretation is not expected to have any impact on the group's accounts.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction
The interpretation gives guidance on the value to recognize as an asset when net pension obligation is negative. The standard is mandatory from 1 January 2008.

3. BUSINESS SEGMENTS

At 31 December 2007, the group is organised on a worldwide basis into the two main business segments newsprint and magazine paper. The Group mainly operates within four geographic areas, Europe, South America, Australasia and Asia. The US market is included in the Europe region Australasia include Australia and New Zealand. Other industry includes Forestia AS up to divestment in 2006. Other revenues include revenue from non-manufactured paper in Asia, Australasia and South America, and revenues from wood and energy sold to external parties from European operations. Neither of these activities represent separate mandatory reporting segments. Business activities and transactions between the group's segments are according to ordinary commercial conditions.

KEY FIGURES FROM THE P&L ACCOUNT BY REGION	OPERATING REVENUE 2007	2006	2005	DEPRECIATIONS 2007	2006	2005	OPERATING EARNINGS 2007	2006	2005
Europe									
Newsprint	8 954	9 058	8 589	714	974	1 047	886	768	274
Magazine paper	6 662	6 762	6 889	590	651	644	(72)	282	446
Total Europe	**15 616**	**15 820**	**15 478**	**1 304**	**1 625**	**1 691**	**814**	**1 050**	**720**
South America									
Newsprint	1 281	1 399	1 230	141	180	190	115	289	66
Australasia									
Newsprint	3 865	3 897	4 022	717	652	752	268	68	88
Asia									
Newsprint	5 511	6 096	2 962	662	745	373	178	252	149
Other activities									
Other activities in Norway	11	109	585	4	5	32	(8)	6	33
Other revenue	1 657	2 223	2 090	-	-	-	27	-	-
Total other activities	**1 668**	**2 332**	**2 675**	**4**	**5**	**32**	**1 394**	**1 665**	**33**
Staff/eliminations	(823)	(732)	(641)	50	20	231	(340)	(202)	(652)
Restructuring costs [2]	-	-	-	-	-	-	-	(484)	226
Gains from trading and energy hedging	-	-	-	-	-	-	4 463	(273)	-
Impairments [1]	-	-	-	-	-	(197)	(4 840)	(3 233)	-
Total Group	**27 118**	**28 812**	**25 726**	**2 878**	**3 226**	**3 072**	**677**	**(2 527)**	**630**

[1] The impairments are distributed as follows:

	2007	2006
Europe - Magazine		
Walsum, goodwill	-	(669)
Saugbrugs, fixed assets	(1 741)	-
Follum, fixed assets	(289)	-
Bruck, fixed assets	(2)	-
South America - Newsprint		
South America, goodwill	-	(895)
Pisa, goodwill	-	(122)
Pisa, fixed assets	(3)	-
Norske Skog Florestal	(8)	-
Klabin, goodwill (see note 12)	(140)	-
Australasia - Newsprint		
NSI Paper Mills Australia, fixed assets	(9)	-
Fletcher, goodwill (see note 12)	(2 576)	-
Asia - Newsprint		
Pan Asia, goodwill	-	(53)
China, fair values	-	(862)
Korea, goodwill	(3)	(434)
Korea, intangible assets	(94)	-
Singburi, fixed assets	(1)	-
Staff		
Other activities	26	(198)
Total impairments	**(4 840)**	**(3 233)**

[2] The restructuring costs include (see note 9):

	2007	2006
Restructuring cost Union	-	(45)
Europe	-	(149)
South America	-	(9)
Australasia	-	(117)
Asia	-	(110)
Workforce reductions at Corporate Centre	-	(54)
Total restructuring costs	**-**	**(484)**

OPERATING REVENUE BY MARKET	2007	2006	2005
Norway	1 375	2 340	1 741
Europe ex Norway	12 891	14 059	12 832
North America	1 089	229	1 093
South America	1 657	1 598	1 705
Australasia	3 967	4 136	4 285
Asia	5 944	6 333	3 940
Africa	195	117	130
Total operating revenue	**27 118**	**28 812**	**25 726**

NUMBER OF EMPLOYEES BY REGION	2007	2006	2005
Europe	4 094	4 309	4 691
South America	587	612	593
Australasia	1 086	1 191	1 241
Asia	1 563	1 671	2 327
Other activities	-	-	272
Staff	242	255	248
Total group	**7 572**	**8 038**	**9 372**

INVESTMENTS BY REGION	2007	2006	2005
Europe			
Newsprint	443	414	379
Magazine paper	496	335	363
Total Europe	**939**	**749**	**742**
South America			
Newsprint	390	139	170
Australasia			
Newsprint	220	526	765
Asia			
Newsprint	143	242	5 071
Other actitivies			
Other activities	54	199	143
Total group	**1 746**	**1 855**	**6 891**

Investments include investments in operational fixed assets and intangible assets, see note 12.
Assets by business segments include fixed assets and interest-free current assets which comprises inventory, accounts receivable and provisions for interest.
Liability by business segment includes trade and other payable, tax payable and other current liabilities.

KEY FIGURES FROM THE BALANCE SHEET BY REGION	FIXED ASSETS			NON-INTEREST-BEARING CURRENT ASSETS			NON-INTEREST-BEARING CURRENT LIABILITIES		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Europe									
Newsprint	7 681	7 873	8 388	2 126	2 182	2 038	1 426	1 262	931
Magazine paper	4 135	6 224	6 319	3 768	1 785	1 497	1 205	1 030	738
Total Europe	**11 816**	**14 097**	**14 707**	**5 894**	**3 967**	**3 535**	**2 631**	**2 292**	**1 669**
South America									
Newsprint	2 031	1 861	2 073	261	420	411	200	153	262
Australasia									
Newsprint	6 363	7 133	7 437	734	585	942	598	649	786
Asia									
Newsprint	7 855	9 328	11 296	1 642	1 827	2 160	612	885	981
Other activities									
Other activities	336	1 128	212	(1 536)	92	149	589	554	97
Staff/eliminations	-	-	265	-	-	(84)	-	-	1 013
Total group	**28 401**	**33 547**	**35 990**	**6 995**	**6 891**	**7 113**	**4 630**	**4 533**	**4 808**

4. SPECIFICATION OF BALANCE SHEET ITEMS

	31-12-2007	31-12-2006	31-12-2005
Inventories			
Raw materials and other production input	1 230	1 157	1 185
Semi-manufactured materials	57	27	44
Finished goods	1 444	1 504	1 631
Total	**2 731**	**2 688**	**2 860**
Other current assets			
Prepaid expenses	37	76	-
Derivatives	5 488	405	278
Current investments	94	88	450
Total	**5 619**	**569**	**728**
Other current debt			
Derivatives	685	174	-
Accruals emission rights	14	34	34
Other non-interest-bearing debt	155	600	696
Total	**854**	**808**	**730**

5. EMPLOYEE BENEFIT EXPENSES

	NOTE	2007	2006	2005
Pay		2 730	3 106	2 947
Social security contributions		462	421	433
Pension costs	6	128	118	107
National insurance and other social costs		175	155	204
Total		**3 495**	**3 800**	**3 691**

The CEO's basic salary per 31 Dec 2007 is NOK 3 708 000. In total, the CEO has received total payments of NOK 4 688 976 in 2007. An annual agreement is concluded on a result-based bonus limited to a maximum of 50 per cent of his base salary.

On 5 July 2006 the chief executive officer was awarded 60 000 synthetic options with a strike price of NOK 87.50. The CEO's retirement age is 64 and his pension amounts to 65 % of base salary at the retirement age. The annual costs related to the CEO's future pension plan were NOK 2 570 969 in 2007.

The mutual period of notice for the chief executive and other members of the corporate management is six months. If circumstances arise in which the company or the person concerned, by mutual agreement, terminate the contract of employment in the best interests of the company, the company guarantees to pay the affected person's basic salary, less remuneration they may receive from others, for a period of 18 months from the end of the period of notice. This provision applies equally to the chief executive and the other members of the corporate management. The annual bonus agreements for the members of the corporate management specify a maximum payment of 50 per cent of basic salary. The basis for calculating this bonus – the targets – is set annually by the board and chief executive respectively.

Remuneration to members of the corporate assembly and directors totalled NOK 529 700 and NOK 2 800 100 in 2007. Miscellaneous remuneration amounted to NOK 557 300.

The group had 7 572 employees at 31 December 2007.

For statement on remuneration to executive employees, see note 19 to the parent company accounts.

Pay and conditions for other members of the corporate management (in NOK)
In accordance with the code of practice for corporate governance recommended by the Oslo Stock Exchange, pay and conditions for members of the corporate management are specified below.

	BASE SALARY PER 31.12.2007	PAYMENTS IN KIND, ETC, FOR 2007[1)]	BONUS 2007[2)]	NUMBER OF SYNTHETIC OPTIONS [3)]	LOANS AT 31 DEC 2007	LOAN TERMS [4)]
Christian Rynning-Tønnesen	3 708 000	194 334	978 765	90 000	700 000	700 000 at 21 June 2006 non-interest-bearing and exept from repayment
Vidar Lerstad	2 060 000	147 052	546 359	60 000	328 352	540 833 at 13 February 2004, non-interest-bearing and with 10-year term
Eric d'Olce (Net)	1 237 200	-	153 000	30 000	-	
Peter Chrisp (Net)	1 307 800	-	167 600	30 000	-	
Kristin Klitzing	1 648 000	163 418	-	30 000	-	
Rune Gjessing	1 720 000	114 314	189 099	-	-	
Antonio Diaz	2 973 700	-	1 011 800	60 000	-	
Andreas Enger	2 266 000	153 991	343 778	30 000	441 662	500 000 at 18 October 2006, non-interest-bearing and with 10-year term
Ketil Lyng	1 905 500	222 933	351 680	60 000	1 202 125	1 782 125 at 1 march 2005, interest-bearing after five years and with 15-year term

[1] Includes special benefits, company cars, interest-free loans and so forth.
[2] Based on results achieved in 2006, paid in 2007.
[3] Synthetic options have been awarded from 2005 to 2006, with the right to exercise in 2008 and 2009 in the period 1 September to 31 December.
The striking prices are NOK 95 and NOK 87.50 respectively.
[4] The interest rate paid on all interest-bearing loans is the one which at any given time represents the floor for the taxable benefit of loans from employers.

In addition to the costs related to CEO's pension scheme, the costs related to the pension schemes for the rest of the corporate management are as follows:
Eric d'Olce NOK 899 742, Peter Chrisp NOK 552 870, Andreas Enger NOK 1 122 824, Vidar Lerstad NOK 1 096 341, Ketil Lyng NOK 777 564, Kristin Kiltzing NOK 808 244 and Rune Gjessing NOK 299 373.

Share-based remuneration

The chief executive and other members of the corporate management are awarded synthetic options. These options are synthetic in that the difference between the share price at the date they are exercised and their strike price is paid in the form of salary, and the recipients have undertaken to purchase Norske Skog shares in the market, at market price, for the amount received after tax. The shares must be retained by the recipient for three years. It will accordingly be about six years before a possible gain can be realised. The right to exercise these options is conditional on the recipient continuing to be in the company's employment at the date they are exercised. This arrangement has no dilution effect, since the shares are purchased in the market. The options are valued by using the Black and Scholes option pricing model and the value is recognised in the profit and loss accounts on a linear basis over the option period. In the valuation of the option there is assumed a risk free interest rate of 4.5 %, a volatility in the Norske Skog share of 30 %, and an annual dividend of 5 %. The fair value is calculated on the basis of the share price at the balance sheet date. No syntetic options have been awarded after 2006.

The board has 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 40 % payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the chief executive and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50 % of the allocation from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. This scheme involves no dilution effect.

OUTSTANDING OPTIONS AS OF 31 DECEMBER 2007	DATE OF AWARD	NUMBER	PERIOD OF REALISATION	STRIKE PRICE
	14-10-2005	150 000	1 Jul - 31 Dec 2008	95.00
	07-05-2006	270 000	1 Jan - 30 Jun 2009	87.50

Of the options awarded earlier, 180 000 expired in 2007. These options had a striking price which was higher than the share price at the time of realisation and had no value at that time.

	SALARY	BOARD OF DIRECTORS FEES	BOARD OF DIRECTORS FEES AND REMUNERATION FOR COMMITTEE WORK
Remuneration to the members of the Board of Directors			
Trond Andersen	312 033	275 000	275 000
Halvor Bjørken	-	275 000	329 000
Stein-Roar Eriksen	343 036	275 000	275 000
Lars W. Grøholt	-	245 000	299 000
Kim Wahl	-	255 000	255 000
Kåre Leira	431 405	275 000	332 400
Øivind Lund	-	358 700	432 300
Giséle Marchand	-	275 000	361 100
Ingrid Wiik	-	275 000	329 000
Kari Broberg	-	140 000	140 000
Anette Brodin Rampe	-	135 000	135 000
Kjetil Bakkan [1]	-	10 800	10 800
Kjell Evju [1]	-	5 600	5 600

[1] Deputy board member

AUDITOR'S FEES:
(In NOK 1 000 without VAT)

	PARENT COMPANY	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	2 970	8 663	16	11 649
Audit-related assistance [1]	750	123	-	873
Tax assistance	77	1 318	-	1 395
Other fees	1 537	1 136	-	2 673
Total	**5 334**	**11 240**	**16**	**16 590**

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

6. PENSION COSTS AND OBLIGATIONS

Norske Skog has various pension schemes. Contributions to these schemes are made in accordance with local agreements. A total of 8 228 people are covered by such schemes. Of these, 5 829 are covered by defined benefit plans and 2 399 by defined contribution plans.

Description of the defined benefit plans

NORSKE SKOG HAS TWO SIGNIFICANT DEFINED BENEFIT PLANS:	BENEFITS IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65 %	30	67	62	4 750
Norske Skog Parenco BV	70 %	40/37	65/62	60	429

Plan assets of the pension scheme in Norske Skogindustrier ASA are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. Plan assets in Norske Skog Parenco are managed and invested in accordance with general guidelines governing investments by pension fund companies in the Netherlands. Several smaller schemes also exist. In evaluating plan assets, their estimated value at 31 December is used. This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the life insurance company.

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

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

In addition to the benefit schemes come several defined contribution schemes.

The return on plan assets have been better than the obligations. The estimated payment to the different schemes was NOK 70 million in 2008.

CALCULATION OF FUTURE BENEFIT OBLIGATIONS ARE BASED ON THE FOLLOWING ASSUMPTIONS:

	2007	2006	2005	2004	2003
Discount rate	4.7 %	4.5 %	4.5 %	5.0 %	5.5 %
Expected return on plan assets	5.8 %	5.5 %	5.5 %	6.0 %	6.5 %
Pay adjustment	4.5 %	4.5 %	2.5 %	2.5 %	3.0 %
Social security increase/inflation	4.4 %	4.3 %	2.0 %	2.0 %	2.0 %
Pension increase	2.0 %	1.6 %	2.0 %	2.0 %	2.0 %

Subsidiaries can deviate from these assuptions and follow local adaptions.

NET PERIODIC PENSION COST IN THE CONSOLIDATED ACCOUNTS

	2007	2006	2005	2004	2003
Benefits earned during the year	107	140	87	74	90
Interest cost on prior period benefits	137	95	161	126	139
Pensions cost contribution schemes	14	12	14	10	10
Expected return on plan assets	(114)	(112)	(168)	(149)	(143)
Periodic employer tax	6	(3)	3	5	9
Expensed portion of changes in early retirement plan	(2)	(2)	(2)	(2)	3
Expensed portion of differences in estimates	(20)	(12)	12	9	21
Net periodic pension cost	**128**	**118**	**107**	**73**	**129**

STATUS OF THE PENSION PLANS RECONCILED TO THE CONSOLIDATED BALANCE SHEET

UNFUNDED PENSION PLANS

	2007	2006	2005	2004	2003
Projected benefit obligations	(370)	(455)	(419)	(362)	(443)
Plan assets at fair value	-	-	-	-	-
Plan assets in excess of/(less than) obligations	**(370)**	**(455)**	**(419)**	**(362)**	**(443)**
Unamortised changes in early retirement plans	-	-	-	-	-
Differences in estimates not taken to income/expense	(25)	-	-	-	-
Net plan assets/pension obligations	**(395)**	**(455)**	**(419)**	**(362)**	**(443)**
Accrual employer tax	-	-	-	-	-
Net (pension obligations) in the balance sheet	**(395)**	**(455)**	**(419)**	**(362)**	**(443)**

PARTLY OR FULLY FUNDED PENSION PLANS

	2007	2006	2005	2004	2003
Projected benefit obligations	(2 186)	(2 006)	(2 962)	(2 478)	(2 321)
Plan assets at fair value	2 347	2 080	2 973	2 621	2 400
Plan assets in excess of/(less than) obligations	**161**	**74**	**11**	**143**	**79**
Unamortised changes in early retirement plans	-	-	-	-	-
Differences in estimates not taken to income/expense	(159)	(20)	83	-	60
Net plan assets/pension obligations	**2**	**54**	**94**	**143**	**139**
Accrual employer tax	(36)	(32)	(26)	(21)	(16)
Net Plan assets/(pension obligations) in the balance sheet	**(34)**	**22**	**68**	**122**	**123**

CHANGES IN PENSION LIABILITY DURING THE YEAR

	2007	2006	2005	2004	2003
Balance 1 January	2 006	2 962	2 478	2 321	2 496
Changes owing to entities acquired/sold	-	(89)	37	-	-
Current year's service cost	108	139	87	74	90
Current year's interest cost	137	95	156	126	139
Pensions paid	(12)	(43)	(103)	(100)	(79)
Actuarial gains and losses	(23)	(100)	341	3	(16)
Other changes	(12)	(951)	(57)	103	(443)
Currency translation effects	(18)	(7)	23	(49)	134
Balance 31 December	**2 186**	**2 006**	**2 962**	**2 478**	**2 321**

A return on plan assets of NOK 114 million is estimated for 2007. The actual return on the plan assets for 2006 was NOK 112 million, compared to the estimated return of NOK 108 million. The difference between the actual and estimated return in 2006 is treated as an estimate difference.

CHANGES IN THE PLAN ASSETS DURING THE YEAR

	2007	2006	2005	2004	2003
Balance 1 January	2 080	2 973	2 621	2 400	2 228
Return on plan assets	114	108	180	177	103
Actuarial gains and losses	-	-	6	7	-
Contributions to the plan assets	12	52	19	20	38
Other changes	164	(1 072)	188	17	(68)
Currency translation effects	(23)	19	(41)	-	99
Balance 31 December	**2 347**	**2 080**	**2 973**	**2 621**	**2 400**

7. OTHER OPERATING EXPENSES

	NOTE	2007	2006	2005
Maintenance materials, servicing and spare parts		1 113	1 044	1 090
Marketing expenses		44	32	38
Administration expenses		666	680	634
Losses on bad debts [1]		23	86	4
Operating leases	13	101	112	92
Research and development		18	19	18
Miscellaneous expenses		256	214	196
Total		**2 221**	**2 187**	**2 072**
[1] Losses on bad debts are included as follows:				
Receivables written off during the period		5	1	32
Received on previous write-offs		-	-	-
Changes in provision for bad debt		18	85	(28)
Total		**23**	**86**	**4**

8. FINANCIAL ITEMS

FINANCIAL INCOME	2007	2006	2005
Dividends received	3	2	1
Interest income	71	50	70
Realised / unrealised gain on foreign currency	826	-	-
Other financial income	10	13	-
Total financial income	**910**	**65**	**71**

FINANCIAL EXPENSES			
Interest cost	1 073	1 026	781
Realised / unrealised loss on foreign currency	187	16	76
Loss on securities	-	1	-
Other financial expenses	129	178	97
Total financial expenses	**1 388**	**1 220**	**954**
Net financial items	**(479)**	**(1 155)**	**(883)**

9. RESTRUCTURING EXPENSES

	2007	2006	2005
Restructuring expenses Union	-	45	195
Environmental provisions Union	-	-	75
Accrual for severance payments	-	439	-
Total	**-**	**484**	**270**

The group announced when presenting the financial figures for fourth quarter 2007 that three paper machines in Europe and Asia are proposed closed, and that there will be a reduction in workforce and reorganisation at the head office at Lysaker, Norway. The restructuring costs that these measures will generate do according to IAS 37 not qualify to be recognised as a liability at year-end 2007.

10. TAXES

TAX EXPENSE	2007	2006	2005
Current tax expense	423	321	325
Change in deferred tax	495	(784)	(481)
Total tax expense	**918**	**(463)**	**(156)**

INCOME TAX RECONCILIATION	2007	2006	2005
Earnings before taxation	235	(3 480)	(1 004)
Calculated tax at nominal tax rate of 28%	66	(975)	(281)
Differences due to different tax rates	(19)	(37)	(21)
Associated companies	(4)	(56)	214
Excempted income/non deductible expenses[1)]	777	577	(14)
Change in tax legislation and tax rates[2)]	63	(4)	(28)
Adjustment previous years	(80)	36	31
Tax losses not recognised	131	55	120
Other items	(15)	(59)	(176)
Total tax expense	**918**	**(463)**	**(156)**

[1)] There is a write-down of goodwill in 2007, cf note 12. This is not tax deductible.
[2)] In 2007 tax rates increased in China and reduced in Germany and the Czech Republic.

DEFERRED TAX	2007	2006	2005
Net deferred tax liability 1 January	1 588	2 452	2 361
Deferred tax charged to income statement	495	(784)	(481)
Adjustment IFRS previous periods	-	-	23
Tax charged to equity	4	(95)	(223)
Sale of subsidiaries	-	19	-
Deferred tax aquisition Pan Asia	-	-	570
Reclassification of group tax allocations	24	69	65
Translation differences	(88)	(73)	137
Net deferred tax liability 31 December	**2 022**	**1 588**	**2 452**

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

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

DEFERRED TAX 2005	OPENING BALANCE	CHARGED TO BALANCE SHEET	CHARGED TO INCOME STATEMENT	TRANSLATION DIFFERENCES	CLOSING BALANCE
Fixed assets, excess values and depreciations	2 848	591	(163)	79	3 355
Pensions	43	(7)	(10)	-	26
Provisions and other liabilities	383	(5)	(219)	60	219
FX and financial instruments	371	(95)	(1)	5	280
Deferred tax current items	(7)	(10)	10	(4)	(119)
Tax losses and tax credit to carry forward	(1 277)	(38)	(98)	(3)	(1 417)
Net deferred tax	**2 361**	**435**	**(481)**	**137**	**2 452**

TAX LOSSES TO CARRY FORWARD	2007	2006	2005
Europe	4 811	4 567	3 990
Australasia	1 110	1 216	415
Asia	626	321	161
South America	-	8	55
Total	**6 547**	**6 112**	**4 621**
Of this indefinite losses available	5 921	5 791	4 460
Expires 2010, 2011 og 2012	626	321	161
Deferred tax asset	1 928	1 939	1 485
Deferred tax asset not recognized	(416)	(182)	(119)
Tax credits	51	51	51
Deferred tax asset recognised on losses and tax credits	**1 563**	**1 808**	**1 417**

The group is / has been in discussions with tax authorities in several jurisdictions regarding issues which could have a material effect on the group tax cost and/or deferred tax. The most significant issues are discussed below.

One of the group's subsidiaries has been in discussions with Canadian tax authorities regarding an issue which was resolved in the 4th quarter of 2007, with a settlement to pay NOK 250 million. The issue was related to a subsidiary acquired from Fletcher Challenge in 2000. Furthermore, discussions around a different matter has been resolved such that a provision for NOK 122 million has been reversed.

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

As part of the net investments, the group has unrealised gains and losses on long term debt in foreign currency. According to accounting principles deferred tax is not recognized on such investments. Total deferred tax liability not recognized is NOK 668 million by the year-end 2007.

11. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN PROFIT BEFORE TAX AND CASH FLOW FROM OPERATIONS IS SHOWN BELOW.

	2007	2006	2005
Profit before tax	235	(3 480)	(1 004)
Depreciations / impairments	7 718	6 534	3 320
Share of profit/(loss) in associated companies	(37)	(202)	751
Gain/(loss) on sale of fixed assets and other items	(36)	16	(13)
Paid taxes	(514)	(169)	(65)
Changes in receivables	120	93	(163)
Changes in inventories	(195)	34	(228)
Changes in current liabilities	(316)	(693)	708
Adjustments for non-cash working capital items and translation differences [1]	(4 809)	630	(245)
Net cash flow from operating activities	**2 166**	**2 763**	**3 061**

[1] This amount includes NOK 4 360 million in unrealised loss on energy contracts in 2007.

12. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

INTANGIBLE NON-CURRENT ASSETS

Intangible non-current assets consists of goodwill, licenses and other intangible assets.

GOODWILL	2007	2006	2005
Acquisition cost 1 January	5 444	5 433	5 448
Additions	-	-	55
Disposals	-	-	-
Translation difference [1]	238	11	(70)
Acquisition cost 31 December	**5 682**	**5 444**	**5 433**
Accumulated depreciations and impairments 1 January	2 774	931	865
Impairments	2 716	1 739	66
Disposals	-	-	-
Translation difference [1]	134	-	-
Accumulated impairments 31 December	**5 624**	**2 670**	**931**
Carrying value 31 December	**58**	**2 774**	**4 502**

GOODWILL SPECIFICATION PER ACQUISITION	YEAR	31-12-2007	31-12-2006	31-12-2005
Golbey	1995	58	58	58
PanAsia	1999	-	-	55
Fletcher	2000	-	2 576	3 577
Walsum and Parenco	2001	-	-	672
Klabin	2003	-	140	140
Total		**58**	**2 774**	**4 502**

LICENSES, PATENTS AND SIMILAR RIGHTS	2007	2006	2005
Acquisition cost 1 January	102	215	97
Additions	11	43	142
Disposals	-	(159)	(22)
Reclassified from asset under construction	-	1	-
Translation difference [1]	5	2	(2)
Acquisition cost 31 December	**118**	**102**	**215**
Accumulated depreciations and impairments 1 January	75	147	82
Depreciation	9	7	86
Impairments	-	-	-
Disposals	-	(79)	(21)
Translation difference [1]	1	-	-
Accumulated depreciations and impairments 31 December	**85**	**75**	**147**
Carrying value 31 December	**33**	**27**	**68**

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

OTHER INTANGIBLE ASSETS	2007	2006	2005
Acquisition cost 1 January	490	446	248
Additions	-	108	216
Disposals	(216)	(64)	(16)
Reclassified from asset under construction	-	-	-
Translation difference 1)	(34)	-	(2)
Acquisition cost 31 December	**240**	**490**	**446**
Accumulated depreciations and impairments 1 January	235	179	101
Depreciation	26	30	70
Depreciation from acquired companies	-	-	23
Impairments	94	85	-
Disposals	(150)	(59)	(15)
Translation difference 1)	(6)	-	-
Accumulated depreciations and impairments 31 December	**199**	**235**	**179**
Carrying value 31 December	**41**	**255**	**267**

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

OPERATIONAL NON-CURRENT ASSETS

BIOLOGICAL ASSETS	2007	2006	2005
Acquisition cost 1 January	369	349	341
Additions	24	38	77
Disposals	(49)	(19)	(95)
Translation difference 1)	(21)	1	26
Acquisition cost 31 December	**323**	**369**	**349**
Accumulated depreciations and impairments 1 January	139	158	89
Depreciation	-	-	-
Value changes	(27)	-	-
Impairments	-	-	69
Disposals	(35)	(19)	-
Translation difference 1)	(10)	-	-
Accumulated depreciations and impairments 31 December	**67**	**139**	**158**
Carrying value 31 December	**256**	**230**	**191**

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

MACHINERY AND EQUIPMENT	2007	2006	2005
Acquisition cost 1 January	54 438	52 985	44 491
Additions	1 070	1 233	9 087
Disposals	(1 324)	(761)	(410)
Reclassified from asset under construction	270	-	160
Reclassification 2)	(3 341)	-	-
Translation difference 1)	(4 473)	981	(343)
Acquisition cost 31 December	**46 640**	**54 438**	**52 985**
Accumulated depreciations and impairments 1 January	27 366	23 492	21 106
Depreciation	2 339	2 735	832
Depreciation from acquired companies	-	-	1 811
Impairments	2 030	1 409	84
Disposals	(1 300)	(270)	(341)
Reclassification 2)	(1 033)	-	-
Translation difference 1)	(2 780)	-	-
Accumulated depreciations and impairments 31 December	**26 622**	**27 366**	**23 492**
Carrying value 31 December	**20 018**	**27 072**	**29 493**

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

PLANTS AND BUILDINGS	2007	2006	2005
Acquisition cost 1 January	8 566	8 229	8 264
Additions	100	225	351
Disposals	(7)	(148)	(46)
Reclassified from asset under construction	145	188	27
Reclassification [2)]	3 040	-	-
Translation difference [1)]	(599)	72	(367)
Acquisition cost 31 December	**11 245**	**8 566**	**8 229**
Accumulated depreciations and impairments 1 January	3 510	3 191	2 990
Depreciation	416	350	194
Impairments	-	-	27
Disposals	(5)	(31)	(20)
Reclassification [2)]	766	-	-
Translation difference [1)]	(136)	-	-
Accumulated depreciations and impairments 31 December	**4 551**	**3 510**	**3 191**
Carrying value 31 December	**6 694**	**5 056**	**5 038**

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

FIXTURES AND FITTINGS	2007	2006	2005
Acquisition cost 1 January	876	816	858
Additions	18	46	243
Disposals	(14)	(18)	(158)
Reclassified from asset under construction	32	21	31
Reclassification [2)]	207	-	-
Translation difference [1)]	(39)	11	(158)
Acquisition cost 31 December	**1 080**	**876**	**816**
Accumulated depreciations and impairments 1 January	587	499	497
Depreciation	88	104	56
Impairments	-	-	2
Disposals	(11)	(16)	(56)
Reclassification [2)]	173	-	-
Translation difference [1)]	(25)	-	-
Accumulated depreciations and impairments 31 December	**812**	**587**	**499**
Carrying value 31 December	**268**	**289**	**317**

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

PLANT UNDER CONSTRUCTION	2007	2006	2005
Carrying value 1 January	900	951	733
Additions	523	162	429
Disposals	(17)	-	(7)
Completed in period	(288)	(209)	(218)
Reclassification [2)]	94	-	-
Translation difference [1)]	(47)	(4)	14
Carrying value 31 December	**1 165**	**900**	**951**

Plants under construction are not depreciated.

[1)] Translation differences have until 2006 been calculated on net carrying value of operational and intangible non-current asset. From 2007 and onwards, translation differences are calculated separately for acquisition cost and accumulated depreciations and disclosed accordingly in the notes. The change does not have an impact on the income statement or net carrying value of non-current assets.
[2)] Following the increased ownership in PanAsia and the accompanied reclassification from joint venture to subsidiary, the classification of operational and intangible non-current asset in the region has been reviewed. The review has resulted in a reclassification in 2007 between the subcategories under non-current assets. The reclassifications do not have an impact on the profit and loss statement or the net carrying value of the assets in the group.

Assumptions applied when estimating recoverable amounts
Operational non-current assets and intangible assets are impaired to the recoverable amount when this is lower than the carrying value of the asset. The recoverable amount is defined as the higher of net selling price and net present value of the estimated cash flow generated by continued use of the assets.

The net present value of the estimated cash flow is discounted using a weighted average cost of capital relevant to the individual asset. The cost of capital is assessed on the interest of 10-year government bonds adjusted for the operational risk relevant to Norske Skog and, in certain instances, with a country -specific risk premium relevant to the individual asset. Based on the net present value calculations made in 2007, the discount rate after tax was in the interval from 7.1 % to 10.3 %.

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

Cash flow is calculated individually for up to 10 years for each cash generating unit based on estimated economic life. Sales prices and prices for input factors are based on budgeted figures in year one and on trend analysis thereafter. The estimated value of operation exceeding 10 years is assessed as a terminal value based on the entities' technical state and production capacity.

Pricing based on trend analysis is estimated using an average of historical prices in an economic cycle. For paper prices, this is supported by analysis of the marginal producers' means to survive which is affected by elements of cost as well as the market balance. As for most industrial products, real paper prices are declining by 1-2 % per year.

Sensitivities in the impairment analysis
The impairment analysis is based on assumptions about the future development of several conditions. These include price development for finished goods, sales volume, input prices (wood, recovered paper, energy, wage development etc.), investmnets in operational fixed assets, currency rates and interest rates. This investments implies uncertainties when it comes to the outome of the calculations. Norske Skog has completed sensitivity analysis using the variables mentioned above to predict how fluctuations will impact recoverable amount. Compared to what the net present value calculations have been based on, recoverable amount is most sensitive to changes in prices on finished goods, sales volume and exchange rate movements. A reduction in sales price and sales volume of 5 % will cause a reduction in revoverable amount in the order of NOK 8 billion and NOK 3 billion respetively. Correspondingly, a decrease of the USD of 5 % will cause a NOK 2 billion reduction in the recoverable amount.

Impairment charges in 2007 and expected useful life
In November/December 2007 a comprehensive evaluation of the group's non-current assets was done. Several factors were assumed; the expected long-term development in the demand for newspaper and magazine paper, the development of the USD as well as the politicaldetermined energy contracts with expiration after 2010. The energy contracts are unrestricted for usage so energy employed at the paper production units should be considered for different usages, as for example sale in the open energy marke 5 of the machines in Norway were deemed uncompetitive after 2010.

The result of Norske Skog's impairment testing was write-down of the fixed assets in Norway and abroad. The amounts were NOK 2 005 million in Norway and NOK 25 million abroad. In addition to this, goodwill and other intangible non-current assets were written down with a total of NOK 2 810 million. This is mainly related to the purchase of Fletcher Challenge Paper.

13. LEASES

Operating leases
The group expensed NOK 101 million related to operating leases in 2007. The corresponding figures for 2006 and 2005 were NOK 112 million and NOK 92 million respectively.

Contractual obligations related to operating leases in total amount to NOK 112 million, of which NOK 42 million is due within one year, NOK 66 million is due between one and five years and NOK 4 million is due later than five years.

Finance leases
Leases of operating non-current asset 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 minimum lease payments. The capitalised value is depreciated on a linear basis over the estimated economic life.

The net present value of minimum lease payments amounts to NOK 7 million at year-end 2007 and the capitalised value of the operating non-current asset is NOK 4 million.

14. SHARES

SHARES INCLUDED AS FINANCIAL ASSETS

SHARES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1000)	OWNERSHIP %	CARRYING VALUE (IN 1000)
Sikon Øst ASA, Norway	NOK	50 000	2.0	2 000
Industrikraft Midt-Norge AS, Norway	NOK	444	40.0	12 399
Other shares, booked value below NOK 1 million	NOK			7 339
Total				**21 738**

SHARES IN SUBSIDIARIES

SHARES IN NORWEGIAN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1000)	OWNERSHIP %	CARRYING VALUE (IN 1000)
Nornews AS, Lysaker	NOK	100	100	100
Norske Treindustrier AS, Lysaker	NOK	3 917 340	100	14 268 196
Lysaker Invest AS, Lysaker	NOK	1 504 370	100	2 004 371
Norske Skog Holding AS, Lysaker	NOK	5 000	100	8 554
Wood and Logistics AS, Lysaker	NOK	3 000	76	2 175
Norske Skog Eiendom AS, Lysaker	NOK	1 500	100	118 600
Oxenøen Bruk AS, Lysaker	NOK	100	100	112
Total				**16 402 108**

SHARES IN FOREIGN SUBSIDIARIES OWNED BY THE PARENT COMPANY	CURRENCY	SHARE CAPITAL (IN 1000)	OWNERSHIP %	CARRYING VALUE (IN 1000)
Norske Skog Golbey, Golbey, France	EUR	253 164	100	2 064 447
Pan Asia Paper Company Ltd, Singapore Ordinary USD	USD	600	100	7 739 863
Pan Asia Paper Company Ltd, Singapore Ordinary SGD	SGD	0	100	0
Norske Skog Bruck GmbH, Bruck, Austria	EUR	1 817	99.9	165 318
Norske Skog Steti, Steti, Czech Republic	CZK	883 100	100	204 476
Norske Skog Østerreich GmbH, Graz, Austria	EUR	150	100	1 292
Markproject Ltd., London, UK	GBP	300	100	0
Norske Skog Deutschland GmbH, Hamburg, Germany	EUR	1 000	100	10 063
Norske Skog (UK) Ltd., London, UK	GBP	100	100	2
Norske Skog Holland B.V., Amsterdam, Netherlands	EUR	100	100	401
Norske Skog Belgium S.A., Brussels, Belgium	EUR	19 375	100	3 235
Norske Skog Espana S.A., Madrid, Spain	EUR	90	100	3 607
Norske Skog (Ireland) Ltd., Dublin, Ireland	EUR	2	100	0
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	0	100	193
Norske Skog Danmark ApS, Værløse, Denmark	DKK	27	100	0
Norske Skog Italia S.R.L., Milan, Italy	EUR	10	95	84
Norske Skog France S.A.R.L., Paris, France	EUR	235	100	7 939
Norske Skog Japan Co. Ltd., Tokyo, Japan	JPY	3 000	100	0
Norske Skog AB, Trångsviken, Jämtland,Sweden	SEK	100	100	780
Norske Skog (Cyprus) Ltd., Paphos, Cyprus	CYP	1	95	0
Norske Skog Asia Pacific Pte Ltd., Singapore	AUD	664 344	100	2 797 441
Norske Skog Czech & Slovak Republic spol. s.r.o., Steti, Czech Republic	CZK	400	100	0
Norske Skog Polska Sp. z.o.o. ,Warsaw, Poland	PLN	50	100	0
Norske Skog Hungary Trading and service Limited, Budapest, Hungary	HUF	3 000	100	0
Norske Skog Logistics NV, Antwerp, Belgium	EUR	2 500	99.96	540
THP Paper Company, Seattle, USA	USD	-	100	0
Norske Skog Chile Industrial Limitada, Concepcion, Chile	USD	15 000	0.1	524
Norske Skog Europe Recovered Paper NV, Antwerp, Belgium	EUR	62	99.84	493
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia Preference	MYR	382 855	100	210 582
Norske Skog Papers (Malaysia) SDN. BHD, Kuala Lumpur, Malaysia Ordinary	MYR	-	100	0
NSI Forsikring A/S, Hvidovre, Denmark	DKK	20 000	100	58 531
Norske Skog Walsum GMBH, Duisburg, Germany	EUR	150 025	100	1 490 197
Norske Skog Pisa Ltda., Jaguariaíva, Brazil Preference	BRL	24 550	100	0
Norske Skog Pisa Ltda., Jaguariaíva, Brazil Ordinary	BRL	113 768	100	1 037 613
Norske Skog Adria d.o.o., Ljubljana, Slovenia	SIT	164	100	0
Papeles Norske Skog Bio Bio Ltda., San Pedro de la Paz, Chile	CLP	77 715	100	91
Norske Skog Holdings BV, Amsterdam, Netherlands	EUR	170 100	100	1 545 323
Total				**17 343 035**
Total shares in subsidiaries owned by the parent company				**33 745 143**

SHARES IN FOREIGN SUBSIDIARIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL (IN 1000)	OWNERSHIP %
Norske Skog Holdings (Schweiz) AG, Zug, Switzerland	CHF	1 001 100	100
Norske Skog Overseas Holdings AG, Zurich, Switzerland	CHF	546 234	100
Norske Skog Forest Holdings AG, Zurich, Switzerland	CHF	63 173	100
Norske Skog (USA) Inc. Southport, USA	USD	2 200	100
Norske Skog US Recovered Paper Inc	USD	1 413	100
Norske Skog North America LLC (USA) Inc, USA	USD	1 000	100
Norske Skog Industries Australia Limitied	AUD	0	100
Norske Skog Capital (Australia) Pty Ltd, Sydney, Australia	AUD	223 000	100
Norske Skog (Australia) No. 1, Sydney, Australia	AUD	0	100
Norske Skog (Australasia) Pty Limited, Sydney, Australia	AUD	1 000	100
Norske Skog Paper Mills (Australia) Limited, Tasmania, Australia	AUD	7 539	100
Norske Skog Tasman Limited, Auckland, New Zealand	NZD	100	100
Norske Skog Holdings (NO.1) Limited, Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (NO.2) Limited, Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (NO.3) Limited, Auckland, New Zealand	NZD	1	100
4159641 Canada Inc.	CAD	700	100
33027 YUKON INC, Vancouver BC, Canada	CAD	29 692	100
33038 YUKON INC, British Columbia, Canada	CAD	27 382	100
4346799 Canada Inc.	CAD	1 747 450	100
Crown Forest Industries Limited, Whitehorse, Canada	CAD	254 436	100
Crown Forest Holdings (1995) Inc., Whitehorse, Canada	CAD	964 360	100
Tasman Equipment Ltd, Vancouver, Canada	CAD	1	100
NS Industries Canada Limited, BC, Canada	CAD	158 233	100

SHARES IN FOREIGN SUBSIDIARIES OWNED BY CONSOLIDATED COMPANIES	CURRENCY	SHARE CAPITAL IN 1000	OWNERSHIP %
Norske Skog CI Ltd, Caymen Island	CHF	1 300 000	100
Norske Skog North America LLC, Seattle, USA	USD	1 000	50.0
Norske Skog CI Ltd, Georgetown, Cayman Islands	CHF	1 300 000	100
Fletcher Paper Sales North America, Inc, Delaware, USA	USD	10	100
Forest Terminals Corporation, California, USA	USD	5	100
Norske Skog Italia s.r.l., Milan, Italy	EUR	10	5.0
Norske Skog (Cyprus) Ltd, Cyprus	CYP	1	5.0
Nornews Portugal Lda, Portugal	PTE	400	25.0
Norske Skog Industries (UK) Limited, Cardiff, UK	GBP	569 065	100
Parenco Finance BV, Renkum, Netherlands	EUR	18	100
Parenco Hout BV, Renkum, Netherlands	EUR	50	50.0
Reparco Nederland BV., Nijmegen, Netherlands	EUR	227	100
Paroco Rohstoffverwertung GmbH, Essen, Germany	EUR	130	51.0
Reparco Nijmegen BV, Nijmegen, The Netherlands	EUR	18	100
Reparco Randstad BV, Gravenhage, The Netherlands	EUR	14	100
Reparco Renkum BV, Renkum, The Netherlands	EUR	18	100
Reparco Trading BV, Nijmegen, The Netherlands	EUR	386	100
Reparco Zutphen BV, Zutphen, The Netherlands	EUR	1 134	100
Simon Daalder Winterswijk B.V., Zutphen, The Netherlands	EUR	14	100
Sapin SA, Harze, Belgium	EUR	8 125	50.0
Norske Skog Parenco BV, Renkum, The Netherlands	EUR	245 041	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	1 817	0.1
Norske Skog Papier Recycling GmbG, Bruck, Austria	EUR	145	33.3
Norske Skog Walsum GmbH, Germany	EUR	13 025	100
Eidsverket AS, Norway	NOK	620	100
Oxenøen Utvikling AS, Norway	NOK	1 120	100
Klosterøya AS, Norway	NOK	10 100	100
Ranheim Eiendomsutvikling AS, Norway	NOK	120	100
Oxenøen Eiendom AS, Norway	NOK	1 120	100
Norske Skog Florestal Ltda., Jaguariaíva, Brazil	BRL	31 505	100
Papeles Norske Skog Bio Bio Ltda., San Pedro de la Paz, Chile	USD	77 715	100
Norske Skog Chile Industrial Ltda., San Pedro de la Paz, Chile	USD	15 000	99,9
Norske Skog Sales (Hong Kong) Ltd., Hong Kong, China	HKD	2	100
Norske Skog PanAsia (Shanghai) Commercial Consulting Co. Ltd	CNY	833	85.37
Hebei Norske Skog Long-Teng Paper Co. Ltd., Zhaoxian, China	USD	152 705	80.0
Norske Skog (Thailand) Company Ltd., Bangkok, Thailand	THB	2 167 500	94.12
Shanghai Pan Asia Potential Paper Co. Ltd., Shanghai, China	USD	44 000	56.12
Norske Skog Korea Co. Ltd., Republic of Korea	KRW	459 331 649	100

15. INVESTMENT IN ASSOCIATED COMPANIES

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

COMPANY	SHARE 31.12.2007	CARRYING VALUE 31.12.2007	SHARE OF PROFIT 2007	DIVIDEND/ TRANSLATION DIFFERENCE	CARRYING VALUE 31.12.2006	CARRYING VALUE 31.12.2005
Malaysian Newsprint Industries SDN BHD	33.7 %	204	23	(129)	310	280
Nordic Paper AS	0.0 %	-	-	-	-	23
Catalyst Paper Corp	0.0 %	-	-	-	-	1 085
Other associated companies		30	14	(7)	23	27
Total		**234**	**37**	**(136)**	**333**	**1 415**

Malaysian Newsprint Industries SDN BHD
Malaysian Newsprint Industries SDN BHD is incorporated in Kuala Lumpur, Malaysia and is a produce of newsprint. Based on the statutory company accounts, operating revenue in 2007 amounted to MYR 569 million (MYR 601 million in 2006) and profit after tax was MYR 17 million. (MYR 46 million). Total assets at year-end 2007 were MYR 1 493million (MYR 1 642 million) and total debt MYR 959 million (MYR 1 124 million).

Nordic Paper AS
The company is incorporated in Greåker, Norway. Norske Skog sold its share in the company in January 2006. The sale gave an insignificant profit in the consolidated accounts of the Group.

Catalyst Paper Corp.
The company is incorporated in Vancouver, Canada. Norske Skog sold its shares in the company in January 2006. In relation to the divestment, Norske Skog expensed a loss of NOK 729 million in 2005.

16. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	2007	2006	2005
Accounts receivables	3 558	3 849	4 087
Provision for bad debt	(179)	(161)	(97)
Other receivables	379	271	221
Prepaid VAT	53	40	42
Current receivable	**3 811**	**3 999**	**4 253**
Loans to employees	31	37	41
Long-term shareholdings	25	22	22
Sundry non-current receivables	382	269	1 018
Pension plan assets	91	97	93
Other non-current assets	**529**	**425**	**1 174**

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

THE AGEING ANALYSIS OF RECEIVABLES:

	2007	2006
Not due	2 863	3 705
0 to 3 months	618	240
3 to 6 months	353	126
Over 6 months	156	89
Total [1]	**3 990**	**4 160**

[1] Does not include provision for bad debt

The maximum credit risk exposure to at the reporting date is the fair value of each class of receveivable mentioned above.

17. CASH AND CASH EQUIVALENTS

	2007	2006	2005
Cash and bank deposits	1 792	397	452
Short-term investments	94	88	450
Total liquid assets	**1 886**	**485**	**902**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

COMMERCIAL PAPERS	2007	2006	2005
Floating interest rate			
Energy	-	-	80
Industry / commerce / shipping	-	-	45
Fixed interest rate			
Bank / insurance	-	-	112
Energy	-	-	68
Industry / commerce / shipping	-	-	112
Total bonds	**-**	**-**	**417**
Certificates	91	85	31
Quoted investment shares	3	3	2
Total	**94**	**88**	**450**

Commercial papers are held for trading and classified at fair value through profit or loss. All the commercial papers were sold in 2006. The net unrealised loss on the portfolio in 2005 was NOK 2 million and the duration of the portfolio was 2.77.

19. MINORITY INTERESTS

	2007	2006	2005
Minority at 1 January	450	713	186
Changes in minority owing to sales/purchases	-	(11)[1]	510[2]
Share of net earnings/(loss)	(65)	(208)	6
Dividend paid	(4)	(5)	(13)
Currency translation differences	(16)	(39)	24
Minority at 31 December	**365**	**450**	**713**

[1] Related to a capital reduction in Thailand.
[2] Related to the acquisition of Pan Asia Paper Company in the fourth quarter of 2005.

20. INTEREST-BEARING NON-CURRENT LIABILITIES

	2007	2006	2005
Bonds	11 651	7 830	9 187
Debt to financial institutions	5 643	6 882	8 338
Total	**17 294**	**14 712**	**17 525**
Senior long-term debt in NOK	2 096	1 421	2 647
Senior long-term debt in foreign currencies	15 198	13 291	14 878
Total	**17 294**	**14 712**	**17 525**

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

Average interest rate as of 31 December 2007 was 6.0 % (5.5% at 31 December 2006).

REPAYMENT OF DEBT

The group's total debt at 31 December 2007 matures as follows:	DEBT BANKS	BONDS	TOTAL
2008	1 054	87	1 141
2009	657	840	1 497
2010	4 288	231	4 519
2011	280	3 247	3 527
2012	152	902	1 054
2014	-	195	195
2015	-	1 082	1 082
2017	3	3 981	3 984
2019	110	-	110
2033	-	1 082	1 082
Total	**6 544**	**11 647**	**18 191**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, unrealised currency effects on forward contracts and fair value hedging. Premiums or discounts on issued bonds will be amortised in the profit and loss account over the lifetime of the issued bonds. At 31 December 2007, the accounts included a discount of NOK 49 million (NOK 26 million at 31 December 2006).

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

Norske Skog's liquidity reserve consists mainly of two credit facilities of USD 500 million and EUR 400 million respectively. The USD 500 million facility matures in 2009 and the EUR 400 million facility matures in 2012. Both facilities (NOK 5 890 million) were undrawn at 31 December 2007 (NOK 5 640 million as of 31 December 2006).

At 31 December 2007, the company's holding of its own bonds amounted to NOK 413 million (NOK 372.5 million at 31 December 2006). This is deducted from interest-bearing debt in NOK. Norske Skog can draw an additional NOK 1 650 million on existing domestic bond loans.

Norske Skog has given declarations of negative pledge when raising long-term loans. Some of the loan contracts also contain requirements regarding certain financial ratios relating to solvency and other requirements usual in syndicated loan agreements. These are:
- net equity capital (equity capital minus intangible fixed assets) must be minimum of NOK 9 billion
- net interest-bearing debt/equity capital ratio must be maximum of 1.4.

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

21. INTEREST-BEARING CURRENT LIABILITIES

	2007	2006	2005
Current bank debt	1 054	1 345	1 317
Bonds	87	1 769	1 270
Total	**1 141**	**3 114**	**2 587**

The group has unused bank overdraft facilities of NOK 150 million (NOK 150 million as of 31 December 2006).
No restrictions are placed on the use of the facility.

22. ENVIRONMENT

During 2007, NOK 279 million was invested in environmental measures at Norske Skog's mills. The equivalent amounts for 2006 and 2005 were NOK 128 million and NOK 111 million. Most of the spending in 2007 (65 %) went towards the treatment of water and effluent. Substantial amounts were also spent on chemicals (8 %) and waste handling (7 %) and on reducing air emissions (6 %). Other spending occurred on items such as energy saving and noise reduction.

In connection with the divestment of businesses during recent years, surveys have been carried out in some areas where pollution might be suspected. This has been done partly as a matter of routine and partly in response to government orders. Following the closure of Norske Skog Union, environmental investigations were carried out in 2006 to identify possible pollution. Low to moderate levels of pollution in the ground were identified. It was concluded that leakages to recipients do not represent any risk for the environment. A recipient survey was carried out in 2007. As of today, none of these surveys have resulted in site clean up requirements which will incur major costs for the company.

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

As of 31 December 2007, the company has a provision for future environmental obligations of NOK 304 million. This provision is the net present value of future obligations and is presented the line Other non-current liabilities. The equivalent amount for 2006 was 274 million.

23. OTHER COMMITMENTS

In 1998, Norske Skog finalised a lease-and-buyback arrangement with American investors for PM5 and PM6 at Norske Skog Saugbrugs. The present value of the cost of the leaseback is about NOK 4 000 million, which is irrecoverably deposited in favour of the American investors. Although the sum has been deposited, Norske Skog is not exonerated from liability for payment. However, the credit risk is extremely low because the funds are held in a bank with an "A grade" rating. Deposited rental costs and prepaid rental earnings are entered net in the balance sheet. Should Norske Skog be unable to meet the requirements of the leasing agreement, it is obliged to recompensate the investors for any loss. The investors' loss will vary over the term of the lease and will at most amount to USD 72 million. By June 2014, this amount will be zero. The possibility of Norske Skog being unable to meet the requirements of the contract is extremely low. The contract can only be avoided as the result of extraordinary circumstances in the nature of force majeure. The leasing agreement is classified as a financial lease.

In 2004 a federal class action law suit was initiated in the US against publication paper producers both in North-America and in Europe, including Norske Skog, relating to purported antitrust injuries in an alleged magazine paper market. On 12 December 2007, the federal class action lawsuit against Norske Skog was dismissed on a voluntary basis by the plaintiffs. The dismissal was made without any kind of commitments made by Norske Skog. Norske Skog is still subject to an individual federal lawsuit as well as a limited number of state cases in the US

24. EARNINGS PER SHARE

	2007	2006	2005
Profit for the year in NOK million	(618)	(2 809)	(854)
Average number of shares in 1 000	189 411	189 258	142 878
Earnings per share in NOK	**(3.26)**	**(14.84)**	**(5.98)**

25. DIVIDEND PER SHARE

Dividends paid for 2006 and 2005 amounted to NOK 1 045 million and 1 041 million respectively. The board of directors recommend that no dividend should be disbursed for the accounting year 2007. The dividend decision will be decided on the annual general meeting on 24 April 2008.

26. RELATED PARTIES

Some of the company's shareholders are forests owners delivering forestry products to the company's production units in Norway. All transactions with related parties are conducted at arm's length.

A director, Halvor Bjørken, is a forest owner who supplies wood to the company on normal standardised terms. No director is remunerated for their work for the company from any source other than the company itself.

27. OTHER GAINS AND LOSSES

	2007	2006	2005
Gains and losses on non-current tangible assets	36	(15)	-
Value changes energy contracts [1]	4 729	135	263
Value changes derivatives	(370)	(541)	-
Realised profit / loss on commodity contracts	68	133	-
Total	**4 463**	**(288)**	**263**

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

28. MORTGAGES

THE FOLLOWING LOANS WERE SECURED BY MORTGAGES ON REAL PROPERTY

	31.12.2007	31.12. 2006	31.12. 2005
Other mortgage debt	1 088	1 623	2 175
Total	**1 088**	**1 623**	**2 175**

BOOK VALUE OF ASSETS SECURING THIS DEBT

	31.12. 2007	31.12. 2006	31.12. 2005
Property, plant and equipment	2 559	2 915	3 304
Total	**2 559**	**2 915**	**3 304**

As a general principle, Norske Skogindustrier ASA and its subsidiaries pledge no assets above a predefined threshold.

29. FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING

Financial Risk Factors

Norske Skog is exposed to various financial risk factors through its operating activities including market risk (currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. Corporate Treasury seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Corporate Treasury monitors and manages financial risk based on internal policies and standards set forth by Corporate Management and approved by the Board of Directors. These written policies provide principles for the overall risk management as well as standards for managing exchange rate risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards are continuously monitored by Treasury Controlling.

Market Risk

Interest rate risk

The goal for managing interest rate risk has been to secure low interest costs over time and contribute to an acceptable management of financial risk exposure. Norske Skog considers that a floating interest rate on its corporate debt reduces risk and interest costs in the long run. This relates to the correlation between Norske Skog's earnings and economic cycles, where interest rates are normally high during boom conditions and low during recessions. Historically, Norske Skog's interest rate policy has contributed to lower interest expenses both over time and during years of economic recession.

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

The following table shows the notional amount of interests bearing liabilities, interest bearing assets and corresponding hedges:

		2007			2006	
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	8 051	10 140	18 191	8 353	9 296	17 649
Interest-bearing assets	(1 886)	-	(1 886)	(397)	-	(397)
Net exposure before hedging	**6 165**	**10 140**	**16 305**	**7 956**	**9 296**	**17 252**
Fair Value Hedge	6 323	(6 323)	-	6 866	(6 866)	-
Cash flow Hedge	(2 430)	2 430	-	(2 061)	2 061	-
Net exposure after hedging	**10 058**	**6 247**	**16 305**	**12 761**	**4 491**	**17 252**

All amounts presented in the table are notional amounts. Total interests bearing liabilities will hence differ from booked total amounts due to bond discount/premiums, unrealised effects from fair value hedge and currency effects from forward contracts (see note 20). Floating rate exposure is calculated without accounting for potential future refinancing.

Interest rate risk - fair value hedge

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

Changes in the fair value of derivatives which are designated and qualify as fair value hedges in accordance with IAS 39 are recorded in the profit and loss account together with any changes in the fair value of the hedged asset or liability which are attributable to the hedged risk.

The following table shows changes in fair value of interest rate derivatives and the corresponding hedged items:

	2007	2006
Changes in fair value of interest rate swaps	165	(171)
Changes in fair value of underlying debt (hedged item)	(164)	171
Ineffectiveness recognised in the profit and loss account [1)]	**1**	**-**

[1)] Ineffectiveness included in financial items in the profit and loss account

Interest rate risk - cash flow hedge

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

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

Certain derivatives do not qualify for hedge accounting. The change in fair value of any instruments which do not qualify for hedge accounting is immediately recognised in the profit and loss account.

The following table shows changes in fair value of interest rate derivatives designated as cash flow hedge:

	2007	2006
Changes in fair value of interest rate swaps	12	22
The effective portion recognised in equity	12	22
Ineffectiveness recognised in the profit and loss account [1)]	-	-

[1)] Ineffectiveness included in financial items in the profit and loss account

Interest rate sensitivity analysis

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

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

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

Change in fair value of interest rate swaps that are designated as fair value hedge on the group's fixed rate bonds will not influence the sensitivity calculation of neither the profit and loss account nor shareholder's equity. As a result of fair value hedge accounting, the changes in fair value of interest rate swaps recognised in the profit and loss account is to a large degree offset by opposite changes in fair value of the underlying hedged item. Potential ineffectiveness stemming from retrospective effectiveness testing of the hedge relationship is regarded insignificant to this analysis.

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

Changes in fair value of interest rate derivatives that are not designated as either a fair value or a cash flow hedge of the group's liabilities and which are subsequently measured at fair value through profit and loss are taken into consideration in the sensitivity analysis. Currency derivatives will only to a very limited degree affect the sensitivity analysis caused by changes in the discount rate. Results are presented net of tax.

The interest rate sensitivity analysis is based on a 50 basis points parallel shift in the yield curve for each relevant currency. Following a 50 basis points downward (upward) parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK 21 million (NOK 30 million as of 31 December 2006) higher (lower). Change in net interest payments accounts for NOK 36 million and the total change in market values of derivatives carried at fair value through profit and loss accounts for NOK (15) million. The sensitivity on net earnings is lower as at 31 December 2007 compared to 31 December 2006 because of lower net interest payments resulting from a relatively higher amount of fixed rate debt as at 31 December 2007.

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

Exchange rate risk

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

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

Norske Skog's net investment hedging is carried out in accordance with IAS 39. Hedges of net investment in foreign subsidiaries are accounted for similarly to cash flow hedges, which means that any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the profit and loss account. The gain from net investment hedging in 2007 was NOK 1,047 million of which NOK 793 million was booked against equity (gain of NOK 66 million of which 23 million NOK was booked against equity as of 31 December 2006). The ineffectiveness is relatively higher in 2007 because a larger part of the liability portfolio does not qualify for hedge accounting, which means that foreign exchange gains and losses from such liabilities are recognised in the profit and loss account.

The following table shows changes in fair value of derivative and non-derivative financial instruments designated as net investment hedge:

	2007	2006
Changes in spot value of financial instruments[1)]	1 047	66
The effective portion recognised in equity	793	23
Ineffectiveness recognised in the profit and loss account[2)]	254	43

[1)] Includes the change in the value of FX forward contracts, cross-currency swap contracts and bonds. Norske Skog only uses hedge accounting for the part of changes in fair value attributable to spot FX movements, i.e. changes in fair value attributable to the interest rate element of derivatives are recognised in profit and loss.
[2)] Includes indirect economic hedge of MYR and CNY for which there is no hedge accounting.

Transaction risk - cash flow hedge
The group has revenues and costs in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk is the difference in the future value of outgoing or incoming funds in the various currencies used by the group. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. 50% to 100% of the company's 12-month cash flow exposure is hedged at any time using forward contracts and currency options. The result of the hedging is included under financial items in the consolidated profit and loss account. Norske Skog does not use hedge accounting for the rolling cash flow hedge. The rolling cash flow hedge generated a gain of NOK 446 million in 2007 (NOK -112 million as of 31 December 2006). Over time, currency loss or earnings will offset increased or reduced future net operational earnings.

Foreign exchange sensitivity analysis on financial instruments
The following foreign exchange sensitivity analysis calculates the sensitivity of derivative and non-derivative financial instruments on net income and Shareholder's 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 profit and loss account. Moreover, foreign currency risk will also affect shareholder's equity. Financial instruments denominated in the functional currency of the entity have no currency risk and will therefore not be applicable to this analysis. In addition to this, the foreign currency exposure of translating financial accounts of subsidiaries into the group's presentation currency is not part of this analysis. Sensitivity on financial commodity contracts and embedded derivatives are presented separately.

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

Other non-derivative financial instruments accounted for in the analysis comprise cash, account payables, account receivables 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 2007, if the NOK had appreciated 10% against all currencies to which the Group has significant exposure, post-tax profit from financial instruments would have been NOK 244 million higher (NOK 453 million as of 31 December 2006). If the NOK had depreciated 10% against all currencies to which the Group has significant exposure, post-tax profit from financial instruments would have been NOK 241 million lower (NOK 462 million as of 31 December 2006). The non-linearity on post-tax profit from financial instruments is due to changes in fair value of options. The sensitivity on the profit and loss account is mainly caused by changes in fair value of derivatives designated as cash flow hedge and foreign exchange gain/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting.

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

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

The fair value of financial commodity contracts is calculated using available market closing prices or else from quotes obtained by third party market participants. In calculating fair value of embedded derivatives, valuation techniques are used in the absence of observable market prices. Embedded currency options are calculated using a Black 76 valuation model, where some input assumptions have been made in lack of an active long-term option market.

	2007 ASSETS	2007 LIABILITIES	2006 ASSETS	2006 LIABILITIES
Net investment hedging[1)]				
Forward contracts	81	(1)	16	(5)
Cross-currency contracts	31	(74)	10	(253)
Total	**112**	**(75)**	**26**	**(258)**
Fair value hedging[2)]				
Interest-rate swaps	140	(25)	20	(69)
Total	**140**	**(25)**	**20**	**(69)**
Cash Flow Hedge[3)]				
Interest-rate swaps	34	-	22	-
Total	**34**	**-**	**22**	**-**
Held for trading[4)]				
Interest-rate swaps	38	(1)	16	(2)
Forward rate agreements	2	(2)	6	(5)
Currency options	97	(4)	2	(15)
Forward contracts	138	(14)	58	(89)
Financial commodity contracts	5 062	(70)	267	(111)
Embedded derivatives	6	(495)	9	(63)
Total	**5 343**	**(585)**	**357**	**(285)**
Total value				
Interest-rate swaps	211	(26)	57	(71)
Forward rate agreements	2	(2)	6	(5)
Currency options	97	(4)	2	(15)
Forward contracts	220	(15)	74	(94)
Cross-currency contracts	31	(74)	10	(253)
Financial commodity contracts	5 062	(70)	267	(111)
Embedded derivatives	6	(495)	9	(63)
Total	**5 628**	**(685)**	**425**	**(612)**

1) The gain or loss related to the ineffective portion is recognised in the profit and loss account.
2) The notional principal amount of the underlying debt in the fair value hedge was NOK 6 323 million.
3) The notional principal amount of the underlying debt in the cash flow hedge was NOK 2 430 million.
4)Includes: active management portfolio, long-term assset 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 profit or loss.

Categories of financial assets and financial liabilities

	NOTE	CURRENT	NON-CURRENT	BALANCE SHEET ITEM
Financial assets at fair value through income statement	29[1)]	5 488	-	Other current assets
Financial liabilities at fair value through income statement	29	(685)	-	Other current liabilities
Receivables	16	3 811	-	Receivables
Financial liabilities measured at amortised cost	21	(1 141)	-	Interest-bearing current liabilities
Financial liabilities measured at amortised cost	20	-	(17 294)	Interest-bearing non-current liabilities

1) Adjusted for gain on fair value hedge NOK 140 million.

Liquidity risk

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

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long term cash flows. Cash flow forecasts include cash flows stemming from operations, investments, financing activities and financial instruments. The Group had a cash reserve of NOK 1.89 billion (NOK 397 million as of 31 December 2006) and unused credit facilities of NOK 5.9 billion as at 31 December 2007 (NOK 5.6 billion as of 31 December 2006). See note 20 for maturity of facilities.

The table below shows the contractual maturities of non-derivative financial liabilities and derivative financial instruments. All amounts disclosed in the table are undiscounted cash flows. Furthermore, amounts denominated in foreign currency are translated to NOK using closing spot mid-rates at 31 December 2007. These amounts consist of trade payables, interest payments and principal payments on derivative and non-derivative financial instruments. Variable rate interest cash flows are projected using the forward yield curve. Projected interest payments are based on the maturity schedule as of 31 December 2007, 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 2007.

PER 31 DECEMBER 2007	0 - 6 MONTHS	6 - 12 MONTHS	2009-2010	2011-2012	> 2012
Non-derivative financial instruments					
Principal paym. on interestbearing debt	(706)	(435	(6 017)	4 580)	(6 453)
Projected interest paym. on interestbearing debt	(660)	(386)	(1 842)	(1 208)	(3 236)
Trade payables	(2 767)	(935)	-	-	-
Total non-derivative financial instruments	**(4 133)**	**(1 756)**	**(7 859)**	**(5 788)**	**(9 689)**
Derivative Financial Instruments					
Net settled derivative instruments					
Interest rate swaps - Net Cash flows	45	3	171	47	(28)
Forward rate agreements	-	-	(1)	-	-
Commodity contracts	(4)	(5)	9	-	-
Gross settled derivative instruments					
Foreign exchange contracts - Outflows	(3 569)	(2 348)	-	-	-
Foreign exchange contracts - Inflows	3 708	2 408	-	-	-
Cross currency swaps - Outflows	(164)	(170)	(1 161)	(1 675)	(4 999)
Cross currency swaps - Inflows	141	128	981	1 599	4 379
Total derivative financial instruments	**157**	**16**	**(1)**	**(29)**	**(648)**
Total	**(3 976)**	**(1 740)**	**(7 860)**	**(5 817)**	**(10 337)**

PER 31 DECEMBER 2006	0 - 6 MONTHS	6 - 12 MONTHS	2008-2009	2010-2011	> 2011
Non-Derivative Financial Instruments					
Principal payments on interestbearing debt	(1 238)	(1 896)	(2 740)	(8 795)	(2 980)
Projected interest payments on interestbearing debt	(463)	(539)	(1 613)	(1 043)	(2 305)
Trade payables	(2 893)	(940)	-	-	-
Total non-derivative financial instruments	**(4 594)**	**(3 375)**	**(4 353)**	**(9 838)**	**(5 285)**
Derivative Financial Instruments					
Net settled derivative instruments					
Interest rate swaps - Net Cash flows	(46)	61	24	10	(77)
Forward rate agreements	-	-	-	-	
Commodity contracts	54	10	12	-	-
Gross settled derivative instruments					
Foreign exchange contracts - Outflows	(5 507)	(1 946)	(906)	-	-
Foreign exchange contracts - Inflows	5 455	1 962	930	-	-
Cross currency swaps - Outflows	(272)	(1 385)	(551)	(805)	(3 621)
Cross currency swaps - Inflows	272	1 354	536	806	3 461
Total derivative financial instruments	**(44)**	**56**	**45**	**11**	**(237)**
Total	**(4 638)**	**(3 319)**	**(4 308)**	**(9 827)**	**(5 522)**

Credit risk

Norske Skog makes a credit evaluation of all counterparties in financial trading. The counterparty must be at least an A-rated company. For non-rated companies, calculations are made whereby the minimum criteria for key figures are the same as for an A-rated company. Based on the rating and other calculations, a limit on credit exposure is established for all counterparties. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. As of 31 December 2007, all counterparties were rated single A or above. The maximun 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 to such derivatives.

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

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

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

Changes in fair value of commodity contracts are unrealised gains or losses represented by future gains or losses, where the price is fixed before delivery. Some commodity contracts are bilateral contracts or embedded derivatives in bilateral contracts for which there exist no active market. Hence, valuation techiques, with the use of available market information, are used as much as possible. Techniques that reflect how the market could be expected to price instruments are used in inactive markets.

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

Contracted volumes have rated counterparts.

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

FINANCIAL COMMODITY CONTRACTS

		FAIR VALUE 31-12-2007	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy Price	change 25 %	4 993	(2 408)	2 408
Currency	change 10 %	4 993	1 667	(1 667)

		FAIR VALUE 31-12-2006	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy Price	change 25 %	156	(168)	168
Currency	change 10 %	156	140	(140)

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

EMBEDDED DERIVATIVES

		FAIR VALUE 31-12-2007	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10 %	(489)	(35)	35
USD/BRL[1)]	change 10 %	(489)	(1 061)	(65)
Price Index	change 2.5 %	(489)	5	(5)

		FAIR VALUE 31-12-2006	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency	change 10 %	(54)	(186)	186
Price Index	change 2.5 %	(54)	176	(177)

[1)] Embedded currency options will cause large volatility in quarterly results from Q1 2007.

30. PROVISIONS

At 31 December 2007, Norske Skog has recognised the following major provisions in the balance sheet:

A provision of NOK 997 million related to dismantling of production material related to future close-down of production facilities. The provision is the net present value of the future estimated cost. The opposite entry for dismantling provision and change in provision estimates is property, plant and equipment. The periodic unwinding of the discount is recognised in the profit and loss accounts as a financial item. This provision will only be realised at the time of a potential future close-down of any of the Norske Skog production units.

Change in dismantling provision:	
Balance 1 January	1 071
Recorded provision	55
Amounts used	-
Amounts reversed	(129)
Balance 31 December	**997**

A provision of NOK 304 million related to future environmental obligations. This provision is related to estimated future costs from cleaning up any pollution of the environment by Norske Skog production units. This provision will be realised in a future period at a potential close-down of the production activities of any of the Norske Skog production units. Increased environmental requirements from local governments may also lead to a realisation of this provision

Change in environmental provision:	
Balance 1 January	274
Recorded provision	72
Amounts used	(9)
Amounts reversed	(33)
Balance 31 December	**304**

The restructuring provision related to staff reduction initiated in 2006 amounts to NOK 199 million. This provision is expected to be realised through staff reduction processes in 2008 and 2009.

Change in restructuring provision:	
Balance 1 January	355
Recorded provision	43
Amounts used	(172)
Amounts reversed	(27)
Balance 31 December	**199**

31. EVENTS AFTER THE BALANCE SHEET DATE

Reduced production capacity in Europe and Asia
The Board of Directors in Norske Skog has decided to ask the Corporate Assembly to be given the authority to reduce the production capacity in Europe and Asia with a total of 450 000 tons. The proposals are to close the Steti paper mill in the Czech Republic permanently (annual production capacity 130 000 tons), and to shut down Cheongwon in the Republic of Korea (annual production capacity 190 000 tons) and one of the paper machines at Follum in Norway (annual production capacity 130 000 tons) indefinitely. For Follum and Cheongwon, this means permanent idling, but the paper machines will still be available for future production. If these shut-downs are executed this will result in write-downs amounted to NOK 1 100 million and will be recorded in the accounts in the first quarter of 2008.

Changes in group management and reduced head office functions
The group management of Norske Skog was changed in 2008. The group management team was reduced from nine to six persons. Changes will also be implemented at the head office, where several staff functions will be removed. The changes at the head office will focus on financial follow-up of global operations and strategy work. The number of employees at the head office will be significantly reduced. The objective is to save at least NOK 150 million in annual administrative costs.

Selling properties
Norske Skog owns several properties which are not directly related to paper production. The group management has started the process of selling these properties.

The Board of Directors and group management in Norske Skog have decided to carry out the measures described above. The final decision-making body when it comes to the permanent closure of paper machines will be the corporate assembly of Norske Skogindustrier ASA. No decision had been made at the date the financial statements for 2007 were authorised for publication.

Stop in Pisa PM2-project
The project consisted of modernization and moving of one the paper machine from Norske Skog Union in Norway to Norske Skog Pisa in Brazil. The project was audited in February 2008. The project had an original cost limit of NOK 1 300 million (USD 210 million). The audit report shows that the project cost will be significantly higher than budgeted. This is mainly due to a strong cost increase in Brazil and currency factors.

On 10 March 2008, the board of Norske Skog decided to stop the project. The net cost of stopping the project will be about NOK 450 million (USD 82 million).

32. CAPITAL RISK MANAGEMENT

The group's objective when managing capital is to safeguard the ability to continue as a going concern in order to maximise return on capital employed and use capital effectively.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

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

During 2007, the group's strategy, which was unchanged from 2006, had a target gearing of 0,9. The gearing at 31 December 2007 and 2006 were as follows:

	NOTES	2007	2006
Interest bearing debts	20,21	18 435	17 826
- Liquid assets	17,18	1 886	485
- Gain on fair value hedge	29	140	20
Net interest bearing debt		**16 409**	**17 321**
Equity less minority interest		15 592	18 100
Gearing		1.05	0.96

The increase in gearing during 2007 resulted primarily from the impairment testing and write down in 4th quarter.

INCOME STATEMENT

NOK MILLION	NOTES	2007	2006	2005
Operating revenue	**2**	**6 625**	**7 410**	**7 301**
Distribution costs		(707)	(760)	(789)
Cost of materials		(3 448)	(3 558)	(3 536)
Change in inventories		25	(45)	67
Employee benefit expenses	3	(1 201)	(1 236)	(1 249)
Other operating expenses	4	(723)	(681)	(881
Restructuring expenses		-	(79)	(270)
Other gains and losses	20	4 839	(129)	-
Depreciations	7	(270)	(621)	(670)
Impairments	7	(3 944)	(120)	(182)
Operating earnings		**1 196**	**181**	**(209)**
Financial items	14, 15, 17	451	(1 797)	(403)
Other items	21	-	-	(766)
Profit before tax		**1 647**	**(1 616)**	**(1 378)**
Taxes	5	(438)	(112)	873
Profit for the year		**1 209**	**(1 728)**	**(505)**

BALANCE SHEET

NOK MILLION	NOTES	31.12.2007	31.12.2006	31.12.2005
Assets				
Deferred tax asset	5	145	229	240
Other intangible assets	7	21	27	49
Property, plant and equipment	7	1 608	5 109	5 307
Shares in subsidiaries	14, 18	33 745	33 578	36 391
Other non-current assets	13	2 469	2 446	3 033
Total non-current assets		**37 988**	**41 389**	**45 020**
Inventories	11	710	655	686
Receivables	13	1 717	2 230	1 156
Cash and cash equivalents		1 347	57	79
Other current assets	16	5 315	328	544
Current assets		**9 089**	**3 270**	**2 465**
Total assets		**47 077**	**44 659**	**47 485**
Shareholder's equity and liabilities				
Paid-in equity		12 310	12 309	12 309
Retained earnings		2 851	2 642	5 409
Total equity	**8**	**15 161**	**14 951**	**17 718**
Pension obligations	3	166	118	88
Deferred tax	5	907	424	267
Interest-bearing non-current liabilities	10, 13	27 875	25 867	26 657
Other non-current liabilities		329	54	151
Total non-current liabilities		**29 277**	**26 463**	**27 163**
Interest-bearing current liabilities		168	258	-
Trade and other payables	13	2 415	2 676	2 334
Tax payable	5	-	-	17
Other current liabilities		56	311	253
Total current liabilities		**2 639**	**3 245**	**2 604**
Total liabilities		**31 916**	**29 708**	**29 767**
Total equity and liabilities		**47 077**	**44 659**	**47 485**

Lysaker, 12 March 2008
The Board of Directors of Norske Skogindustrier ASA

Kim Wahl
Chair

Øivind Lund
Deputy chair

Kari Broberg
Board member

Halvor Bjørken
Board member

Giséle Marchand
Board member

Ingrid Wiik
Board member

Stein-Roar Eriksen
Board member

Trond Andersen
Board member

Kåre Leira
Board member

Christian Rynning-Tønnesen
President and CEO

CASH FLOW STATEMENT

NOK MILLION	NOTES	2007	2006	2005
Cash flow from operating activities				
Cash generated from operations		6 546	7 448	7 401
Cash used in operations		(6 027)	(6 411)	(6 648)
Cash from net financial items		(615)	(1 147)	(682)
Paid taxes		(4)	(32)	3
Net cash flow from operating activities	**6**	**(100)**	**(142)**	**74**
Cash flow from investing activities				
Investments in operational fixed assets	7	(672)	(493)	(339)
Sales of operational fixed assets		7	4	16
Change in intercompany with subsidiaries		216	1 011	676
Net financial investment		(91)	(238)	(4 195)
Net cash from sold shares in other companies [1]		87	1 213	-
Paid taxes		-	-	-
Net cash flow from investing activities		**(453)**	**1 497**	**(3 842)**
Cash flow from financing activities				
Net change in long-term liabilities [2]		1 658	(2 253)	205
Net change in current liabilities [3]		1 222	1 500)	(302)
Dividend paid		(1 045)	(1 041)	(795)
Sale of own shares		5	-	-
New equity		-	-	3 840
Net cash flow from financing activities		**1 840**	**(1 794)**	**2 948**
Total change in cash and cash equivalents		**1 287**	**(439)**	**(820)**
Cash and cash equivalents at 1 January [3]	16	61	500	1 320
Cash and cash equivalents at 31 December [3]	16	1 348	61	500

[1] In 2007 the amount relates to dividends received from Malaysian Newsprint Industries SDN BHD.
In 2006 the amount is related to the sale of Catalyst, Forestia and Nordic Paper.
[2] Net debt repaid in 2007 was NOK 5 299 million, while net debt drawn was NOK 8 179 million .
[3] Cash and cash equivalents include short-term investments in note 16 as well as cash and cash equivalents.

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 carried at cost in the company accounts.

The accounts were authorised for issue by the Board of Directors on 12 March 2008.

All amounts are presented in NOK million unless otherwise stated.

2. OPERATING REVENUE BY MARKET

At 31 December 2007, the parent company included sales to four main geographic: Europe, South America, Australasia and Asia. Sales to the USA are included in Europe. Australasia comprises Australia and New Zealand.

Revenue based on sales of goods and services to group companies amounted to NOK 896 million in 2007, compared to NOK 1 239 million in 2006 and NOK 1 235 million in 2005

OPERATING REVENUE BY MARKET	2007	2006	2005
Norway	1 298	1 322	828
Europe ex Norway	4 990	5 596	5 024
North America	-	-	708
South America	85	169	215
Australasia	5	65	127
Asia	195	253	378
Africa	52	5	21
Total operating revenue	**6 625**	**7 410**	**7 301**

3. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

PAYROLL COSTS	2007	2006	2005
Pay	772	853	931
Social security contributions	234	205	266
Pension costs	78	63	54
National insurance and other social costs	117	115	73
Total	**1 201**	**1 236**	**1 324**

The company is required by law to have a pension scheme for all emoplyees. The company's pension scheme is compliant with the requirements in the Norwegian Act relating to defined contribution Pension.

Note 5 to the group accounts provides supplementary information on pay and other remuneration for senior employees together with audit fee.

FULL TIME EMPLOYEES	2007	2006	2005
Norske Skogindustrier ASA	1 965	1 960	2 415

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

STATUS OF PENSION PLANS RECONCILED WITH THE BALANCE SHEET:	2007	2006	2005
Projected benefit obligations	(1 486)	(1 480)	(1 445)
Plan assets at fair value	1 395	1 319	1 296
Estimated net pension obligations	(91)	(161)	(149)
Differences in estimates not taken to income/expenses	(42)	70	107
Net pension obligations	(133)	(91)	(42)
Accrual payroll tax	(33)	(27)	(24)
Pension obligations in the balance sheet	**(166)**	**(118)**	**(66)**
Pension obligation	**(166)**	**(118)**	**(88)**
Pension assets	**-**	**-**	**22**

See note 6 to the consolidated accounts for assumptions and further information.

4. OTHER OPERATING EXPENSES

NOK 1 million has been recognised as revenue under Other operating expenses due to change in provision for bad debt (NOK 3 million in 2006), while final losses amounted to NOK 3 million (NOK 0 million). In 2005, the company had NOK 32 million in final losses related to accounts receivables. Change in provision for bad debt amounted to NOK 27 million, giving a net expense on receivables of NOK 5 million.

5. TAXES

TAX EXPENSE	2007	2006	2005
Current tax expense	3	13	(5)
Change in deferred tax	435	99	(868)
Total tax expense	**438**	**112**	**(873)**

INCOME TAX RECONCILIATION	2007	2006	2005
Earnings before taxation	1 647	(1 616)	(1 378)
Computed tax at nominal tax rate of 28%	**461**	**(453)**	**(386)**
Excempted income/nondeductible expenses	(135)	(400)	(57)
Write-down of shares in subsidiaries	165	815	214
Change in tax legislation	-	-	(22)
Adjustment previous years	(5)	(9)	(176)
Recognition of tax assets (-) / tax assets not recognised	-	-	(417)
Other items	(48)	158	(30)
Total tax expense	**438**	**112**	**(873)**

DEFERRED TAX	2007	2006	2005
Net deferred tax liability 1 January	195	27	849
Deferred tax charged in the profit and loss account	435	99	(868)
Adjustment opening balance IAS 39	-	-	46
Tax charged to equity	-	-	(32)
Reclassification of group tax allocations	132	69	32
Net deferred tax liability 31 December	**762**	**195**	**27**

DEFERRED TAX 2007	OPENING BALANCE	CHARGED TO BALANCE SHEET [1)]	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE
Fixed assets, excess values and depreciations	448	68	(944)	(428)
Pensions	(33)	-	(13)	(47)
Provisions and other liabilities	(25)	(88)	(121)	(234)
FX and financial instruments	575	-	1 666	2 241
Deferred tax current items	16	-	-	16
Tax losses and tax credit to carry forward	(785)	152	(153)	(786)
Net deferred tax liability	**195**	**132**	**435**	**762**

[1)] In 2007 the company has carried out a demerger of non-production related properties. The demerger was carried out with taxable continuity.

DEFERRED TAX 2006	OPENING BALANCE	CHARGED TO BALANCE SHEET	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE
Fixed assets, excess values and depreciations	544	-	(97)	448
Pensions	(18)	-	(15)	(33)
Provisions and other liabilities	13	-	(38)	(25)
FX and financial instruments	158	-	417	575
Deferred tax current items	25	-	(9)	16
Tax losses and tax credit to carry forward	(694)	69	(159)	(785)
Net deferred tax liability	**27**	**69**	**99**	**195**

DEFERRED TAX 2005	OPENING BALANCE	CHARGED TO BALANCE SHEET	CHARGED TO PROFIT AND LOSS	CLOSING BALANCE
Fixed assets, excess values and depreciations	637	-	(92)	544
Pensions	(6)	-	(12)	(18)
Provisions and other liabilities	113	-	(100)	13
FX and financial instruments	311	46	(199)	158
Deferred tax current items	21	-	5	25
Tax losses and tax credit to carry forward	(225)	-	(469)	(694)
Net deferred tax liability	**849**	**46**	**(868)**	**27**

6. NET CASH FLOW FROM OPERATIONS

THE RELATIONSHIP BETWEEN PROFIT BEFORE TAX AND CASH FLOW FROM OPERATIONS IS SHOWN BELOW:	2007	2006	2005
Profit before tax	1 647	(1 616)	(1 378)
Depreciations/impairments	4 214	741	852
Paid taxes	(4)	(32)	3
Gain/(loss) on sale of fixed assets and other items	(4)	2	-
Group contribution	(236)	(121)	(142)
Changes in receivables	(79)	38	(260)
Changes in inventories	(55)	31	(77)
Changes in current liabilities	(121)	(181)	163
Financial items without cash effect	(1 066)	650	(280)
Other items	-	-	766
Adjustments for non-cash working capital items and translation differences [1)]	(4 396)	346	427
Net cash flow from operating activities	**(100)**	**(142)**	**74**

[1)] This amount includes NOK 4 360 million unrealised gains on energy contracts.

7. OPERATIONAL AND INTANGIBLE NON-CURRENT ASSETS

GOODWILL, LICENSES AND SIMILAR RIGHTS	2007	2006	2005
Acquisition cost 1 January	165	157	97
Additions	8	135	60
Disposals	(1)	(127)	-
Acquisition cost 31 December	**172**	**165**	**157**
Accumulated depreciations and impairments 1 January	138	108	31
Depreciation	13	13	16
Impairments	-	85	61
Disposals	-	(68)	-
Accumulated depreciations and impairments 31 December	**151**	**138**	**108**
Carrying value 31 December	**21**	**27**	**49**

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

MACHINERY AND EQUIPMENT	2007	2006	2005
Acquisition cost 1 January	11 586	11 578	11 429
Additions	578	209	258
Disposals	(1 315)	(201)	(109)
Reclassified from asset under construction	185	-	-
Acquisition cost 31 December	**11 034**	**11 586**	**11 578**
Accumulated depreciations and impairments 1 January	8 504	8 195	7 737
Depreciation	124	472	500
Impairments	3 531	33	60
Disposals	(1 217)	(196)	(102)
Accumulated depreciations and impairments 31 December	**10 942**	**8 504**	**8 195**
Carrying value 31 December	**92**	**3 082**	**3 383**

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

PLANTS AND BUILDINGS	2007	2006	2005
Acquisition cost 1 January	3 239	3 195	3 219
Additions	79	172	27
Disposals	(19)	(128)	(51)
Reclassified from asset under construction	-	-	-
Acquisition cost 31 December	**3 299**	**3 239**	**3 195**
Accumulated depreciations and impairments 1 January	1 638	1 580	1 488
Depreciation	92	84	88
Impairments	217	-	28
Disposals	-	(26)	(24)
Accumulated depreciations and impairments 31 December	**1 947**	**1 638**	**1 580**
Carrying value 31 December	**1 352**	**1 601**	**1 615**

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

FIXTURES AND FITTINGS	2007	2006	2005
Acquisition cost 1 January	343	311	334
Additions	7	32	83
Disposals	(2)	-	(106)
Reclassified from asset under construction	-	-	-
Acquisition cost 31 December	**348**	**343**	**311**
Accumulated depreciations and impairments 1 January	250	196	192
Depreciation	41	52	66
Impairments	-	2	6
Disposals	(1)	-	(68)
Accumulated depreciations and impairments 31 December	**290**	**250**	**196**
Carrying value 31 December	**58**	**93**	**115**

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

PLANT UNDER CONSTRUCTION	2007	2006	2005
Carrying value 1 January	333	194	223
Additions	154	139	-
Disposals	(196)	-	-
Completed in period	(185)	-	(29)
Carrying value 31 December	**106**	**333**	**194**

Plant under construction is not depriciated

Assumptions applied when calculating recoverable amount
Operational and intangible non-current assets are impaired to recoverable amount when recoverable amount is lower than the carrying value of the asset. Recoverable amount is defined as the higher of net selling price and estimated net present value of cash flow generated from continued operation of the asset.

When estimating net present value, the cash flow is discounted using a weighted cost of capital requirement relevant to the individual asset. The required rate of return is based on 10 years bonds issued by the Norwegian government, which is adjusted for the business risk relevant for Norske Skog.

More information related to the assumptions applied when calculating recoverable amount is given in note 12 to the consolidated accounts.

8. EQUITY

	PAID-IN EQUITY	RETAINED EARNINGS	TOTAL
Equity at 31 December 2006	12 309	2 642	14 951
Change in own share holding	1	14	15
Profit/(loss) for the year	-	1 209	1 209
Dividend	-	(1 045)	(1 045)
Other adjustments	-	31	31
Equity at 31 December 2007	**12 310**	**2 851**	**15 161**

As of 31 December 2007, the share capital of the company included 189 946 626 shares, each valued at NOK 10. The number of own shares was 600 000. In 2007, 188 080 own shares were sold as part of the share savings progam for the employees. The shares were sold at NOK 108.75.

SPECIFICATION OF DISTRIBUTABLE EQUITY	2007
Retained earnings	2 851
Paid-in other equity [1)]	7 000
Other equity	**9 851**
Revaluation reserve	(3 593)
Deferred tax assets	(145)
Research and development	(21)
Distributable equity	**6 092**

[1)] The general assembly on 12 April 2007 decided to transfer NOK 7 000 million from share premium reserve to paid-in other equity.

PRINCIPAL SHAREHOLDERS	OWNERSHIP IN %
JPMorgan Chase Bank, United Kingdom (NOM)	9.2
Unionen AS	5.9
Viken Skog BA	5.7
State Street Bank and Trust co, USA (NOM)	4.6
AT Skog BA	3.5
Morgan Stanley & co intl plc., United Kingdom	2.8
Folketrygdfondet	2.2
Bear Stearns Securities corp., USA (NOM)	1.9
Skagen Vekst	1.8
Allskog BA	1.8
Mjøsen Skog BA	1.7
Bank of New York, Belgium (NOM)	1.6
Goldman Sachs & co - equity, USA (NOM)	1.6
Credit Agricole investor services, France (NOM)	1.4
Tom Hagen Funds AS	1.3
Clearstream Banking S.A., Luxembourg (NOM)	1.3
Mellon Bank AS, USA (NOM)	1.3
Nordea Bank Norge ASA	1.2
Rederiaktieselskapet Henneseid	1.1
Franklin Templeton Lending, c/o JPMorgan Chase Bank, Luxembourg	1.1
Bank of New York, USA (NOM)	1.0

SHAREHOLDERS IN THE CORPORATE ASSEMBLY	NUMBER OF SHARES
Elected by the shareholders	
Helge Evju, Skollenborg (Chair)	195
Emil Aubert, Porsgrunn	91 956
Ole H. Bakke, Trondheim	53
Kirsten C. Idebøen, Bærum (K & K Invest AS)	8 100
Christian Ramberg, Bø in Telemark	71
Tom Ruud, Oslo	410
Turid Fluge Svenneby, Spydeberg	142
Halvard Sæther, Lillehammer	5 925
Elected by the employees	
Øystein Bruce, Norske Skog Saugbrugs	410
Stig A. Stene, Norske Skog Skogn	75
Observers from the employees	
Thor Granaune, Norske Skog Skogn	1 123

SHAREHOLDERS ON THE BOARD OF DIRECTORS	NUMBER OF SHARES
Elected by the shareholders	
Kim Wahl, Bærum, (chair)	100 000
Øivind Lund, Drammen (deputy chair)	1 995
Halvor Bjørken, Verdal	4 001
Giséle Marchand, Oslo	838
Ingrid Wiik, Lysaker	660
Elected by the employees	
Kåre Leira, Norske Skog Skogn	1 532

SHAREHOLDERS AMONG SENIOR EXECUTIVES	NUMBER OF SHARES
Christian Rynning-Tønnesen	3 263
Peter Chrisp	1 066
Antonio Dias	4 880
Eric d'Olce	2 503
Andreas Enger	2 410
Rune Gjessing	2 162
Kristin Slyngstad Klitzing	410
Vidar Lerstad	8 440
Ketil Lyng	6 425

9. GUARANTEES

The company has guaranteed debts totalling NOK 378 million on behalf of its subsidiaries. Other guarantees amount to NOK 298 million.

10. INTEREST-BEARING NON-CURRENT LIABILITIES

THE COMPANY'S TOTAL DEBT AT 31 DECEMBER 2007 MATURES AS FOLLOWS:

	DEBT BANKS	BONDS	TOTAL
2008	146	-	146
2009	317	840	1 157
2010	4 046	-	4 046
2011	31	3 247	3 278
2012	-	902	902
2014	-	195	195
2015	-	1 082	1 082
2017	-	3 981	3 981
2033	-	1 082	1 082
Total	**4 539**	**11 329**	**15 868**

Foreign currency debt is presented at the current rate in the instalment profile. Debt used as instrument for hedging net investments in foreign currencies is presented at historical cost in the balance sheet. See also note 20 in the consolidated accounts.

11. INVENTORIES

	31-12-2007	31-12-2006	31-12-2005
Raw materials and other production input	294	264	250
Finished goods	416	391	436
Total	**710**	**655**	**686**

12. DERIVATIVES

	2007 ASSETS	2007 LIABILITIES	2006 ASSETS	2006 LIABILITIES
Net investmet hedging [1)]				
Forward contracts	81	(1)	16	(5)
Cross-currency contracts	31	(74)	10	(253)
Total	**112**	**(75)**	**26**	**(258)**
Fair value hedging [2)]				
Interest-rate swaps	140	(25)	20	(69)
Total	**140**	**(25)**	**20**	**(69)**
Cash Flow Hedge [3)]				
Interest-rate swaps	34	-	22	-
Total	**34**	**-**	**22**	**-**
Held for trading [4)]				
Interest-rate swaps	-	-	16	(2)
Forward rate agreements	2	(2)	6	(5)
Currency options	97	(4)	2	(15)
Forward contracts	138	(14)	58	(89)
Cross-currency contracts	-	-	-	-
Financial commodity contracts	4 899	(38)	252	(33)
Embedded derivatives	-	-	-	(50)
Total	**5 136**	**(57)**	**333**	**(194)**
Total value				
Interst-rate swaps	174	(25)	57	(71)
Forward rate agreements	2	(2)	6	(5)
Currency options	97	(4)	2	(15)
Forward contracts	219	(15)	74	(94)
Cross-currency contracts	31	(74)	10	(253)
Financial commodity contracts	4 899	(38)	252	(33)
Embedded derivatives	-	-	-	(50)
Total	**5 421**	**(157)**	**401**	**(521)**

1) The gain or loss relating to the ineffective portion is recognised in the profit and loss account.
2) The notional principal amounts of the underlying debt in the fair value hedge were NOK 6 323 million.
3) The notional principal amounts of the underlying debt in the cash flow hedge were NOK 2 430 million.
4) Includes: active management portfolio, long-term assset 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 profit or loss. See the group account, note 29.

13. INTERCOMPANY RECEIVABLES/LIABILITIES

INTERCOMPANY RECEIVABLES	2007	2006	2005
Norske Skog Holdings B.V.	1 226	1 268	1 229
Norske Skog Walsum GmbH	1 003	1 086	1 259
Other intercompany receivables	34	33	-17
Total intercompany receivables	**2 263**	**2 387**	**2 471**

CURRENT INTERCOMPANY RECEIVABLES	2007	2006	2005
4346799 Canada Inc.	171	28	-
Crown Forest Industries Ltd.	235	-	-
Nornews AS	7	290	-
Norske Skog France SA	19	8	3
Norske Skog Golbey SA	27	41	59
Norske Skog Holdings B.V.	122	285	177
Norske Skog Industries Australia Ltd.	-	-	39
Norske Skog USA Inc.	49	105	123
Norske Skog Walsum GmbH	102	113	23
Oxenøen Eiendom AS	121	-	-
Pisa Papel de imprensa SA	45	13	13
Reparco Netherlands Group	16	8	-
Other current intercompany receivables	90	644	76
Total current intercompany receivables	**1 004**	**1 535**	**513**

LONG-TERM INTERCOMPANY LIABILITIES	2007	2006	2005
4346799 Canada Inc.	960	902	-
FC Industries Ltd.	2 857	2 940	2 638
Lysaker Invest AS	52	50	300
Nornews AS	49	340	340
Norske Skog Bruck GmbH	612	708	551
Norske Skog Golbey S.A	1 207	684	646
Norske Skog Holding AS	36	35	249
Norske Skog Holland B.V.	14	15	14
Norske Skog Paper Holding (Schweiz) AG	-	371	-
Norske Skog Steti a.s.	61	60	-
Norske Skog Tasman Ltd.	-	-	55
Norske Treindustrier AS	6 092	5 500	5 860
Other long-term intercompany liabilities	6	3	116
Total non-current intercompany liabilities	**11 946**	**11 608**	**10 769**

All long-term intercompany debt matures more than five years after the end of the fiscal year.

CURRENT INTERCOMPANY LIABILITIES	2007	2006	2005
Klosterøya AS	27	-	-
Lysaker Invest AS	25	221	109
Norske Skog Bruck GmbH	59	54	30
Norske Skog Deutschland GmbH	31	42	37
Norske Skog Golbey S.A	72	211	41
Norske Skog Holding AS	17	13	322
Norske Skog Holland BV	17	15	-
Norske Skog Asia Pacific Pte Ltd.	23	27	-
Norske Skog Industries Australia Ltd.	129	38	-
Norske Skog Parenco BV	26	42	31
Norske Skog Tasman Ltd.	53	98	63
Norske Skog UK Ltd.	25	76	55
Norske Treindustrier AS	274	366	46
Oxenøen Utvikling AS	54	-	-
Wood and logistics AS	82	73	73
Other current intercompany liabilities	67	48	70
Total current intercompany liabilities	**981**	**1 324**	**877**

14. IMPAIRMENT OF SHARES

THE IMPAIRMENT OF SHARES IN NORSKE SKOGINDUSTRIER ASA HAS BEEN PREFORMED AS A CONSEQUENCE OF LOWER ASSET VALUES IN THE FOLLOWING SUBSIDIARIES:	2007	2006
Norske Treindustrier AS	(230)	-
Norske Skog Holdings BV	(535)	(765)
Norske Skog Pisa Ltda	(41)	(59)
Norske Skog Paper Malaysia SDN	(11)	(583)
Norske Skog Walsum GmbH, reversal of previous year impairment	226	(1 505)
Total	**(591)**	**(2 912)**

The impairment of shares is included in Financial items in the Income Statement.

15. TERMINATION OF HEDGE ACCOUNTING

Norske Skogindustrier ASA has terminated the use of hedge accounting in the company accounts of the parent company. This results in a recognition in the profit and loss accounts of accumulated exchange rate gains and losses which have not been recognised previously due to the use of hedge accounting.
In total a gain of NOK 994 million was recognised in the profit and loss accounts in 2006.

16. OTHER CURRENT ASSETS

	31-12-2007	31-12-2006	31-12-2005
Total prepaid expenses	67	6	-
Derivatives [1)]	5 247	318	123
Short-term investments	1	4	421
Other current assets	**5 315**	**328**	**544**

[1)] Derivatives are exclusive hedging accounting of fair value hedging and cash flow hedging of interest-rate cost (note 12).

17. FINANCIAL ITEMS

	NOTE	2007	2006	2005
Dividends received		782	1 470	319
Interest revenue		244	182	226
Interest cost		(1 563)	(1 112)	(972)
Exchange rate gains and losses		1 643	820	124
Write-down of shares in subsidiaries	14	(591)	(2 912)	-
Other financial items		(64)	(245)	(100)
Total		**451**	**(1 797)**	**(403)**

18. SHARES IN SUBSIDIARIES

See note 14 to the group accounts for specification of shares in subsidiaries and other shares.

19. PAY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

Pursuant to the new provision in section 6-16a of the Norwegian Act on Public Limited Companies, ref section 5-6, paragraph 3, the annual general meeting must consider the board's declaration concerning the determination of pay and other remuneration for senior executives in the coming fiscal year. The board will propose the declaration at the AGM for consideration and a vote. The board of Norske Skog has had a special compensation committee since 2000, which considers issues relating to the compensation of the chief executive and the corporate management team. When the methods for assessing pay and possible bonuses, options and other incentive schemes are to be determined, the committee will ensure that the size and scope of compensation and pay reflect the responsibilities and duties of the recipient, and that these arrangements contribute to long-term value creation for all the shareholders.

Fixed salary

Beyond the general principles outlined above, 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 3 to the annual accounts.

Variable elements:

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

Annual bonus agreements

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

Long-term incentive programme

The purpose of this programme is to secure a continued strong focus on the development of shareholder value. The board adopted new principles for the long-term incentive programme in 2007, where the criteria for awarding synthetic shares to the corporate management team is tied to total shareholder return (TSR – development of the share price including dividend payments), such that this must be above average for a defined group of 16 listed paper manufacturers, including Norske Skog. A positive TSR for the period is also an absolute condition. This scheme will yield a 40 % payout if Norske Skog performs better than the average for the reference group and a full payout if the company falls within the best quartile. The maximum annual payouts are 35 000 synthetic shares for the chief executive and 17 500 for other members of the corporate management team, subject to a ceiling of 1.25 times the annual salary in the relevant year. At least 50 % of the allocation from this programme must be applied to purchasing shares, which have to be retained until the total shareholding corresponds to a gross annual salary. Progress is measured over a three-year period, with a new period beginning each year. This scheme involves no dilution effect.

Turnaround

As a special motivational measure to ensure the best possible execution of the turnaround programme for profit improvement, the board has resolved that all employees will be offered an additional bonus scheme. This includes the corporate management. The bonus will be calculated against a measured real improvement in earnings of NOK 3 billion compared with the base year of 2005. Certain senior vice presidents will also be measured on the performance of specified business units. The maximum payout will be seven months pay for the chief executive and four months for the other members of the corporate management team. In the event that two-thirds of the target is reached, which is an absolute pre-condition for an award, the scheme will pay 40 % of the maximum. Should 80 % be reached, 60 % of the input amount will be paid. Payment will be made in the first half of 2009.

Further variable elements include a company car or an alternative arrangement with a fixed mileage allowance and interest-free car loan, an interest-free mortgage, newspapers, mobile phone and coverage of the costs of broadband communication in accordance with established standards.

Pension plans

In addition to Norway's general pension schemes, payable from the age of 67 and providing about 65 % of pay at retirement, the corporate management team has a supplementary plan for that part of their salary which exceeds 12 times the Norwegian national insurance base amount (G), and a scheme for early retirement from the age of 64 which provides a pension until the age of 67. In addition to the general group life and accident insurance policies, the corporate management team is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80G.

Pay guarantee schemes

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

20. OTHER GAINS AND LOSSES

Disposal of non-current tangible assets generated a gain of NOK 24 million in 2007. Other gains and losses also include a gain/positive value change of NOK 4 815 million related to energy and commodity contracts.
The company had a loss of NOK 2 million in 2006 related to non-current tangible assets and a loss of NOK 127 million related to energy and commodity contracts.

21. OTHER ITEMS

The amount in 2005 is related to a write-down of shares in Norske Treindustrier AS as a result of the loss on the sale of the shares in Catalyst Paper Corp.

22. DEMERGER OF NON-PRODUCTION RELATED PROPERTY

In the general assembly 12 April 2007 it was decided to transfer property not related to production to a sub-group owned by Norske Skogindustrier ASA. This was carried out through as a two-stage process by a demerger and a subsequent demerger/merger. The transactions were in the accounts considered as a reorganisation without change in ownership and concequently accounted to continuity. The demerger was carried out in the accounts with effect from 1 January 2007.

AUDITOR'S REPORT FOR 2007

We have audited the annual financial statements of Norske Skogindustrier ASA as of December 31, 2007, showing a profit of NOK 1 209 millions for the parent company and a loss of NOK 683 millions for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the financial statements of the parent company and the group. The financial statement of the parent company comprises the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statement of the group comprises the balance sheet, the statement of income and cash flows, the statement of changes in equity and the accompanying notes. Simplified IFRS according to the Norwegian accounting act § 3-9 have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in accordance with simplified IFRS according to the Norwegian accounting act § 3-9
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of December 31, 2007,and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, March 12, 2008
PricewaterhouseCoopers AS

Erling Elsrud
State Authorised Public Accountant (Norway)

Note:
This translation from Norwegian has been prepared for information purposes only.

THE CORPORATE ASSEMBLY'S STATEMENT TO THE ANNUAL GENERAL MEETING

The corporate assembly recommends that the annual general meeting approves the income statement and the balance sheet for 2007 for Norske Skogindustrier ASA and the group as proposed by the board, and agrees with the board's proposal for the appropriation of the profit for the year.

The corporate assembly took note of the declaration concerning guidelines for determining the remuneration of senior executives.

Lysaker, 12 March 2008

Helge Evju
Chair

Note:
This translation from Norwegian has been prepared for information purposes only.

ANNUAL GENERAL MEETING
The annual general meeting will be held at 11.00 on Thursday 24 April, 2008 at Colosseum Kino, Fr. Nansensvei 6, Majorstua, Oslo.

PUBLICATION OF INTERIM RESULTS IN 2008
First quarter: 8 May
Second quarter: 7 August
Third quarter: 6 November

FURTHER INFORMATION ON THE INTERNET
Additional financial data for Norske Skog can be found at www.norskeskog.com

Information available there includes:
- all annual, interim reports and GRI table
- press releases
- presentations to the stock market
- information on Norske Skog´s organisation, management and activities
- details about mills, products and markets
- information on environmental issues and the company´s social involvement, as well as its guidelines on the environment, social responsibility and business ethics.

CONTACT INFORMATION
Media and external affairs:
Tom Bratlie, Vice President
Corporate Communications
Telephone: +47 67 59 90 00
tom.bratlie@norskeskog.com

Financial market:
Jarle Langfjæran, Vice President investor relations
Telephone: +47 67 59 93 38
jarle.langfjaran@norskeskog.com

Environment:
Georg Calberg, Vice President environment
Telephone: +47 67 59 90 23
georg.carlberg@norskeskog.com

Addresses
Corporate headquarters
Norske Skogindustrier ASA
Oksenøyveien 80
P.O Box 329
NO-1326 Lysaker, Norway
Telephone: +47 67 59 90 00
Telefax: +47 67 59 91 81

Norske Skogindustrier ASA
Oksenøyveien 80
P.O Box 329
NO-1326 Lysaker
Telephone: + 47 67 59 90 00
Telefax:+ 47 67 59 91 81
www.norskeskog.com

Norske Skog

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