

**Norske Skog**

3/02 January-June 2002

# plus



**Publication paper market still weak,  
but satisfactory margins in  
Australasia and Asia**

**Currency gains give strong net  
financial items**

**Improvement programme 2002  
running as planned**

**Walsum-Parenco integration  
on schedule**

**Satisfactory trends in  
health and safety**



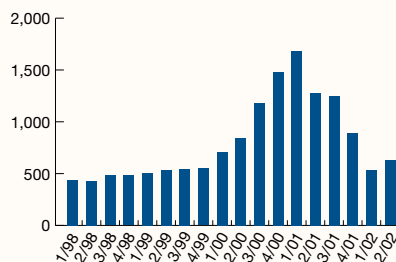
**Norske Skog**

## ■ QUARTERLY REPORT JANUARY - JUNE 2002

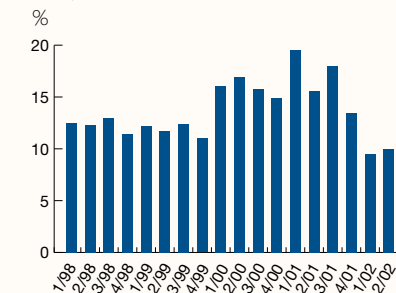
At the end of the half-year there was still no improvement worth mentioning in the market for publication paper, which – since the second half of 2001 - has seen reduced demand and lower prices. Globally the picture is somewhat mixed. In Australasia the market is reasonably stable with satisfactory activity. This is also the case in some markets in Asia. However, the other regions continue to operate in a weak market environment.

# Publication paper still weak on most markets

OPERATING EARNINGS  
PER QUARTER 1998-2002  
NOK mill.



NET OPERATING MARGIN  
PER QUARTER 1998-2002  
%



A strong Norwegian krone, in relation to the euro and US dollar, has had a significantly negative impact in the development of the operating earnings, thus reinforcing the effect of operating in a weak international economic environment. To counter this as much as possible, the company will maintain its efficiency drive.

### Group result

Norske Skog's operating revenue in first half 2002 was NOK 11,574 million, compared with NOK 16,796 million in the same period of 2001. Operating earnings was NOK 1,162 million (NOK 2,956 million), equating to a net operating margin of 10.0% (17.6%). In the second quarter of 2002, operating revenue and operating earnings were NOK 5,898 million and NOK 626 million, respectively, while the corresponding figures for the first quarter were NOK 5,676 million and NOK 536 million.

Pre-tax profit for the half-year was NOK 920 million (NOK 2,223 million). Profit per share after tax was NOK 4.58 in the period (NOK 12.22). Net cash flow from operations was NOK 1,859 million (NOK 3,627 million), corresponding to NOK 14.07 per share (NOK 33.23 per share).

When making comparisons, it should be noted that Norske Canada, with

substantial minorities, was consolidated in its entirety in the Group's accounts for the first half-year 2001. In the first half-year 2002, NorskeCanada is included as an affiliated company, with Norske Skog holding an ownership stake of 30.6% as of 30 June. Furthermore, the Tasman Pulp Mill was divested 30 April 2001. However, on the other hand, the publication paper mills Walsum and Parenco were not included in the accounts for the first half of 2001. In addition, Norske Skog's stake in Pan Asia increased from 33.3% to 50%, effective 16 August 2001.

The operating earnings reflects a continuing weak market for publication paper from a global perspective, although with reasonably stable results in Australasia and continued high margins in Pan Asia. Due to the weaker demand, the Group's wholly-owned mills curtailed production by 335,000 tonnes in the first half-year, corresponding to 12% of total capacity. The partly-owned mills in North America and Asia also implemented production shut-downs due to weak markets.

Net interest totalled minus NOK 622 million (minus NOK 606 million). Currency hedging yielded a gain of NOK 645 million as of 30 June. Total net financial items in the first half-year amounted to

## Profit and loss account

<i>NOK million</i>	<i>Apr - Jun 02</i>	<i>Apr - Jun 01</i>	<i>Jan - Jun 02</i>	<i>Jan - Jun 01</i>	<i>2001</i>
<b>Operating revenue</b>	5,898	8,163	11,574	16,796	30,354
Operating expenses	-4,430	-6,033	-8,705	-12,129	-21,935
<b>Operating earnings before depreciation</b>	1,468	2,130	2,869	4,667	8,419
Depreciation and amortisation	-842	-854	-1,707	-1,711	-3,323
<b>Operating earnings</b>	626	1,276	1,162	2,956	5,096
Earnings from affiliated companies <sup>1)</sup>	-72	12	-171	44	16
Financial items	123	-368	-71	-726	-1,376
Other items	-	-51	-	-51	158
<b>Earnings before taxation</b>	677	869	920	2,223	3,894
Taxation	-211	-314	-311	-739	-1,234
<b>Net earnings</b>	466	555	609	1,484	2,660
The minority's share of net earnings	1	19	3	150	166
<b>The majority's share of net earnings</b>	465	536	606	1,334	2,494
Earnings per share	3.51	4.89 <sup>2)</sup>	4.58	12.22 <sup>2)</sup>	20.68
Earnings per share fully diluted	3.51	4.89 <sup>2)</sup>	4.58	12.22 <sup>2)</sup>	20.68

<sup>1)</sup> Earnings from affiliated companies are included after taxation.

<sup>2)</sup> Historical figures per share have been restated due to changes in number of shares in connection with the share issue when merging the share classes in 2001.

## Statement of cash flow

<i>NOK million</i>	<i>Jan - Jun 02</i>	<i>Jan - Jun 01</i>	<i>2001</i>
<b>Cash flow from operating activities</b>			
Cash generated from operations	12,129	17,613	31,165
Cash used in operations	-9,238	-13,125	-22,141
Cash from net financial items	-440	-574	-1,435
Taxes paid	-592	-287	-537
<b>Net cash flow from operating activities</b>	1,859	3,627	7,052
<b>Cash flow from investment activities</b>			
Investments in operational fixed assets	-543	-611	-1,225
Sales of operational fixed assets	14	7	26
Other investments	116	239	286
Dividend received	-	-	4,372
Net cash from sold shares and activities	257	1,840	3,075
Net cash used for acquisition of companies	-2	-1,166	-11,113
<b>Net cash flow from investment activities</b>	-158	309	-4,579
<b>Cash flow from financial activities</b>			
Net change in long-term liabilities	-3,675	-6,813	-2,550
Net change in short-term liabilities	425	997	-121
Dividend paid	-748	-657	-671
New equity	-	3,349	3,327
<b>Net cash flow from financial activities</b>	-3,998	-3,124	-15
Translation difference	-207	91	44
<b>Total change in liquid assets</b>	-2,504	903	2,502

## Balance sheet

NOK million	30.06.02	30.06.01	31.12.01
Intangible fixed assets	4,542	3,472	4,549
Operational fixed assets	33,224	35,367	36,889
Long-term receivables and affiliated companies	3,055	2,035	3,979
<b>Fixed assets</b>	<b>40,821</b>	<b>40,874</b>	<b>45,417</b>
Inventory	2,365	3,007	2,172
Receivables	3,941	5,182	4,525
Short term investments	615	8,462	1,769
Liquid assets	1,039	1,068	2,389
<b>Current assets</b>	<b>7,960</b>	<b>17,719</b>	<b>10,855</b>
<b>Total assets</b>	<b>48,781</b>	<b>58,593</b>	<b>56,272</b>
Paid in equity	8,456	8,409	8,409
Retained earnings	10,222	10,663	10,912
<b>Shareholders' equity</b>	<b>18,678</b>	<b>19,072</b>	<b>19,321</b>
Minority interests	167	7,700	205
Deferred taxes	2,677	2,303	3,174
Interest-free long-term liabilities and other obligations	905	1,246	1,003
Interest bearing long-term liabilities	21,310	22,108	26,681
Interest free current liabilities	4,333	4,766	5,591
Interest bearing current liabilities	711	1,398	297
<b>Total liabilities and shareholders' equity</b>	<b>48,781</b>	<b>58,593</b>	<b>56,272</b>

## Financial key figures

	Definitions	Jan-Jun 02	Jan-Jun 01	2001
Net operating margin %	1	10.0	17.6	16.8
Gross operating margin %	2	24.8	27.8	27.7
Equity ratio %	3	38.6	45.7	34.7
Equity ratio excl. minority interests %	4	38.3	32.5	34.3
Net interest bearing debt Net debt/Shareholders' equity including minority interests		20,367	13,976	22,820
Net debt/Shareholders' equity		1.08	0.52	1.17
Net debt/Shareholders' equity		1.09	0.73	1.18
Earnings per share after taxes	5	4.58	12.22 **)	20.68
Earnings per share – fully diluted *)		4.58	12.22 **)	20.68
Cash flow per share after taxes	6	14.07	33.23 **)	58.47
Cash flow per share – fully diluted *)		14.07	33.23 **)	58.47

### Definitions :

- 1 : Net operating margin = Operating earnings : Operating revenue
- 2 : Gross operating margin = Operating earnings before depreciation : Operating revenue
- 3 : Equity ratio = (Shareholders' equity + Minority interests) : Total assets
- 4 : Equity ratio excl. minority interests = Shareholders' equity : Total assets
- 5 : Earnings per share = Net earnings : Average number of shares
- 6 : Cash flow per share = Cash flow from operating activities : Average number of shares

\*) Net earnings and cash flow are rectified by interest expenses on subordinated convertible bonds

\*\*\*) Historical figures per share have been restated due to changes in number of shares in connection with the share issue when merging the share classes in 2001.

minus NOK 71 million (minus NOK 726 million).

Earnings from affiliates includes a loss of NOK 150 million being the share of NorskeCanada's result after tax, and a loss of NOK 29 million, from Malaysian Newsprint Industries' result after tax.

Tax costs in the first half-year reached NOK 311 million (NOK 739 million), corresponding to 28.5% of ordinary result, adjusted for affiliated companies.

Inventories of raw materials and finished goods were stable at the end of the half-year.

Pan Asia paid a dividend to its owners on 15 May, including USD 25 million to Norske Skog. The amount has no effect from a consolidated perspective, as this is a Group internal transfer of equity.

### Improvement programme

The improvement programme that was targeted for the first half of 2002 has been extended to 31 December 2002. The programme budget represents NOK 700 million and comprises purchasing, operation, reduction or deferral of projects, and steps to cut administrative costs. This means a strong focus will still be maintained on the areas which have the highest priority: customer service, product quality, health, environment and safety.

### Integration of Walsum and Parenco – synergies.

Analysis now shows that the integration of the two mills will yield synergy and improvement gains totaling some EUR 80 million, on an annual basis, during the period 2002-2004. The initial estimate was EUR 45 million. Two thirds of the total value will come from sales and production. The implementation of the programme was on schedule as of 30 June.

### Financial

At the end of the first half-year Norske Skog's total assets stood at NOK 48,781 million, compared with NOK 56,272 million at end-2001 and NOK 58,593 million as of 30 June 2001. Investments of NOK 8.5 billion in Walsum and Parenco in Europe during the fourth quarter of 2001 have been more than offset by other structural initiatives during the last 12 months. Reduction of debt and currency movements also contributed to a lower balance sheet.

Equity capital stood at NOK 18,678 million at the end of the first half-year, corresponding to NOK 141 per share and an equity capital ratio of 38.3%. Corresponding figures at the end of 2001 were, respectively, NOK 19,321 million, NOK 146 and 34.3%. The reduction in equity capital during the first half-year is due to the effect of currency rate changes when converting foreign subsidiaries into NOK.

The significant changes in the value of the Norwegian krone, vis à vis other currencies, affect the Group's accounts in several areas. The stronger krone has a negative impact on operating earnings, and if the krone exchange rate should continue high, this impact will persist throughout the year. The counterpart of this is a gain from hedging of future net cash flow, booked as financial items. This effect, NOK 645 million as of 30 June, arises immediately and will be unchanged or negative if the krone stays stable or depreciates. The balance sheet is affected in that a strong Norwegian krone reduces debt denominated in foreign currencies. At the same time, there is a reduction of the booked value of the assets owned by the Group outside Norway when the Norwegian krone appreciates.

Norske Skog safeguards the ratio between net interest-bearing debt and equity capital (gearing) by ensuring that debt is arranged in the same currencies as the currency mix of the Group's assets. This reduces the risk of significant changes in the Group's gearing as a result of currency fluctuations. Equity capital by itself will be somewhat more exposed to such fluctuations, since the Group has less debt than assets in foreign currencies.

During the first half-year, the Group's net interest-bearing debt was reduced by NOK 2,453 million to NOK 20,367 million, of which 75% was at floating interest rates. The average interest rate and amortisation period of its borrowing portfolio was 5.6% and 5.4 years.

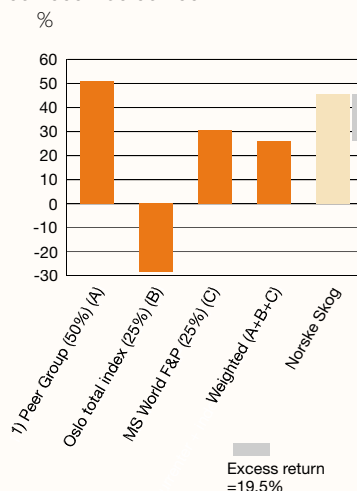
Gearing at 30 June was 1.09, in comparison to 0.73 as of 30 June 2001, and at 1.18 as of 31 December 2001. Despite the recession, the Group will continue to strive for the goal of a continued lowering of the gearing value towards 1.0 by the end of 2002.

Investments in plant and equipment amounted to NOK 543 million in the first half-year, corresponding to 32% of depreciation and 5% of operating revenue.

The Group's liquidity is strong, with available reserves, including drawing rights, amounting to about NOK 5 billion.

The closing price of a Norske Skog share on the Oslo Stock Exchange on 28 June was NOK 140, compared with NOK 167.50 at the end of last year. This gives a change in value, including the dividend of NOK 6.00 per share, of minus 12.8% during the first half-year. Compared with a relevant reference group of indices and companies the return on Norske Skog shares was 19.5 percentage points higher during the period 30 June 2000 – 30 June 2002. During the first half-year a total of 50.7 million shares was traded on the Oslo Stock Exchange, corresponding to 38.1% of the total number of shares. The proportion of shares held by investors outside Norway was 42%. At the end of the half-year the Company's value on the Oslo Stock Exchange was NOK 18,693 million, corresponding to 100% of the Company's equity capital.

RELATIVE TSR  
30.06.2000 - 30.06.2002



1) Price increase + dividend paid in % of share price as of 30 June 2000.

The General Meeting on 29 April 2002 authorised the Board to buy back up to 10% of outstanding shares. The authorisation is valid for 18 months.

### Strategic

In May, Norske Skog and Abitibi-Consolidated signed a revised shareholder agreement, in connection with Hansol Paper's disposal of its stake in Pan Asia in 2001. Pan Asia's option to buy Norske Skog's mills in Australasia no longer applies. Pan Asia retains its

option to buy Norske Skog's ownership stake in Malaysian Newsprint Industries. The owners confirmed, at the same time, their intention to use Pan Asia as their vehicle for growth in Asia.

As part of its financial restructuring, NorskeCanada offered a new share issue on 28 May. Due to Norske Skog's commitment to reducing debt it did not participate in this offer. The share offer reduced Norske Skog's holding from 36.1% to 30.6%. Norske Skog is still NorskeCanada's largest shareholder and only industrial owner, and all operational collaboration agreements continue to function as before.

In the autumn of 2001, Norske Skog concluded an agreement with Vifor AS (the Norwegian Forest Owners' Association) and the Opplysningsvesenets Fond regarding the sale of forest properties in Southern Norway for the sum of just under NOK 200 million. The relevant authorities refused the buyers' application for a licence, on the grounds that the purchase price was too high. Both buyer and seller have appealed against this ruling. Since the transaction was subject to official approval, it has not been included in Norske Skog's accounts.

Norske Skog has concluded agreements with Buskerud Kraftproduksjon and Akershus Kraft on the sale of all the Group's 13 power plants, for a total of around NOK 1.3 billion. The power plants have an annual output, in years of normal precipitation, of around 700 GWh. The transaction will give Norske Skog a profit of NOK 950 million before tax and about NOK 500 million after tax, and adds more than NOK 800 million to the Company's liquidity. The hand-over is assumed to take place as of 1 January 2003.

### Operative Region Europe

Region Europe's operating revenue during the first half was NOK 6,870 million (NOK 7,080 million) and operating earnings was NOK 718 million (NOK 1,783 million). Gross operating margin was 23.6% (33.5%). When making comparisons, it should be taken into account that in the first half of 2001, newsprint deliveries to Europe reached an all time high. There was great activity in the magazine paper markets as well.

# ■ QUARTERLY REPORT

During the second quarter, costs were negatively affected by a marked rise in waste paper prices, and increasing prices for purchased chemical pulp. Productivity development is satisfactory.

Current economic trends in Europe do not support the expectation of any early improvement in the market situation. A consensus estimate foresees economic growth at 1.4% for the EU region in 2002. This in comparison to actual growth of 1.5% in 2001 and 3.3% in 2000.

## Newsprint

Demand for newsprint in Europe was 8% lower in the first half-year than in the same period of 2001, but deliveries to Western Europe increased by 8% from the first to the second quarter of 2002. Price levels were stable at around EUR 550 for standard newsprint during the first half-year. In volume terms, the special grades show a more favourable trend, but in this product area there is pressure on prices. Exports to overseas markets rose by 43% during the first half-year, compared with the same period of 2001. Price trends on export markets were negative, but the decline now seems to have reached its lowest point.

## Magazine paper

Total deliveries of magazine paper to Western Europe fell by 2%, while exports to other regions rose by 2.5%, compared with the first half of 2001. Combined deliveries of magazine paper increased by 4% in the second quarter compared to the first quarter. For uncoated (SC) magazine paper the situation was relatively better, with stable prices at around 630 euro/tonne for SC and a somewhat higher order inflow than at the same time in 2001. The market for coated (LWC) magazine paper continues to be unstable, owing to capacity growth and reduced demand. The price level of around 730 euro/tonne is under pressure.

## Region South America

Region South America's operating revenue in the first half-year reached NOK 569 million (NOK 961 million) and operating earnings was minus NOK 15 million (NOK 247 million). Gross operating margin was 25.1% (43.7%).

Political and financial uncertainty has had a negative effect on economic activity in the region. Up to the end of the first half-year, the South American market experienced

falling demand and lower prices. Deliveries of newsprint to Brazil and Chile were 15% lower in the first half-year than in the same period last year. At the end of June, the reference price for standard newsprint in Brazil stood at around USD 400/tonne.

Both demand and prices now appear to be stabilising at this low level. Price increases nominated in national currency are expected to be implemented during the year, but these are equalised by the depreciation of Brazilian real versus US dollars and Norwegian kroner.

## Region Australasia

Region Australasia's operating revenue was NOK 1,954 million (NOK 2,337 million) in the first half-year, and its operating earnings was NOK 367 million (NOK 413 million). Gross operating margin was 36.3% (33.9%). When making comparisons, it must be recalled that up to 1 May 2001 the accounts also included the sale of market pulp from Tasman, with operating revenue amounting to NOK 460 million and operating earnings of NOK 171 million.

In accordance with the price formula in the long-term agreement for newsprint sales with most of the customers in Australia, the price was adjusted downwards by 7% effective 1 July 2002.

Raw material cost trends are favourable.

The stronger Australian dollar has led to increased competition from suppliers in Asia. Nevertheless, small market share gains in Australia have been achieved for the second half of the year. Exports from Australia and New Zealand to Asia have declined.

## Partly-owned companies Asia

Norske Skog's share of Pan Asia Paper Company's operating revenue and operating earnings in the first half-year reached NOK 1,309 million (NOK 1,114 million) and NOK 309 million (NOK 336 million), respectively. The figures are not directly comparable, as from 16 August 2001, Norske Skog increased its stake in the company from 33.3% to 50%. Gross operating margin was 35.4% (38.7%).

Pan Asia also experienced lower demand, production curtailments and reduced activity in the first half of the year. In the company's main market, Korea, demand has been stable

and at satisfactory levels, with stable prices, as well. High productivity at the mills, a favourable production cost trend and positive demand in core markets led to good margins for Pan Asia.

Productivity at Malaysian Newsprint Industries (MNI) has been negatively affected by a very unstable market situation.

## North America

NorskeCanada's operating revenue in the first half-year reached CAD 684 million and its operating earnings was minus CAD 83 million.

In May, demand for newsprint in the US rose for the first time in 19 months. After a year's continuous decline, it is assumed that the newsprint market in the US reached its lowest point in June. During the period June 2001 – June 2002, prices declined by 28% or USD 175 to USD 450/tonne on the US west coast, the lowest level for eight years.

Several suppliers announced price increases of USD 50/tonne from 1 August. Further developments will depend on when economic growth again resumes in the US. A consensus estimate for 2002 shows 2.8% growth, while the corresponding figure for 2001 was 1.2%.

## Health and safety

At the end of the first half-year, on a rolling 12-month basis, the H-factor (number of lost-time injuries per million hours worked) was 6.4, against 9.3 at the end of 2001. Norske Skog Europe has shown a particularly good improvement, and has cut its H-factor during the first half-year from 12.5 to 7.9. Australasia and Pan Asia continue to perform very well with June H-factors of 2.4 and 1.3 respectively.

In June Norske Skog signed an agreement with the International Chemical, Energy, Mining and Factory Workers' Federation (ICEM) and Fellesforbundet (part of The Norwegian Confederation of Trade Unions). The agreement is the first of its kind in the world paper and pulp industry. It is based on the UN's Global Compact, which defines a platform for this type of co-operation between employees, the trade union movement and business. The agreement is a statement of best-practice principles and confirms Norske Skog's commitment to act accord-

ing to labour laws and to the best international standards.

### The Company's governing bodies

On 29 April 2002 the Corporate Assembly elected Lars Wilhelm Grøholt, a forest owner, to be new chairman of the Board. Grøholt followed Lage Westerbø, who has been Board chairman since 1989. In accordance with accepted principles of corporate governance it is the view of the Corporate Assembly, and of CEO Jan Reinås, that as a matter of principle the CEO should not be a member of the Company's Board. Gisèle Marchand, a business studies graduate, was elected to be a new Board member, following Jan Reinås.

### Outlook

At the end of the first half-year, the market situation for publication paper was still weak. Norske Skog can currently see no signs of demand improvements for its products in its most important markets. This means that weak demand is to be expected in the second half-year.

Norske Skog will continue its priorities and efforts to improve profitability, take out synergies from the Walsum and Parenco acquisition, and focus on reducing debt.

Taking into account the weak market outlook for the rest of the year, a reduction in Australian newsprint prices, and the Group's expectation of continued strength

in the Norwegian krone, should lead to weaker operating earnings in the second half of 2002 compared to the first half of the year.

Norske Skog expects the fourth quarter to be better than the third. Based on exchange rates at the end of June, the Group do not expect any currency gains in the second half of the year, as these were taken in the first half-year.

Lysaker, 5 August 2002

The Board of Norske Skogindustrier ASA

## REVENUE AND PROFIT PER AREA

### Operating revenue

NOK million	Apr - Jun 02	Apr - Jun 01	Jan - Jun 02	Jan - Jun 01	2001
<b>Europe</b>					
Newsprint	1,864	2,333	3,721	4,482	8,850
Magazine paper	1,658	1,310	3,149	2,598	5,369
<b>Total Europe</b>	<b>3,522</b>	<b>3,643</b>	<b>6,870</b>	<b>7,080</b>	<b>14,219</b>
<b>North America <sup>1)</sup></b>					
Newsprint	-	1,215	-	2,565	3,323
Pulp	-	820	-	1,972	2,434
Eliminations	-	-105	-	-236	-302
<b>Total North America</b>	<b>-</b>	<b>1,930</b>	<b>-</b>	<b>4,301</b>	<b>5,455</b>
<b>South America</b>					
Newsprint	264	437	569	881	1,784
Forests <sup>2)</sup>	-	54	-	89	171
Eliminations	-	-4	-	-9	-16
<b>Total South America</b>	<b>264</b>	<b>487</b>	<b>569</b>	<b>961</b>	<b>1,939</b>
<b>Australasia <sup>3)</sup></b>					
Newsprint	1,000	980	1,954	1,921	4,110
Pulp <sup>3)</sup>	-	95	-	460	458
Eliminations	-	21	-	-44	-95
<b>Total Australasia</b>	<b>1,000</b>	<b>1,096</b>	<b>1,954</b>	<b>2,337</b>	<b>4,473</b>
<b>Asia</b>					
Newsprint	691	519	1,309	1,114	2,434
<b>Other activities</b>					
Other industry in Norway	163	244	342	526	930
Other revenues	248	341	600	742	1,389
<b>Total Other activities</b>	<b>411</b>	<b>585</b>	<b>942</b>	<b>1,268</b>	<b>2,319</b>
Staff/Eliminations	10	-97	-70	-265	-485
<b>Total Group</b>	<b>5,898</b>	<b>8,163</b>	<b>11,574</b>	<b>16,796</b>	<b>30,354</b>

<sup>1)</sup> Norske Skog share of ownership in Norske Skog Canada Ltd., in total comprising region North America, is reduced to 36% as a result of Norske Skog Canada Ltd. acquiring Pacifica Papers 28 August 2001, and from 28 May 2002 to 30.6% due to new share issue in Norske Skog Canada Ltd.. Norske Skog Canada Ltd. is treated as an affiliated company from 28 August 2001, and is no longer included in the operating revenue and operating earnings.

<sup>2)</sup> A significant part of the forests in Brazil was sold in December 2001.

<sup>3)</sup> Tasman Pulp was sold 30 April 2001.

# QUARTERLY REPORT

## Operating earnings before depreciation

NOK million	Apr - Jun 02	Apr - Jun 01	Jan - Jun 02	Jan - Jun 01	2001
<b>Europe</b>					
Newsprint	460	841	891	1,622	3,022
Magazine paper	394	387	732	747	1,433
<b>Total Europe</b>	<b>854</b>	<b>1,228</b>	<b>1,623</b>	<b>2,369</b>	<b>4,455</b>
<b>North America</b>					
Newsprint	-	214	-	524	649
Pulp	-	-72	-	124	133
Eliminations	-	6	-	6	5
<b>Total North America</b>	<b>-</b>	<b>148</b>	<b>-</b>	<b>654</b>	<b>787</b>
<b>South America</b>					
Newsprint	45	188	143	378	744
Forests	-	21	-	42	81
Eliminations	-	-	-	-	-
<b>Total South America</b>	<b>45</b>	<b>209</b>	<b>143</b>	<b>420</b>	<b>825</b>
<b>Australasia</b>					
Newsprint	345	316	710	604	1,250
Pulp	-	30	-	213	204
Eliminations	-	-6	-	-23	-
<b>Total Australasia</b>	<b>345</b>	<b>340</b>	<b>710</b>	<b>794</b>	<b>1,454</b>
<b>Asia</b>					
Newsprint	252	202	463	431	869
<b>Other activities</b>					
Other industry in Norway	18	56	49	102	166
Other revenues	-	-	-	-	-
<b>Total Other activities</b>	<b>18</b>	<b>56</b>	<b>49</b>	<b>102</b>	<b>166</b>
Staff/Eliminations	-46	-53	-119	-103	-137
<b>Total Group</b>	<b>1,468</b>	<b>2,130</b>	<b>2,869</b>	<b>4,667</b>	<b>8,419</b>

## Operating earnings

NOK million	Apr - Jun 02	Apr - Jun 01	Jan - Jun 02	Jan - Jun 01	2001
<b>Europe</b>					
Newsprint	215	651	392	1,248	2,271
Magazine paper	190	281	326	535	976
<b>Total Europe</b>	<b>405</b>	<b>932</b>	<b>718</b>	<b>1,783</b>	<b>3,247</b>
<b>North America</b>					
Newsprint	-	109	-	313	367
Pulp	-	-146	-	-16	-43
Eliminations	-	6	-	6	5
<b>Total North America</b>	<b>-</b>	<b>-31</b>	<b>-</b>	<b>303</b>	<b>329</b>
<b>South America</b>					
Newsprint	-27	109	-15	224	432
Forests	-	13	-	23	41
Eliminations	-	-	-	-	-
<b>Total South America</b>	<b>-27</b>	<b>122</b>	<b>-15</b>	<b>247</b>	<b>473</b>
<b>Australasia</b>					
Newsprint	174	149	367	277	563
Pulp	-	19	-	171	162
Eliminations	-	-10	-	-35	-
<b>Total Australasia</b>	<b>174</b>	<b>158</b>	<b>367</b>	<b>413</b>	<b>725</b>
<b>Asia</b>					
Newsprint	177	153	309	336	616
<b>Other activities</b>					
Other industry in Norway	3	38	20	64	98
Other revenues	-	-	-	-	-
<b>Total Other activities</b>	<b>3</b>	<b>38</b>	<b>20</b>	<b>64</b>	<b>98</b>
Staff/Eliminations	-106	-96	-237	-190	-392
<b>Total Group</b>	<b>626</b>	<b>1,276</b>	<b>1,162</b>	<b>2,956</b>	<b>5,096</b>

## Production by product/area

1,000 tonnes	Apr - Jun 02	Apr - Jun 01	Jan - Jun 02	Jan - Jun 01	2001
<b>Europe</b>					
Newsprint	505	459	950	925	1,770
Magazine paper	319	202	614	425	847
<b>North America</b>					
Newsprint	-	202	-	434	559
Pulp	-	227	-	423	526
<b>South America</b>					
Newsprint	72	76	157	164	314
<b>Australasia</b>					
Newsprint	206	205	414	419	817
Pulp	-	21	-	90	90
<b>Asia</b>					
Newsprint	157	103	294	219	468
<b>Other activities</b>					
Newsprint	-	3	-	7	11
<b>Norske Skog total</b>					
Total newsprint	940	1,048	1,815	2,168	3,939
Total magazine paper	319	202	614	425	847
<b>Total printing paper</b>	<b>1,259</b>	<b>1,250</b>	<b>2,429</b>	<b>2,593</b>	<b>4,786</b>
<b>Total pulp</b>	<b>-</b>	<b>248</b>	<b>-</b>	<b>513</b>	<b>616</b>

## Quarterly comparison consolidated accounts

NOK million	2nd Q 02	1st Q 02	4th Q 01	3rd Q 01	2nd Q 01	1st Q 01	4th Q 00	3rd Q 00	2nd Q 00
Operating revenue	5,898	5,676	6,618	6,940	8,163	8,633	9,947	7,489	4,783
Oper. earnings before depreciation	1,468	1,401	1,731	2,021	2,130	2,537	2,364	1,915	1,217
Depreciation and amortisation	842	865	839	773	854	857	884	734	377
Operating earnings	626	536	892	1,248	1,276	1,680	1,480	1,181	840
Earnings before taxation	677	243	748	923	869	1,354	836	901	865
The majority's share of net earnings	465	141	532	628	536	798	554	498	613

## Quarterly comparison areas

NOK million	2nd Q 02	1st Q 02	4th Q 01	3rd Q 01	2nd Q 01	1st Q 01	4th Q 00	3rd Q 00	2nd Q 00
<b>Operating revenue</b>									
Europe	3,522	3,348	3,711	3,428	3,643	3,437	3,651	3,314	3,307
North America	-	-	-	1,154	1,930	2,371	2,558	1,599	-
South America	264	305	557	421	487	474	574	397	64
Australasia	1,000	954	1,074	1,062	1,096	1,241	1,588	1,213	-
Asia	691	618	759	561	519	595	719	596	691
Other activities	411	531	564	487	585	683	893	788	911
Staff/Eliminations	10	-80	-47	-173	-97	-168	-36	-418	-190
<b>Total Operating revenue</b>	<b>5,898</b>	<b>5,676</b>	<b>6,618</b>	<b>6,940</b>	<b>8,163</b>	<b>8,633</b>	<b>9,947</b>	<b>7,489</b>	<b>4,783</b>
<b>Oper. earnings before depreciation</b>									
Europe	854	769	900	1,186	1,228	1,141	997	807	806
North America	-	-	-	133	148	506	537	300	-
South America	45	98	230	175	209	211	238	159	-1
Australasia	345	365	309	351	340	454	474	423	-
Asia	252	211	248	190	202	229	206	183	182
Other activities	18	31	34	30	56	46	23	-18	302
Staff/Eliminations	-46	-73	10	-44	-53	-50	-111	61	-72
<b>Total Oper. earnings before deprec.</b>	<b>1,468</b>	<b>1,401</b>	<b>1,731</b>	<b>2,021</b>	<b>2,130</b>	<b>2,537</b>	<b>2,364</b>	<b>1,915</b>	<b>1,217</b>
<b>Operating earnings</b>									
Europe	405	313	562	902	932	851	693	540	512
North America	-	-	-	26	-31	334	338	191	-
South America	-27	12	136	90	122	125	151	81	-1
Australasia	174	193	132	180	158	255	265	280	-
Asia	177	132	154	126	153	183	155	135	129
Other activities	3	17	19	15	38	26	8	-24	259
Staff/Eliminations	-106	-131	-111	-91	-96	-94	-130	-22	-59
<b>Total Operating earnings</b>	<b>626</b>	<b>536</b>	<b>892</b>	<b>1,248</b>	<b>1,276</b>	<b>1,680</b>	<b>1,480</b>	<b>1,181</b>	<b>840</b>

## ■ SYNERGY PROGRAMME 2002-2004:

**Claes-Inge Isacson:**

# Increased value creation tak

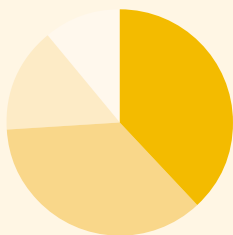
### Synergy will lift value creation

The programme that Norske Skog is carrying out after the purchase of Walsum and Parenco on 1 December, 2001, consists of two main elements: a synergy component, to extract economies of scale in a larger organisation, and an improvement component, intended to make current operations more efficient and profitable. The overall goal is to achieve total value creation which – after the integration of the two companies – will be greater than what Walsum/Parenco and Norske Skog would have attained separately.

Five teams are each responsible for a single area, identifying gains, planning and implementation. These are:

- Production Walsum
- Production Parenco
- Sales and distribution
- Purchasing and supplies
- Administrative support functions

The aim is – based on clearly-defined assumptions – to achieve gains corresponding to a value of at least NOK 600 million, on an annual basis, by the end of 2004. Sales and production account for the largest parts of this, with three quarters of the total gain.



THIS IS WHERE GAINS WILL BE EXTRACTED

- Sales/distribution 38%
- Production 36%
- Administrative support functions 15%
- Purchasing/supplies 11%



“Only the best in the industry will be able to give their owners a satisfactory return over time – Claes-Inge Isacson (left), head of Norske Skog Europe. Here shown with (from the left) mill ma Siegfried Kocher, Norske Skog Europe.

“A SYNERGY AND IMPROVEMENT PROGRAMME such as we are now putting into effect after the purchase of Walsum and Parenco is normal procedure for Norske Skog following company acquisitions. The special challenge involved in this purchase is that we have been serving the same customers via different sales organisations, so that sales coordination is more demanding than usual. Increased value creation is taken for granted and was an important part of the background for the Board’s decision to buy. It is therefore satisfying that we are ‘on schedule’ with the integration of Walsum and Parenco,” says the head of Norske Skog Europe, corporate senior vice president Claes-Inge Isacson.

# en for granted



and we shall be among them,” says corporate senior vice president manager Frank Jansen, Norske Skog Walsum, and senior vice president

“With Walsum and Parenco we are gaining – in addition to new products – larger volumes as well, providing the basis for a change in the division of labour between the mills, and more rational production. Purchasing, distribution and transport also offer great potential. And we are gaining a broader base of competence and experience in the production of publication paper. These improvements and synergies will be realised during the period 2002-2004.

“The programme is being launched during a period of weak demand for our products. Naturally, this makes major demands on our organisation, while at the same time forcing us to raise the level of our ambitions. We previously announced synergies amounting to NOK 350 million. We have now identified synergy and improvement gains totalling NOK 600 million. The consolidation that we have seen – and see – on both the supplier and customer sides intensifies the demands on all links in the value chain. Only the best will be able to give their owners a satisfactory return over time – we shall be among them,” says Claes-Inge Isacson.

## Process and money both on schedule

“WHERE BOTH PROCESS AND MONEY ARE CONCERNED, we are on schedule with our synergy programme following the acquisition of Walsum and Parenco. The drive to identify synergy and improvement gains started immediately after the take-over on 1 December 2001. By mid-May we had a final definition and detailing of the plans for all areas, excluding production,” says Håkon Wibstad, vice president and chief financial officer of Norske Skog Europe. Mandatory production goals will be defined when Walsum and Parenco have introduced Norske Skog’s OPI programme (Operational Performance Improvement).

“Norske Skog has developed its own standard for measuring the results of improvement programmes. We do not want to measure directly against past results, which are affected by short-term fluctuations in prices and volumes. Instead, the key parameters (prices and volumes) are compared with average values (trends) over a period of time. In this way we get a real, and realistic, picture of how improvement

is progressing – one in which short-term changes do not affect measurements.”

*“Has the planning of synergy gains and improvements been difficult?”*

“For competition reasons we had to await the EU Commission’s approval of the purchase before we could begin to understand Walsum and Parenco better. When the Commission gave

the green light, things got very busy. But Norske Skog has both wide experience of company acquisitions, and a number of programmes and other tools which are used in synergy and integration processes, such as NSOS (Norske Skog Operational Standards), OPI and others.

“The most important thing is that we have approached the task with humility and an open mind, with willingness to see, hear and learn. What we might have lacked on the system side has been out-

weighed by enthusiasm and application. This has created a satisfactory process and strong commitment among all those involved, and our goals are highly ambitious. From a purely practical standpoint, integration has far exceeded our expectations. We have experienced some surprises, but no crises.”

*“And the results, measured in NOK?”*

“Moneywise, we are on schedule in relation to what we aim to achieve during

2002-2004. But the market recession has not made the task any easier. The situation consequently demands more, in daily follow-up, from those who at the same time are responsible for achieving synergies and improvements,” says Håkon Wibstad.

**“From a purely practical standpoint, integration has far exceeded our expectations. We have experienced some surprises, but no crises,” says Håkon Wibstad, CFO of Norske Skog Europe.**



## Norske Skog Parenco

### This is the way to do it

“IF YOU ARE GOING TO EXTRACT SYNERGIES and improvement gains in a company like Norske Skog, then this is the way to do it,” says production manager Harald Fichtl at Norske Skog Parenco, in the Netherlands. Together with Dorrit van der Burgt, Fichtl heads the Production team at the company. So far they have identified gains worth just over euro 26 million during the period 2002 – 2004.

Parenco is focusing systematically on five areas for improvement:

1. Increased productivity on the two paper machines.
2. Cutting the costs of the pulp mix.
3. Optimal use of chemicals.
4. Improved utilisation of paper machine consumables.
5. Identification and implementation of improvement in maintainance.

“So far, results have come up to expectations. But we must take account of the fact that

some activities got started later than others, because they are connected with the new waste paper de-inking plant. This came on line in July.”

Harald Fichtl is convinced that disseminating and sharing best practice is of great importance to the programme. “We can learn a lot from the other Norske Skog mills, and we believe that we can learn from our own experience as well,” he says. “We have, for example,

provided specific input to Commercial which they describe as interesting, and which is now forming part of the process to identify improvements in Norske Skog Europe. By sharing with others we hope to make a positive contribution to Norske Skog’s position as a leading supplier of publication paper,” says Harald Fichtl.

**“We can learn a lot from one another in Norske Skog,” say Harald Fichtl and Dorrit van der Burgt.**



# Progress in Walsum

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“ALTHOUGH THERE WAS A LONG TIME OF UNCERTAINTY for everybody, the Walsum team mastered the transitional period of the last year in which Haindl sold the Walsum mill to the Norske Skog Group,” says mill manager Frank Jansen. “This success was possible because the challenges over the last years have developed the employees of Walsum into a high performing team,” he adds.

The results that Walsum has achieved over the last months, given the challenges the integration process implies, are remarkable:

- H & S – a very good start was presented. The variety of activities lead to a significant decrease in accidents. For the first six months of 2002 the H-value (number of lost-time injuries per million hours worked) was 7, against 27 for the full year 2001.
- The management at Walsum experienced “The Spirit of Norske Skog”

during 12 events over the past few months. In addition, by the end of the year, all employees will take part in this training to better understand the new company culture.

- During the first three months of this year, Walsum introduced most of the Norske Skog tools which initiate the improvement processes. The last programme to be started is OPI – operational performance improvement. The preparations by 6 work groups is starting up at full

speed, and the process of the productivity improvements will start as planned at the beginning of September.

“All these tools have to be understood as long-term programmes to support the strategic direction of Walsum and Norske Skog Europe, not as short-term activities,” says Frank Jansen.

“All these tools have to be understood as long-term programmes,” says mill manager Frank Jansen, Norske Skog Walsum.



## Supply:

### Money to be saved on energy, purchases and raw materials

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“ENERGY, PURCHASING AGREEMENTS AND SUPPLIES of fibre and timber are our focus areas,” says Helge Fasseland, vice president, Norske Skog Europe Supply. Supply serves all of Norske Skog’s mills in Europe. By May, Supply had defined projects and identified synergies which together corresponded to the intended goal.

“The most demanding challenge lies in the field of energy, which is a major cost factor in the production of publication paper. With the liberalisation of energy trading now taking place in Europe, we see significant opportunities in utilising energy markets actively. Norske Skog is a major user, we look at all the nine mills in Europe as a group, and achieving greater efficiency of supplies should have a positive impact on costs.

“Where purchases are concerned, we have examined the details of each individual contract. This was done around the turn of the year – a favourable period because it is then that many contracts come up for renewal or re-negotiation. We saw opportunities in various conditions of the different contracts, and by co-ordinating these a good deal can be achieved immediately. That applies, not least, to pulp, which is a major cost in the production of magazine paper.

“Supply’s waste paper purchasing organisation received a valuable addition in that the acquisition of Parenco also included Reparco, a company which collects and sorts waste paper, and participates in all the links of the value chain in this market. Reparco brings us much know-how and competence, and strengthens Norske Skog’s position as a buyer of recycled fibre in Europe.

“Work is in hand on the co-ordination of timber supplies

to Walsum, Golbey and Parenco. We expect considerable positive effects in the form of a greater presence in the market and streamlining of timber logistics,” says Helge Fasseland.

**Helge Fasseland, vice president, Norske Skog Europe Supply:**  
“We are focusing on energy, raw materials and purchasing agreements.”



## Commercial:

# Focus on product and transport

“WE ARE NOW CONCENTRATING on extracting gains from the optimisation of production, and through a better ‘market mix.’ Two other focus areas are the adaptation of our sales organisation and more efficient production at Parenco. The latter will come a bit further in the future,” explains Inger Marie Gulvik Holten, senior vice president, Commercial, Norske Skog Europe’s sales and distribution organisation.

The intention is that Commercial should contribute more than a third of total synergy and improvement gains. “From a marketing standpoint, this is more complicated than was the case with the acquisition of Fletcher Challenge Paper. We have acquired former competitors who worked in the same market, with the same products as Norske Skog. The Fletcher purchase gave Norske Skog net growth in market shares in regions

where the Company previously had a limited presence,” she says.

*“What, specifically, is expected to yield gains on the market side?”*

“The optimisation of production means that we are moving output to the plants which can most efficiently supply the various grades. Coated magazine paper with higher surface weights is being moved from Walsum

to Bruck, while lower surface weights are being moved from Bruck to Walsum. Because the mills will have fewer changeovers to different grades this will give more tonnes, better production planning and more efficient use of the paper machines.

“A better market mix is primarily a matter of logistics. Norske Skog now has three mills that supply newsprint to north western Europe: Skogn, Golbey and Parenco.

By switching around deliveries from these mills to the customers in this area we reduce our transport requirements. In this way we achieve lower distribution costs and increase our competitiveness, compared with the situation before the acquisition.

“The adaptation of the sales organisation is on schedule and has been largely completed. We immediately recruited key people from Walsum’s coated magazine

paper sales. That enabled us to maintain relations on the customer side where this large and important product area was concerned.

“The acquisition increased Norske Skog Europe’s publication paper sales volume by over 30%, but after recruiting some 18-20 people we now have a structure in which each employee is selling more tonnes than previously.

“The two new mills have also brought Norske Skog a number of new customers – while at the same time we have retained the existing client base. In 2002 we lost some volume, but we have set ourselves the goal of regaining these in 2003, since Norske Skog Europe now has a wider product range and has become a larger player – not least in coated magazine paper. Walsum’s and Parenco’s products are, in terms of the market, a very good match for Norske Skog,” says Inger Marie Gulvik Holten.

**Senior vice president  
Inger Marie Gulvik Holten,  
Norske Skog Europe.**



**Best in investor communications (from left), vice president and c.f.o. Jan Kildal, vice president, investor relations, Jarle Langfjæran, and CEO Jan Reinås.**

## Norske Skog best at financial information

Norske Skog is the best Norwegian company when it comes to communication with investors, according to a survey of 35 Norwegian Stock Exchange listed companies conducted by the Swedish firm REGI. In all, 104 analysts and investors participated, giving the companies grades of from 1 to 10 on a total of 14 questions in nine categories. The 104 who replied have judged only those companies which they follow from day to day.

Norske Skog scored best in three of these:

- Jan Reinås best CEO
- Norske Skog’s investor relations person, Jarle Langfjæran, best in his category
- Norske Skog had the best annual report.

The company probably scored pretty highly in the other categories as well, since it was judged to be clearly the best, overall.

Norske Skog also received top rank in a survey of Norwegian Stock Exchange listed companies’ investor communication performance conducted by British analysts

Thomson Extel. The survey questioned investors and analysts, and the main criteria were:

- The quality of annual and quarterly reports and presentations.
- Management accessibility.
- Innovative use of communication technology.
- The Company’s general competence and ability to communicate with the financial market.

The number of participants in this survey is not known, but Norske Skog was ranked as a clear number 1, with 160 points, while the four runners-up were in the 118 – 62 point range.

Thomson Extel has conducted extensive surveys in European financial markets since 1974. This year’s survey is the first that also included an evaluation of stock exchange listed companies’ financial information.

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More information on the Internet  
 Additional information about Norske  
 Skog may be found on the Internet,  
 including:

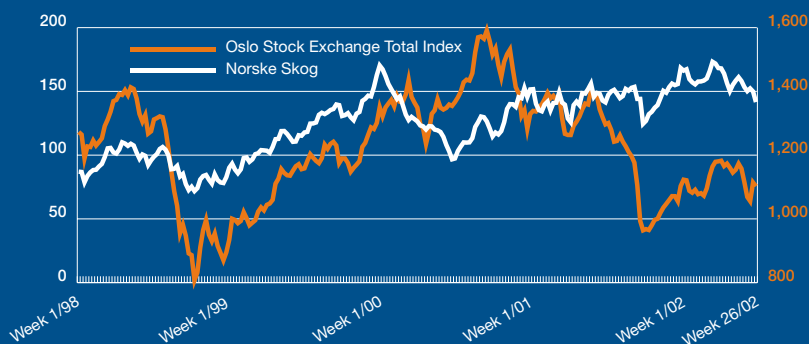
- All result reports
- Press releases
- Presentations on the stock market
- Basic information about the Group's organisation, management and activity

## SHARES AND THE SHARE MARKET

### Norske Skog shares

Key figures	January - June 2002						Per 01.08.2002	
	Share price 02.01.02	Share price 30.06.02	High	Low	Earnings per share	Booked equity per share	Share price	Market value NOK mill.
<b>Norske Skog</b>	167.50	140.00	175.50	137.00	4.58	141.00	117.00	15,577

### Share price development



## PRICE DEVELOPMENT NEWSPRINT

### Price development newsprint Europe, US and Hong Kong

USD/tonne

