

# NORSKE SKOG 2002

## Preliminary report

- Results hit by weak demand and strong Norwegian krone
- Tough measures produce a strong Norske Skog
- REINÅS:  
New organisation strengthens competitiveness
- Focus on H&S lifts productivity
- Norske Skog assumes social responsibility

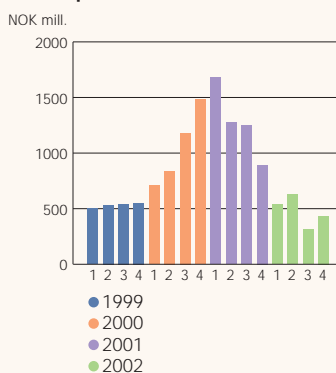


Norske Skog

Weak demand and a strong Norwegian krone had a significant negative effect on Norske Skog's result for 2002.

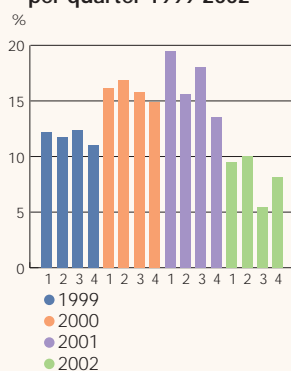
# Restructuring for the future

Operating earnings per quarter 1999-2002 <sup>1)</sup>



<sup>1)</sup> Operating earnings before restructuring costs

Net operating margin per quarter 1999-2002 <sup>1)</sup>



<sup>1)</sup> Before restructuring costs

After concentrating on our core area during the past few years, through acquisitions and sales of units, Norske Skog has achieved a strong position on global publication paper markets. In 2002 the Group concentrated on continued restructuring and cost-cutting measures to improve competitiveness. The improvement programme yielded savings of NOK 875 million in 2002. This is now being followed up through a more comprehensive programme for 2003-2004, "Improvement 2003".

## Results and sales

During the fourth quarter of 2002 Norske Skog's operating revenue was NOK 6 082 million (NOK 6 618 million) and operating profit before restructuring costs was NOK 432 million (NOK 892 million). Allocation of NOK 600 million to meet estimated restructuring costs connected with Improvement 2003 gives an operating result of minus NOK 168 million. This figure includes allocations to meet costs in connection with de-manning.

For 2002 as a whole, the Company had operating revenue of NOK 23 471 million (NOK 30 354 million) and an operating profit before restructuring costs of NOK 1 906 million (NOK 5 096 million). The operating result was negatively affected – by approximately NOK 1 billion – by the high rate of the Norwegian krone, if one compares the average krone exchange rate in 2001 and 2002. Lower prices and volumes, as well as the krone exchange rate, are the main reasons for the weak result.

Included under affiliated companies is a

total of minus NOK 290 million, as these companies' share of after-tax results. NorskeCanada accounts for minus NOK 245 million and Malaysian Newsprint Industries for minus NOK 58 million.

Net financial items amounted to minus NOK 405 million (minus NOK 1 376 million), after crediting gains of NOK 884 million from currency hedging.

Norske Skog's after-tax earnings reached NOK 1 168 million, compared with NOK 2 660 million in 2001. Earnings per share were NOK 8.79, against NOK 20.68 in 2001. The Board has proposed a dividend of NOK 6 per share (NOK 6).

Tax costs were favourably affected in the amount of NOK 650 million, following clarification of tax matters relating to acquisitions during recent years, and altered tax rules in Australia.

Net cash flow from operations was NOK 3 687 million, against NOK 7 052 million in 2001. This still gives a strong net cash flow, corresponding to NOK 27.89 per share.

Owing to reduced demand, most of the mills implemented production curbs.

In making comparisons with 2001, account must be taken of the structural changes that occurred during 2001.

## Financial

The strong cash flow – together with stringent capital management and financial restructuring – gives Norske Skog a sound financial position at the start of

## Profit and loss account

| NOK million  | Oct-Dec 02 | Oct-Dec 01 | 2002    | 2001    |
|--|------------|------------|---------|---------|
| <b>Operating revenue</b>   | 6 082      | 6 618      | 23 471  | 30 354  |
| Operating expenses   | -4 888     | -4 887     | -18 273 | -21 935 |
| <b>Operating earnings before depreciation</b>                      | 1 194      | 1 731      | 5 198   | 8 419   |
| Depreciation and amortisation                                      | -762       | -839       | -3 292  | -3 323  |
| <b>Operating earnings before provision for restructuring costs</b> | 432        | 892        | 1 906   | 5 096   |
| Provision for restructuring costs                                  | -600       | 0          | -600    | 0       |
| <b>Operating earnings</b>  | -168       | 892        | 1 306   | 5 096   |
| Earnings from affiliated companies <sup>1)</sup>                   | -65        | -21        | -290    | 16      |
| Financial items  | -14        | -328       | -405    | -1 376  |
| Other items  | 195        | 205        | 195     | 158     |
| <b>Earnings before taxation</b>                                    | -52        | 748        | 806     | 3 894   |
| Taxation   | 426        | -220       | 362     | -1 234  |
| <b>Net earnings</b>  | 374        | 528        | 1 168   | 2 660   |
| The minority's share of net earnings                               | 0          | -4         | 6       | 166     |
| <b>The majority's share of net earnings</b>                        | 374        | 532        | 1 162   | 2 494   |
| Earnings per share   | 2,83       | 4,03       | 8,79    | 20,68   |
| Earnings per share fully diluted                                   | 2,83       | 4,03       | 8,79    | 20,68   |

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

## Statement of cash flow

| NOK million                                     | 2002    | 2001    | 2000    |
|---|---------|---------|---------|
| <b>Cash flow from operating activities</b>      |         |         |         |
| Cash generated from operations                  | 23 575  | 31 165  | 26 386  |
| Cash used in operations                         | -18 290 | -22 141 | -19 620 |
| Cash from net financial items                   | -625    | -1 435  | -1 428  |
| Taxes paid                                      | -973    | -537    | -416    |
| <b>Net cash flow from operating activities</b>  | 3 687   | 7 052   | 4 922   |
| <b>Cash flow from investment activities</b>     |         |         |         |
| Investments in operational fixed assets         | -1 146  | -1 225  | -1 351  |
| Sales of operational fixed assets               | 44      | 26      | 69      |
| Other investments                               | 170     | 286     | -299    |
| Dividend received                               | 0       | 4 372   | -       |
| Net cash from sold shares and activities        | 498     | 3 075   | 1 534   |
| Net cash used for acquisition of companies      | -6      | -11 113 | -18 644 |
| <b>Net cash flow from investment activities</b> | -440    | -4 579  | -18 691 |
| <b>Cash flow from financial activities</b>      |         |         |         |
| Net change in long-term liabilities             | -6 411  | -2 550  | 20 739  |
| Net change in short-term liabilities            | 884     | -121    | -165    |
| Dividend paid                                   | -792    | -671    | -554    |
| New equity                                      | 0       | 3 327   | 1 463   |
| <b>Net cash flow from financial activities</b>  | -6 319  | -15     | 21 483  |
| Translation difference                          | -218    | 44      | 111     |
| <b>Total change in liquid assets</b>            | -3 290  | 2 502   | 7 825   |

## Balance sheet

| NOK million   | 31-Dec-02     | 31-Dec-01     | 31-Dec-00     |
|---|---------------|---------------|---------------|
| Intangible fixed assets                                   | 4 682         | 4 549         | 3 430         |
| Operational fixed assets                                  | 31 127        | 36 889        | 38 049        |
| Long-term receivables and affiliated companies            | 2 388         | 3 979         | 2 238         |
| <b>Fixed assets</b>                                       | <b>38 197</b> | <b>45 417</b> | <b>43 717</b> |
| Inventory   | 2 080         | 2 172         | 2 967         |
| Receivables   | 3 821         | 4 525         | 5 915         |
| Short-term investments                                    | 381           | 1 769         | 7 417         |
| Liquid assets   | 487           | 2 389         | 1 211         |
| <b>Current assets</b>                                     | <b>6 769</b>  | <b>10 855</b> | <b>17 510</b> |
| <b>Total assets</b>                                       | <b>44 966</b> | <b>56 272</b> | <b>61 227</b> |
| Paid in equity  | 8 409         | 8 409         | 5 077         |
| Retained earnings   | 9 355         | 10 912        | 9 413         |
| Minority interests  | 157           | 205           | 7 861         |
| <b>Shareholders' equity</b>                               | <b>17 921</b> | <b>19 321</b> | <b>14 490</b> |
| Deferred taxes  | 2 021         | 3 174         | 2 012         |
| Interest-free long-term liabilities and other obligations | 889           | 1 003         | 1 085         |
| Interest bearing long-term liabilities                    | 17 925        | 26 681        | 28 809        |
| Interest free current liabilities                         | 5 063         | 5 591         | 6 615         |
| Interest bearing current liabilities                      | 1 147         | 297           | 355           |
| <b>Total liabilities and shareholders' equity</b>         | <b>44 966</b> | <b>56 272</b> | <b>61 227</b> |

## Financial key figures

|   | Definitions | 2002   | 2001   | 2000   |
|---|-------------|--------|--------|--------|
| Net operating margin before restructuring costs %   | 1           | 8,1    | 16,8   | 15,8   |
| Net operating margin after restructuring costs %    | 1           | 5,6    | 16,8   | 15,8   |
| Gross operating margin before restructuring costs % | 2           | 22,1   | 27,7   | 24,8   |
| Gross operating margin after restructuring costs %  | 2           | 19,6   | 27,7   | 24,8   |
| Equity ratio %                                      | 3           | 39,9   | 34,7   | 36,5   |
| Equity ratio excl. minority interests %             | 4           | 39,5   | 34,3   | 23,7   |
| Net interest bearing debt                           |             | 18 204 | 22 820 | 20 535 |
| Net debt/Equity                                     |             | 1,02   | 1,17   | 0,92   |
| Net debt/Equity excl. minority interests            |             | 1,02   | 1,18   | 1,42   |
| Earnings per share after taxes                      | 5           | 8,79   | 20,68  | 19,17  |
| Earning per share - fully diluted <sup>*)</sup>     |             | 8,79   | 20,68  | 19,17  |
| Cash flow per share after taxes                     | 6           | 27,89  | 58,47  | 48,18  |
| Cash flow per share - fully diluted <sup>*)</sup>   |             | 27,89  | 58,47  | 48,18  |

### 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 pr. 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

2003. Total assets declined from NOK 56 272 million at the end of 2001 to NOK 44 966 million in 2002. At the end of 2002 Norske Skog had largely achieved its long-term target figures as regards equity capital ratio and net debt in relation to equity capital (gearing). The latter figure was 1.02 (target figure 1.00). NOK 2.4 billion of debt was paid off during 2002.

The Group's equity capital stood at NOK 17 921 million as of December 31, 2002 (NOK 19 526 million). This corresponds to NOK 136 per share and gives an equity capital ratio of nearly 40%. Conversion of foreign subsidiaries to Norwegian krone had a negative effect amounting to NOK 1 951 million on equity capital in 2002, owing to exchange rate changes. The Group's debt is largely denominated in foreign currencies, and currency rate changes reduced net interest-bearing debt by NOK 2.2 billion.

In October Norske Skog established a new long-term drawing facility of EUR 400 million, to replace a drawing facility that was about to fall due.

At the end of 2002 net interest-bearing debt stood at NOK 18 204 million,



against NOK 22 820 million at the end of 2001.

Norske Skog shares, including dividend, yielded a return of minus 38% in the period 31.12.2001 to 31.12.2002. In comparison, they rose by 16% in 2001. Measured against a reference group of indices and companies, they showed a negative return of 11 percentage points during the two years to December 31, 2002.

## Strategic

During 2002 Norske Skog has moved the Group's organisation towards a flatter and more operational- and customer-oriented structure.

In November Norske Skog launched an improvement programme to increase the Group's profitability in the shorter and longer term. The programme's target is a cost reduction of NOK 2 billion, on an annual basis, compared with cost levels in 2002.

In May Abitibi-Consolidated and Norske Skog – each of which own 50% of Pan-Asia – concluded a revised shareholder agreement, and the owners confirmed their intention to use PanAsia as their vehicle for growth in Asia.

The board of Forestia, which is 91% owned by Norske Skog, decided in October to terminate production at the company's Agnes mill, in Stavern, with effect

from May 2003.

On November 28, 2002, Norske Skog was granted a concession to sell its forest properties in South Norway to Vifor AS (represented by the Norwegian Forest Owners' Association) and another party, the Opplysningsvesenets Fond. The sale was completed on December 6, 2002, and yielded a gain of NOK 159 million.

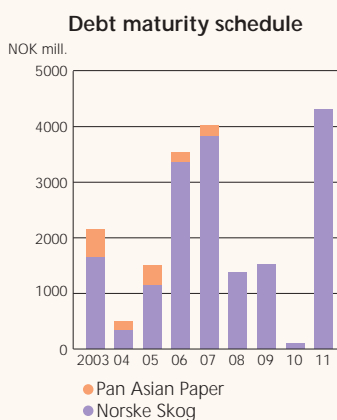
In 2002 Norske Skog concluded an agreement concerning the sale of the Company's 13 power plants in Norway. This transaction gives Norske Skog a profit of NOK 900 million before tax and one of about NOK 450 million after tax. The sale was completed on January 3, 2003, and will be credited to the accounts for the first quarter of 2003.

## Operations

Low economic activity and general uncertainty in large parts of the world marked the year 2002. Apart from Asia, demand for wood-containing publication paper declined.

### LOWER DEMAND IN EUROPE

Publication paper markets were marked by imbalance between supply and demand in 2002, with pressure on prices from time to time. Newsprint prices, in terms of local currencies, were about 10% lower than in 2001. Lower advertising volumes led to lower demand during the year, and this in turn caused newsprint



The chart illustrates the repayment schedule for the Group including Pan-Asia Paper. The average maturity is 4,9 years, the average maturity for Norske Skog exclusive PanAsia is 5,1 years.

production adjustments. In 2002, Norske Skog Europe's operating revenue was NOK 14 087 million and its operating result NOK 1 189 million. Gross operating margin was 21.1%.

#### ECONOMIC UNCERTAINTY IN SOUTH AMERICA

The uncertain economic outlook in South America reduced demand for newsprint. Norske Skog strengthened its market position in the region, despite increased competition from North American suppliers. Norske Skog's operating revenue in South America in 2002 was NOK 1 107 million, giving an operating result of minus NOK 9 million. Gross operating margin was 25.4%.

#### STILL STRONG IN AUSTRALASIA

There was relatively good demand for publication paper in Australasia in 2002. Norske Skog's long-term contracts in the region generate stable, satisfactory earnings. Total operating earnings for the region reached NOK 3 807 million. Operating profit was NOK 546 million. Gross operating margin was 31.4%.

#### STRONG RESULTS FOR PANASIA

PanAsia achieved strong results in 2002. This was due to good demand in Korea and China, coupled with stable prices and efficient production. In other parts of Asia markets were weak and prices low. Norske Skog's 50% share of PanAsia's operating revenue and operating profit was, respectively, NOK 2 688 million and NOK 562 million. Gross operating margin was 32.2%.

#### REDUCED DEMAND IN NORTH AMERICA

Demand for wood-containing publication paper in North America increased during the second half of 2002, even though total consumption remains weak, and prices low. NorskeCanada, in which Norske Skog has a 30.6% ownership stake, had an operating revenue and an operating result of, respectively, CAD 1 482 million and minus CAD 123 million in 2002.

## Markets still weak in 2003

Norske Skog assumes that publication paper markets will continue weak through the first half of 2003. The krone exchange rate is expected to remain high.

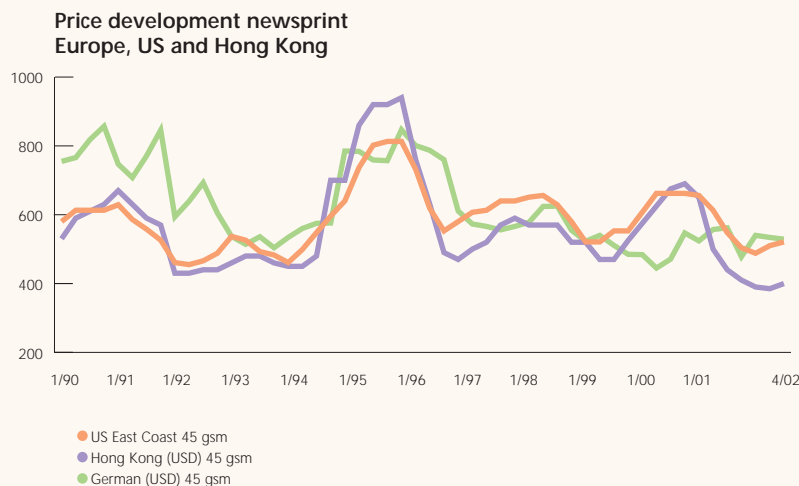
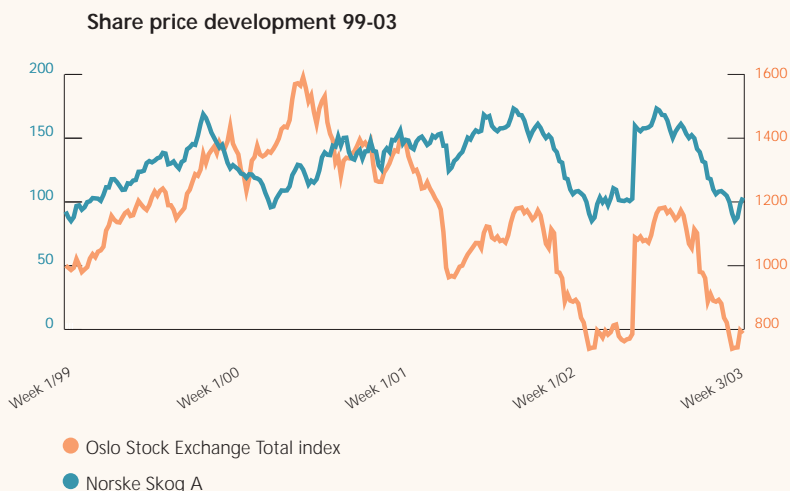
Sales volumes are expected to be stable in 2003, compared with 2002. In Europe, newsprint prices will fall further. Negotiations about prices and deliveries are still in progress. A newsprint price increase of USD 50 per tonne has been announced in

North America, effective from March 1, 2003. Magazine paper prices are expected to come under some pressure during the first half of the year.

In consequence, Norske Skog foresees a weak result in 2003. As the year progresses, however, the effects of the improvement programme will make a positive contribution.

Lysaker, February 5, 2003

The Board of Norske Skogindustrier ASA



# Revenue and profit per area

## OPERATING REVENUE

| NOK million                        | Oct-Dec 02   | Oct-Dec01    | 2002          | 2001          |
|------------------------------------|--------------|--------------|---------------|---------------|
| <b>Europe</b>                      |              |              |               |               |
| Newsprint                          | 1 923        | 2 216        | 7 556         | 8 850         |
| Magazine paper                     | 1 731        | 1 495        | 6 531         | 5 369         |
| <b>Total Europe</b>                | <b>3 654</b> | <b>3 711</b> | <b>14 087</b> | <b>14 219</b> |
| <b>North America <sup>1)</sup></b> |              |              |               |               |
| Newsprint                          | -            | -            | -             | 3 323         |
| Pulp                               | -            | -            | -             | 2 434         |
| Eliminations                       | -            | -            | -             | -302          |
| <b>Total North America</b>         | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>5 455</b>  |
| <b>South America</b>               |              |              |               |               |
| Newsprint                          | 291          | 518          | 1 107         | 1 784         |
| Forests <sup>2)</sup>              | -            | 42           | -             | 171           |
| Eliminations                       | -            | -3           | -             | -16           |
| <b>Total South America</b>         | <b>291</b>   | <b>557</b>   | <b>1 107</b>  | <b>1 939</b>  |
| <b>Australasia</b>                 |              |              |               |               |
| Newsprint                          | 942          | 1 075        | 3 807         | 4 110         |
| Pulp <sup>3)</sup>                 | -            | -            | -             | 458           |
| Eliminations                       | -            | -1           | -             | -95           |
| <b>Total Australasia</b>           | <b>942</b>   | <b>1 074</b> | <b>3 807</b>  | <b>4 473</b>  |
| <b>Asia</b>                        |              |              |               |               |
| Newsprint                          | 681          | 759          | 2 688         | 2 434         |
| <b>Other activities</b>            |              |              |               |               |
| Other industry in Norway           | 198          | 182          | 682           | 930           |
| Other revenues                     | 341          | 382          | 1 249         | 1 389         |
| <b>Total other activities</b>      | <b>539</b>   | <b>564</b>   | <b>1 931</b>  | <b>2 319</b>  |
| Staff/Eliminations                 | -25          | -47          | -149          | -485          |
| <b>Total Group</b>                 | <b>6 082</b> | <b>6 618</b> | <b>23 471</b> | <b>30 354</b> |

1) Norske Skog's share of Norske Skog Canada Ltd., in total comprising 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 a 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.

2) A significant part of the forests in Brazil was sold in December 2001.

3) Tasman Pulp was sold 30 April 2001.

## Norske Skog Shares

| Key figures   |              | January - December 2002 |              |                    |                         | Pr 03.02 2003 |                        |
|---------------|--------------|-------------------------|--------------|--------------------|-------------------------|---------------|------------------------|
| Share price   | Share price  | High                    | Low          | Earnings per share | Booked equity per share | Share price   | Market value NOK mill. |
| 02.01.02      | 30.12.02     |                         |              |                    |                         |               |                        |
| <b>167,50</b> | <b>98,00</b> | <b>175,50</b>           | <b>82,50</b> | <b>8,79</b>        | <b>136,00</b>           | <b>88,50</b>  | <b>11 783</b>          |

## OPERATING EARNINGS BEFORE DEPRECIATION

| NOK million                   | Oct-Dec 02 | Oct-Dec 01 | 2002  | 2001  |
|-------------------------------|------------|------------|-------|-------|
| <b>Europe</b>                 |            |            |       |       |
| Newsprint                     | 387        | 614        | 1 604 | 3 022 |
| Magazine paper                | 305        | 286        | 1 363 | 1 433 |
| <b>Total Europe</b>           | 692        | 900        | 2 967 | 4 455 |
| <b>North America</b>          |            |            |       |       |
| Newsprint                     | -          | -          | -     | 649   |
| Pulp                          | -          | -          | -     | 133   |
| Eliminations                  | -          | -          | -     | 5     |
| <b>Total North America</b>    | -          | -          | -     | 787   |
| <b>South America</b>          |            |            |       |       |
| Newsprint                     | 81         | 214        | 281   | 744   |
| Forests                       | -          | 16         | -     | 81    |
| Eliminations                  | -          | -          | -     | -     |
| <b>Total South America</b>    | 81         | 230        | 281   | 825   |
| <b>Australasia</b>            |            |            |       |       |
| Newsprint                     | 241        | 313        | 1 197 | 1 250 |
| Pulp                          | -          | -4         | -     | 204   |
| Eliminations                  | -          | -          | -     | -     |
| <b>Total Australasia</b>      | 241        | 309        | 1 197 | 1 454 |
| <b>Asia</b>                   |            |            |       |       |
| Newsprint                     | 180        | 248        | 865   | 869   |
| <b>Other activities</b>       |            |            |       |       |
| Other industry in Norway      | 40         | 34         | 105   | 166   |
| Other revenues                | -          | 0          | -     | -     |
| <b>Total other activities</b> | 40         | 34         | 105   | 166   |
| Staff/Eliminations            | -40        | 10         | -217  | -137  |
| <b>Total Group</b>            | 1 194      | 1 731      | 5 198 | 8 419 |

## OPERATING EARNINGS

| NOK million                   | Oct-Dec 02 | Oct-Dec 01 | 2002  | 2001  |
|-------------------------------|------------|------------|-------|-------|
| <b>Europe</b>                 |            |            |       |       |
| Newsprint                     | 174        | 417        | 643   | 2 271 |
| Magazine paper                | 94         | 145        | 546   | 976   |
| <b>Total Europe</b>           | 268        | 562        | 1 189 | 3 247 |
| <b>North America</b>          |            |            |       |       |
| Newsprint                     | -          | -          | -     | 367   |
| Pulp                          | -          | -          | -     | -43   |
| Eliminations                  | -          | -          | -     | 5     |
| <b>Total North America</b>    | -          | -          | -     | 329   |
| <b>South America</b>          |            |            |       |       |
| Newsprint                     | 16         | 128        | -9    | 432   |
| Forests                       | -          | 8          | -     | 41    |
| Eliminations                  | -          | -          | -     | -     |
| <b>Total South America</b>    | 16         | 136        | -9    | 473   |
| <b>Australasia</b>            |            |            |       |       |
| Newsprint                     | 86         | 137        | 546   | 563   |
| Pulp                          | -          | -5         | -     | 162   |
| Eliminations                  | -          | -          | -     | 0     |
| <b>Total Australasia</b>      | 86         | 132        | 546   | 725   |
| <b>Asia</b>                   |            |            |       |       |
| Newsprint                     | 115        | 154        | 562   | 616   |
| <b>Other activities</b>       |            |            |       |       |
| Other industry in Norway      | 26         | 19         | 47    | 98    |
| Other revenues                | -          | -          | -     | -     |
| <b>Total other activities</b> | 26         | 19         | 47    | 98    |
| Staff/Eliminations            | -79        | -111       | -429  | -392  |
| Restructuring costs           | -600       | 0          | -600  | 0     |
| <b>Total Group</b>            | -168       | 892        | 1 306 | 5 096 |

## PRODUCTION BY PRODUCT/AREA

| 1 000 tons                  | Oct-Dec 02   | Oct-Dec 01   | 2002         | 2001         |
|-----------------------------|--------------|--------------|--------------|--------------|
| <b>Europe</b>               |              |              |              |              |
| Newsprint                   | 509          | 399          | 1 925        | 1 770        |
| Magazine paper              | 340          | 210          | 1 267        | 847          |
| <b>North America</b>        |              |              |              |              |
| Newsprint                   | -            | 0            | -            | 559          |
| Pulp                        | -            | 0            | -            | 526          |
| <b>South America</b>        |              |              |              |              |
| Newsprint                   | 87           | 69           | 332          | 314          |
| <b>Australasia</b>          |              |              |              |              |
| Newsprint                   | 206          | 199          | 832          | 817          |
| Pulp                        | -            | 0            | -            | 90           |
| <b>Asia</b>                 |              |              |              |              |
| Newsprint                   | 170          | 141          | 635          | 468          |
| <b>Other activities</b>     |              |              |              |              |
| Newsprint                   | -            | 0            | -            | 11           |
| <b>Norske Skog total</b>    |              |              |              |              |
| Total newsprint             | 972          | 808          | 3 724        | 3 939        |
| Total magazine paper        | 340          | 210          | 1 267        | 847          |
| <b>Total printing paper</b> | <b>1 312</b> | <b>1 018</b> | <b>4 991</b> | <b>4 786</b> |
| <b>Total pulp</b>           | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>616</b>   |

## QUARTERLY COMPARISON CONSOLIDATED ACCOUNTS

| NOK million                          | 4th Q 02 | 3rd Q 02 | 2nd Q 02 | 1st Q 02 | 4th Q 01 | 3rd Q 01 | 2nd Q 01 | 1st Q 01 | 4th Q 00 |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Operating revenue                    | 6 082    | 5 815    | 5 898    | 5 676    | 6 618    | 6 940    | 8 163    | 8 633    | 9 947    |
| Op. earnings before depr.            | 1 194    | 1 134    | 1 468    | 1 401    | 1 731    | 2 021    | 2 130    | 2 537    | 2 364    |
| Depreciation and amortisation        | 762      | 822      | 842      | 865      | 839      | 773      | 854      | 857      | 884      |
| Op. earn. before restructuring costs | 432      | 312      | 626      | 536      | 892      | 1 248    | 1 276    | 1 680    | 1 480    |
| Restructuring costs                  | -600     | -        | -        | -        | -        | -        | -        | 0        | 0        |
| Operating earnings                   | -168     | 312      | 626      | 536      | 892      | 1 248    | 1 276    | 1 680    | 1 480    |
| Earnings before taxation             | -52      | -62      | 677      | 243      | 748      | 923      | 869      | 1 354    | 836      |
| The majority's share of net earn.    | 374      | 182      | 465      | 141      | 532      | 628      | 536      | 798      | 554      |

## QUARTERLY COMPARISON AREAS

| NOK million   | 4th Q 02     | 3rd Q 02     | 2nd Q 02     | 1st Q 02     | 4th Q 01     | 3rd Q 01     | 2nd Q 01     | 1st Q 01     | 4th Q 00     |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Operating revenue</b>                                  |              |              |              |              |              |              |              |              |              |
| Europe  | 3 654        | 3 563        | 3 522        | 3 348        | 3 711        | 3 428        | 3 643        | 3 437        | 3 651        |
| North America   | -            | -            | -            | -            | -            | 1 154        | 1 930        | 2 371        | 2 558        |
| South America   | 291          | 247          | 264          | 305          | 557          | 421          | 487          | 474          | 574          |
| Australasia   | 942          | 911          | 1 000        | 954          | 1 074        | 1 062        | 1 096        | 1 241        | 1 588        |
| Asia  | 681          | 698          | 691          | 618          | 759          | 561          | 519          | 595          | 719          |
| Other activities  | 539          | 450          | 411          | 531          | 564          | 487          | 585          | 683          | 893          |
| Staff/Eliminations  | -25          | -54          | 10           | -80          | -47          | -173         | -97          | -168         | -36          |
| <b>Total operating revenue</b>                            | <b>6 082</b> | <b>5 815</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>Op. earn. before depreciation</b>                      |              |              |              |              |              |              |              |              |              |
| Europe  | 692          | 651          | 854          | 769          | 900          | 1 186        | 1 228        | 1 141        | 997          |
| North America   | -            | -            | -            | -            | -            | 133          | 148          | 506          | 537          |
| South America   | 81           | 56           | 45           | 98           | 230          | 175          | 209          | 211          | 238          |
| Australasia   | 241          | 246          | 345          | 365          | 309          | 351          | 340          | 454          | 474          |
| Asia  | 180          | 222          | 252          | 211          | 248          | 190          | 202          | 229          | 206          |
| Other activities  | 40           | 16           | 18           | 31           | 34           | 30           | 56           | 46           | 23           |
| Staff/Eliminations  | -40          | -57          | -46          | -73          | 10           | -44          | -53          | -50          | -111         |
| <b>Total op. earnings before depr.</b>                    | <b>1 194</b> | <b>1 134</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>Op. earn. before provision for restructuring costs</b> |              |              |              |              |              |              |              |              |              |
| Europe  | 268          | 203          | 405          | 313          | 562          | 902          | 932          | 851          | 693          |
| North America   | -            | -            | -            | -            | -            | 26           | -31          | 334          | 338          |
| South America   | 16           | -10          | -27          | 12           | 136          | 90           | 122          | 125          | 151          |
| Australasia   | 86           | 93           | 174          | 193          | 132          | 180          | 158          | 255          | 265          |
| Asia  | 115          | 139          | 177          | 132          | 154          | 126          | 153          | 183          | 155          |
| Other activities  | 26           | 1            | 3            | 17           | 19           | 15           | 38           | 26           | 8            |
| Restructuring costs                                       | -600         | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Staff/Eliminations  | -79          | -114         | -106         | -131         | -111         | -91          | -96          | -94          | -130         |
| <b>Total operating earnings</b>                           | <b>-168</b>  | <b>312</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> |

# Tough measures produce a stronger

Norske Skog's efforts to achieve improvement results of 2 billion NOK by the end of 2004 are on target. The Company has begun implementing multiple initiatives across the globe.

In October 2002, Norske Skog began work on a comprehensive programme to strengthen the Company's profitability and competitiveness. The "Improvement 2003" programme covers all aspects of Norske Skog's global business. Through systematic project work, the programme has – so far - identified more than 300 large and small improvement measures that can be carried out. After more than three months' work, Norske Skog believes that the goal for improving results is realistic.

## STRATEGY UNCHANGED

During recent years, Norske Skog has passed through a period of expansion and strong growth. At the same time,

it has concentrated strongly on its core area, wood-containing publication paper, while other activities have been sold. As a result, Norske Skog is today a leading global producer of newsprint and magazine paper.

Norske Skog's strategy is unchanged. The Company's financial position is satisfactory, and its ambitions for growth and further development remain in place.

The Company has now embarked on a period of consolidation. There are plans for significant cost reductions and a restructuring and streamlining of the core area. It is a logical continuance of Norske Skog's strategy that efforts are now being stepped up to exploit the advantages of being a global company, with interests on five continents. Significant gains and synergies will be achieved through greater co-ordination of administration, production, procurement and logistics. Administration will be simplified and slimmed down, while organisation and manning at the mills will become more standardised. This will make it easier to share knowledge and transfer best practice among the Company's production units.

## AMBITIOUS GOALS

Improvement 2003 has ambitious goals. By the end of 2004, measures will have been put into effect that – in total – will cut Norske Skog's costs by NOK 2 billion, on an annual basis, compared with 2002 cost levels. Another target is to reduce working capital by NOK 500 million.

These goals come in addition to an improvement in results of about NOK 875 million, which was achieved during 2002.

The goals of Improvement 2003 assume that market conditions will remain the same as in 2002, and restructuring costs are not included.



*Deputy CEO Jan Oksum and Executive Vice President David Kirk head the comprehensive programme Improvement 2003.*

# Norske Skog

## EMBRACING THE ENTIRE COMPANY

Implementation of Improvement 2003 has been given the highest priority and focus in Norske Skog. Corporate management forms the project's steering group. Senior Vice President and deputy CEO Jan Oksum is project manager, in cooperation with Executive Vice President David Kirk, who heads the Company's activity in Australasia.

All parts of Norske Skog's business are included in the improvement programme. Partly-owned companies are not directly included, but Norske Skog will contribute actively towards implementing improvement measures in these companies, too.

A separate working group will establish a system and follow up the impact on results of the improvement measures that are put into effect. In presentations of the Company's results, information will be given about the status of the improvement programme, and its effects.

## WIDE INVOLVEMENT

During the initial phase, about 40 Norske Skog people, with wide experience, have been directly involved in Improvement 2003. Great efforts have been made to identify and exploit improvement potential. As improvement measures are gradually put into effect, the entire line organisation will be activated.

The first phase, up to December 2002, concentrated on identifying possible improvement measures. During January 2003 the proposed measures have been quality checked, and plans have been drawn up for implementing the various initiatives. This in itself has been a very comprehensive task. In all, about 300 relevant improvement measures have been identified.

On February 5, 2003, the status of Improvement 2003 was presented to the Board of Norske Skog, which has approved an implementation plan.

## REALISTIC TARGET

The work done to date has confirmed that the target of a NOK 2 billion improvement in results by the end of 2004 is a realistic one.

According to calculations made by Norske Skog, the measures, which will improve the results, can be listed as follows:

- Production & maintenance manning: NOK 450 million
- Corporate and mill overhead: NOK 450 million
- Supply: NOK 600 million
- Distribution: NOK 150 million
- Sales & operation: NOK 350 million

## WORKFORCE REDUCTIONS

Workforce reductions throughout Norske Skog's total activity will affect more than 1,200 people. The number of administrative positions will be cut by around 30%, while the production and maintenance workforce will be reduced by about 15%. Most of this de-manning will take place during 2003.

Decisions about reductions at the corporate headquarters and regional offices will be taken during February 2003, while at the mills this process will take somewhat longer. Decisions about organisation and de-manning target figures at individual mills will be taken in March 2003. Thereafter, workforce cuts will take place at the individual unit. They will be carried out in accordance with the rules applying in each country concerning provision of information and negotiations with employee representatives. Norske Skog has prepared a global policy

and guidelines regarding de-manning. One goal of the guidelines is to ensure responsible and uniform handling of all parts of the process. This policy will not reduce employee rights that are regulated by agreements or national legislation in the different countries. Efforts will be made to help those made redundant to find new work.

*"Improvement 2003 is a logical continuance of Norske Skog's strategy"*

## BRINGING TOGETHER SERVICE FUNCTIONS

To streamline administration, two common service centres will be established in Europe for Norske Skog: one at Skogn, Norway and one in Antwerp, Belgium. The Antwerp centre will handle support functions for sales and logistics, and the centre at Skogn will provide accountancy and wages services for the Norwegian units. These centres will bring together and streamline administration, which at present is spread over many units.

## TARGETED INVESTMENTS

In the coming period, Norske Skog will prepare a long-term, overall plan for the development of the Company's production facilities. This will entail a restructuring of the core area, and targeted use of investments.

Investments will, to a greater extent, be channelled toward the further, long-term development of strong production units, while investments in less profitable machines will be cut back or terminated. About 15-20% of Norske Skog's paper machines are in a category, which means that they will not be further developed through major investments.

Norske Skog is continuing to work on these issues and will later present a long-term development plan for the Company.

*"Let us build the new Norske Skog. It will be tough, but we will make it!"*

*Deputy CEO Jan Oksum*



# New

*Focus on health and security increases productivity. Gerhard Blematl (left) is maintenance manager at Norske Skog Bruck Austria. He is discussing a safety detail with Thomas Hiden.*

# organisation

During recent years, Norske Skog's wholly-owned companies have been organised within three geographical business areas; Region Europe, Region Australasia and Region South America. The Company's new corporate management has been organised according to functional areas. The new areas are Production, Sales & Marketing and Supply & Logistics. The vice presidents heading these areas have direct responsibility within Europe, and are also charged with extracting and developing synergies and gains, by operating globally.

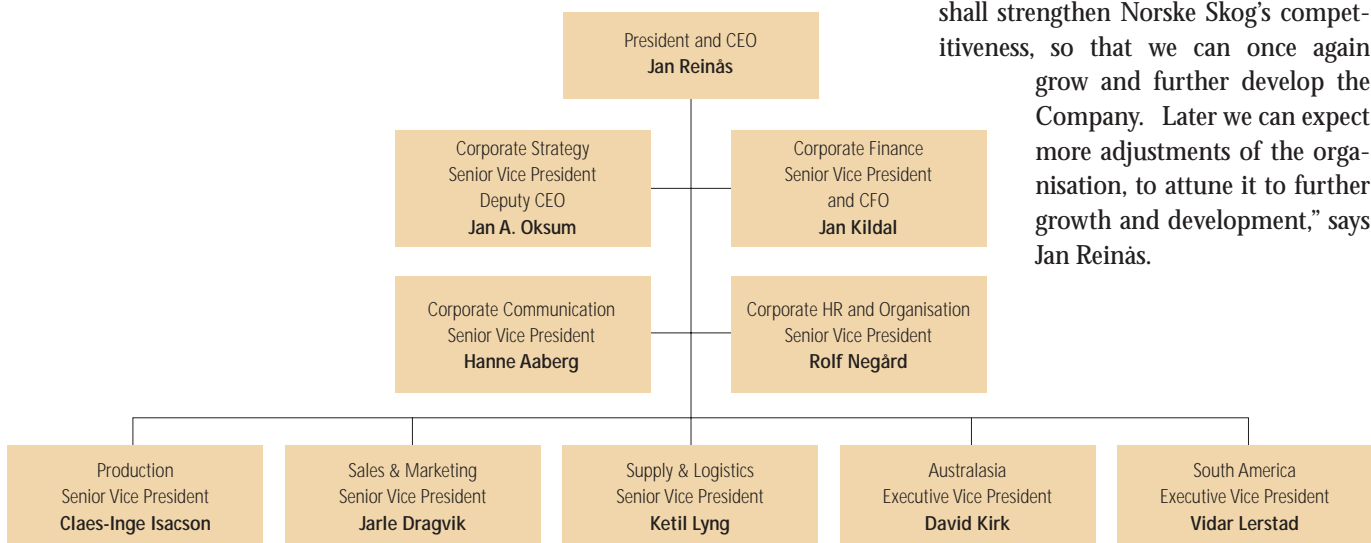


One organisational level, the regions, will be removed in its present form, and total administrative staffs will shrink. The organisation will become flatter, with short lines from top management to operative units in production and sales. This will boost corporate management's focus on these areas.

The executive directors heading, respectively, Australasia and South America will have operational responsibility for production and sales, as well as representing the CEO vis à vis various stakeholders.

Working procedures throughout the entire business will be simplified, in accordance with the goals of Improvement 2003.

The new organisation takes effect from February 15, 2003.



## COMMENT

"The new organisational structure and governance model has been created to focus on achieving significant cost reductions and a stronger market position. At the same time we shall improve our productivity and maintain high standards of quality, health and safety," says CEO Jan Reinås.



CEO  
Jan Reinås

Norske Skog has completed a period of global growth, the integration of new units and concentration on core business. Our organisation as it has evolved so far was built up to handle these tasks. Norske Skog's strategy remains the same, but in the immediate future we shall give priority to consolidation, cost reductions and improvements within our core business.

"The new organisational structure has been established to meet these challenges. Through changes and our improvement programme – Improvement 2003 – we shall strengthen Norske Skog's competitiveness, so that we can once again grow and further develop the Company. Later we can expect more adjustments of the organisation, to attune it to further growth and development," says Jan Reinås.

## Health and Security work pays off

Norske Skog's wholly-owned mills achieved an H-value of 4.0 in 2002. H-value is the number of lost time injuries incurred per million hours worked. This is the lowest ever consolidated result! Compared with 2001, lost time injuries at the mills are down by 50% and those requiring medical treatment by 29%.

The Company will strive to cut the H-value for 2003 to 3 or less. Thereafter, the aim is to reduce it still further, and in the long run to avoid lost time injuries completely. Norske Skog will therefore seek to make further improvements, among other things by stimulating workers' concern with H&S during the coming

period of Improvement 2003 and downsizing.

The mills in South America have a sick leave rate well under 2%. The H&S performance of our mills in Europe has also been satisfactory, with a 65% reduction in H-value from 12.5 (2001) to 4.3 (2002). The European mills can thus point to their best-ever result.

One of the mills that achieved a good result was Bruck, Austria. Employees there have learned to identify potentially dangerous or "stupid" situations, and have become more aware of the risks they may face. By focusing on health and safety, the number of



Johannes Moser shows that it has been 597 days since the last injury with absence at Bruck.

injuries and accidents can be cut – thereby boosting the time available for productive work. Raising H&S consciousness has, consequently, also increased quality and productivity.

At the Norske Skog annual global leadership seminar (CORE) in March 2003, presentation will take place of the CEO's award for the best H&S work in 2002.

## Norske Skog takes social responsibility

Sustainable development rests on three pillars; economic progress, social responsibility and environmental improvements. For Norske Skog, this means achieving results not only with regard to the traditional, financial bottom line, but also with regard to environmental and social conditions.

Although Norske Skog is a global company, awareness of local presence is important. At Norske Skog Tasman, in New Zealand, a council has been appointed to assist in all Maori matters, particularly those relating to the environment and culture. In Chile, at Norske Skog Bio Bio, some 80 families live in housing provided by the company, which also runs a kindergarden

*At the mill in Bio Bio, Chile, the company has provided some 80 families with housing. The company also runs day-care centres and leisure activities for children.*



and youth clubs for the children of employees.

*"We are happy to have an owner with long-term commitment, and one who cares about the development of its people."*

*Fernando Vidal, Human Resource Manager, Norske Skog Bio Bio*

Showing social responsibility is not just a matter of complying with the law, but also of investing more in human capital, in the environment and in the company's relationship with its stakeholders. Where the employees of Norske Skog are concerned, this means – among other things – focusing on training and working conditions. At Norske Skog Follum the

company has assisted employees with literacy problems through an adult education course. The results are highly satisfactory and the experience gained is now being shared both within and outside the company.

*"The Company's Social Responsibility is built on the three fundamental pillars of sustainable development – a sound economy that secures jobs and generates economic activity which also benefits the wider community, minimising our impact on the environment, and respect for human worth, including fair remuneration for the investment made by employees through their work."*

*Jan Reinås, President and CEO*

### More information on Internet

Additional information about Norske Skog may be found on [www.norske-skog.com](http://www.norske-skog.com), including: all result reports • press releases • presentations on the stock market • basic information about the company's organisation, management and activity

## Award for best environment report

In November Norske Skog won an award for the best environment report in Norway in 2002. This award is sponsored by a number of trade associations and commercial organisations.

The jury highlighted the fact that Norske Skog's environmental information was very broadly based, meeting the

information requirements of local communities as well as those of key trade bodies and finance market players. The report shows that Norske Skog has a comprehensive commitment to environmental protection and social responsibility in the countries where it is represented.

Norske Skog has been pub-

lishing environment reports since 1990, and it also won the 1997 award for the best report on this subject.

As the Norwegian winner, Norske Skog has also been nominated to participate in the all-Europe competition, which will take place in Amsterdam on April 11, 2003.



Vice-president Thor H. Lobben (right) receives the best environment report award from Torbjørn Berntsen.

## Corporate magazine of the year



Director Corporate Communication and Editor Pål Stensaas proudly displays People & Paper's award for being the best house magazine in Norway 2002.

People and Paper, Norske Skog's house magazine, was named Corporate Magazine of the year in Norway for 2002. The award, won in competition with 55 other magazines, was presented by the Norwegian Communication Society.

Explaining the award, the jury said – among other things: "In-house communication is one of the most important and most difficult tasks we

face. The winner puts people at the centre, thereby managing to convey a clear corporate culture, even though its employees represent very differing cultures and attitudes in countries scattered around the whole world. The standard of journalism and photography is first class. Women are prominently featured, and the magazine displays the core values of openness, honesty and co-operation."

## New members of the corporate management group

Norske Skog is in the middle of shaping its new organisation. Previously, the Company was organised according to geographical regions. Now it is focusing on function areas (Production, Sales & Marketing and Supply & Logistics). Claes-Inge Isacson, who was former head of Norske Skog Europe, is now Vice-President for production. Consequently, with effect from February 15, 2003, two new people will be joining the Corporate Management group :

**KETIL LYNG** (1956) is responsible for Supply and Logistics. He has been with Norske Skog since 1985. Lyng was part of the Corporate Management Group before he was appointed Mill Manager at Norske Skog Golbey (1996-2000). He has also been Senior Vice President, responsible for strategy, business development and non-core areas (2000-2002). Lyng took a law degree from the University of Oslo, graduating in 1983.



**JARLE DRAGVIK** (1960) is in charge of Sales and Marketing. He joined Norske Skog in 1986 and has since held various posts, most recently as Mill Manager at Norske Skog Bruck (1999-2002). Dragvik graduated from Oslo Business School in 1985.



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