Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2016 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	911 750 961
Organisasjonsform:	Allmennaksjeselskap
Foretaksnavn:	NORSKE SKOGINDUSTRIER ASA
Forretningsadresse:	Karenslyst allé 49 0279 OSLO

Regnskapsår

Årsregnskapets periode:	01.01.2016 - 31.12.2016

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	Forenklet IFRS
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Ole Jørgen Egner
Dato for fastsettelse av årsregnskapet:	19.04.2017

Grunnlag for avgivelse

År 2016: Årsregnskapet er elektronisk innlevert

År 2015: Tall er hentet fra elektronisk innlevert årsregnskap fra 2016

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 24.10.2019

Resultatregnskap

Beløp i: NOK	Note	2016	2015
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	3	109 000 000	119 000 000
Sum inntekter		**109 000 000**	**119 000 000**
Kostnader			
Lønnskostnad	8	94 000 000	88 000 000
Avskrivning	4	9 000 000	9 000 000
Annen driftskostnad		64 000 000	55 000 000
Sum kostnader		**167 000 000**	**152 000 000**
Driftsresultat		**-58 000 000**	**-33 000 000**
Finansinntekter og finanskostnader			
Inntekt på investering i datterselskap og tilknyttet selskap	6		300 000 000
Renteinntekt fra foretak i samme konsern	6	14 000 000	179 000 000
Annen renteinntekt	6	3 000 000	6 000 000
Annen finansinntekt	6	1 915 000 000	932 000 000
Sum finansinntekter		**1 932 000 000**	**1 417 000 000**
Nedskrivning av finansielle eiendeler	6	1 197 000 000	1 743 000 000
Rentekostnad til foretak i samme konsern	6	69 000 000	95 000 000
Annen rentekostnad	6	247 000 000	389 000 000
Annen finanskostnad	6	12 000 000	613 000 000
Sum finanskostnader		**1 525 000 000**	**2 840 000 000**
Netto finans		**407 000 000**	**-1 423 000 000**
Ordinært resultat før skattekostnad		**349 000 000**	**-1 456 000 000**
Skattekostnad på ordinært resultat	10	8 000 000	26 000 000
Ordinært resultat etter skattekostnad		**341 000 000**	**-1 482 000 000**
Årsresultat		**341 000 000**	**-1 482 000 000**
Overføringer og disponeringer			
Udekket tap			1 483 000 000

Resultatregnskap

Beløp i: NOK	Note	2016	2015
Overføring til/fra annen egenkapital		340 000 000	
Sum overføringer og disponeringer		**340 000 000**	**1 483 000 000**

Balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Konsesjoner, patenter, lisenser, varemerker o.l.	10	9 000 000	12 000 000
Utsatt skattefordel	4	8 000 000	10 000 000
Sum immaterielle eiendeler		**17 000 000**	**22 000 000**
Varige driftsmidler			
Driftsløsøre, inventar, verktøy, kontormaskiner	4	14 000 000	16 000 000
Sum varige driftsmidler		**14 000 000**	**16 000 000**
Finansielle anleggsmidler			
Investering i datterselskap	5	2 103 000 000	7 016 000 000
Andre fordringer	11	741 000 000	484 000 000
Sum finansielle anleggsmidler		**2 844 000 000**	**7 500 000 000**
Sum anleggsmidler		**2 875 000 000**	**7 538 000 000**
Omløpsmidler			
Varer			
Fordringer			
Andre fordringer	11	97 000 000	129 000 000
Sum fordringer		**97 000 000**	**129 000 000**
Investeringer			
Andre finansielle instrumenter		3 000 000	5 000 000
Sum investeringer		**3 000 000**	**5 000 000**
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende		158 000 000	261 000 000
Sum bankinnskudd, kontanter og lignende		**158 000 000**	**261 000 000**
Sum omløpsmidler		**258 000 000**	**395 000 000**
SUM EIENDELER		**3 133 000 000**	**7 933 000 000**

Balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital		279 000 000	190 000 000
Sum innskutt egenkapital		**279 000 000**	**190 000 000**
Opptjent egenkapital			
Annen egenkapital		177 000 000	
Udekket tap			422 000 000
Sum opptjent egenkapital		**177 000 000**	**-422 000 000**
Sum egenkapital	12	**456 000 000**	**-232 000 000**
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser	8	39 000 000	44 000 000
Sum avsetninger for forpliktelser		**39 000 000**	**44 000 000**
Annen langsiktig gjeld			
Obligasjonslån	7,11	1 899 000 000	5 736 000 000
Sum annen langsiktig gjeld		**1 899 000 000**	**5 736 000 000**
Sum langsiktig gjeld		**1 938 000 000**	**5 780 000 000**
Kortsiktig gjeld			
Gjeld til kredittinstitusjoner	7, 11	44 000 000	1 197 000 000
Leverandørgjeld	11	679 000 000	1 086 000 000
Betalbar skatt	10		5 000 000
Annen kortsiktig gjeld		16 000 000	97 000 000
Sum kortsiktig gjeld		**739 000 000**	**2 385 000 000**
Sum gjeld		**2 677 000 000**	**8 165 000 000**
SUM EGENKAPITAL OG GJELD		**3 133 000 000**	**7 933 000 000**

Konsernets resultatregnskap

Beløp i: NOK	Note	2016	2015
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	3	11 849 000 000	11 538 000 000
Sum inntekter		**11 849 000 000**	**11 538 000 000**
Kostnader			
Endring i beholdning av varer under tilvirkning og ferdig tilvirkede varer		66 000 000	-59 000 000
Varekostnad		8 006 000 000	8 118 000 000
Lønnskostnad	12	1 855 000 000	1 848 000 000
Avskrivning	4	682 000 000	767 000 000
Nedskrivning av varige driftsmidler og immaterielle eiendeler	4	1 238 000 000	
Annen driftskostnad	14,16, 20	1 067 000 000	1 028 000 000
Sum kostnader		**12 914 000 000**	**11 702 000 000**
Driftsresultat		**-1 065 000 000**	**-164 000 000**
Finansinntekter og finanskostnader			
Inntekt på investering i datterselskap og tilknyttet selskap	19	-211 000 000	-41 000 000
Inntekt på andre investeringer	5		
Annen renteinntekt	5	7 000 000	11 000 000
Annen finansinntekt	5	2 049 000 000	882 000 000
Sum finansinntekter		**1 845 000 000**	**852 000 000**
Annen rentekostnad	5	917 000 000	929 000 000
Annen finanskostnad	5	95 000 000	765 000 000
Sum finanskostnader		**1 012 000 000**	**1 694 000 000**
Netto finans		**833 000 000**	**-842 000 000**
Ordinært resultat før skattekostnad		**-232 000 000**	**-1 006 000 000**
Skattekostnad på ordinært resultat	17	-538 000 000	520 000 000
Ordinært resultat etter skattekostnad		**306 000 000**	**-1 526 000 000**
Årsresultat		**306 000 000**	**-1 526 000 000**

Konsernets resultatregnskap

Beløp i: NOK	Note	2016	2015

Konsernets balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Konsesjoner, patenter, lisenser, varemerker o.l.	4	30 000 000	29 000 000
Utsatt skattefordel	17	257 000 000	
Goodwill	4		58 000 000
Sum immaterielle eiendeler		**287 000 000**	**87 000 000**
Varige driftsmidler			
Tomter, bygninger og annen fast eiendom	3,4	1 651 000 000	1 904 000 000
Maskiner og anlegg	3,4	4 422 000 000	6 263 000 000
Driftsløsøre, inventar, verktøy, kontormaskiner	3,4	489 000 000	418 000 000
Sum varige driftsmidler		**6 562 000 000**	**8 585 000 000**
Finansielle anleggsmidler			
Investeringer i tilknyttet selskap	19	151 000 000	374 000 000
Andre fordringer	10	162 000 000	427 000 000
Sum finansielle anleggsmidler		**313 000 000**	**801 000 000**
Sum anleggsmidler		**7 162 000 000**	**9 473 000 000**
Omløpsmidler			
Varer			
Varer	3,18	1 161 000 000	1 253 000 000
Sum varer		**1 161 000 000**	**1 253 000 000**
Fordringer			
Kundefordringer	10	1 345 000 000	1 357 000 000
Sum fordringer		**1 345 000 000**	**1 357 000 000**
Investeringer			
Andre finansielle instrumenter	18	44 000 000	41 000 000
Sum investeringer		**44 000 000**	**41 000 000**
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	8	532 000 000	536 000 000

Konsernets balanse

Beløp i: NOK	Note	2016	2015
Sum bankinnskudd, kontanter og lignende		**532 000 000**	**536 000 000**
Sum omløpsmidler		**3 082 000 000**	**3 187 000 000**
SUM EIENDELER		**10 244 000 000**	**12 660 000 000**
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital		12 502 000 000	12 302 000 000
Sum innskutt egenkapital		**12 502 000 000**	**12 302 000 000**
Opptjent egenkapital			
Annen egenkapital	22	-12 318 000 000	-12 531 000 000
Sum opptjent egenkapital		**-12 318 000 000**	**-12 531 000 000**
Sum egenkapital		**184 000 000**	**-229 000 000**
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser	13	265 000 000	276 000 000
Utsatt skatt	17	293 000 000	610 000 000
Sum avsetninger for forpliktelser		**558 000 000**	**886 000 000**
Annen langsiktig gjeld			
Obligasjonslån	6,11	6 429 000 000	7 453 000 000
Øvrig langsiktig gjeld	18	524 000 000	631 000 000
Sum annen langsiktig gjeld		**6 953 000 000**	**8 084 000 000**
Sum langsiktig gjeld		**7 511 000 000**	**8 970 000 000**
Kortsiktig gjeld			
Gjeld til kredittinstitusjoner	11	466 000 000	1 676 000 000
Leverandørgjeld	18	1 868 000 000	1 921 000 000
Betalbar skatt	17	11 000 000	15 000 000
Annen kortsiktig gjeld	18	204 000 000	307 000 000
Sum kortsiktig gjeld		**2 549 000 000**	**3 919 000 000**

Konsernets balanse

Beløp i: NOK	Note	2016	2015
Sum gjeld		**10 060 000 000**	**12 889 000 000**
SUM EGENKAPITAL OG GJELD		**10 244 000 000**	**12 660 000 000**

Norske Skogindustrier ASA

Org. nr. 911750961

Kontantstrømoppstilling	2016	2015
Kontantstrømmer fra operasjonelle aktiviteter		
Resultat før skattekostnad	349	-1 456
Periodens betalte skatter	11	8
Ordinære avskrivninger	9	9
Endring i kundefordringer	8	-17
Endring i leverandørgjeld	40	-308
Forskjell mellom kostnadsført pensjon og inn/-ut betalinger	-13	-9
Endring i andre tidsavgrensningsposter	-550	978
Netto kontantstrøm fra operasjonelle aktiviteter	**-168**	**-811**
Kontantstrømmer fra investeringsaktiviteter		
Utbetalinger ved kjøp av varige driftsmidler	3	0
Innbetalinger ved salg av aksjer og andeler i andre foretak	1 020	2 233
Innbetalinger ved salg av andre investeringer	1	0
Utbetalinger ved kjøp av andre investeringer	0	31
Netto kontantstrøm fra investeringsaktiviteter	**1 018**	**2 202**
Kontantstrømmer fra finansieringsaktiviteter		
Innbetalinger ved opptak av ny langsiktig gjeld	98	0
Utbetalinger ved nedbetaling av langsiktig gjeld	1 222	1 544
Innbetalinger av egenkapital	200	0
Netto kontantstrøm fra finansieringsaktiviteter	**-924**	**-1 544**
Effekt av valutakursendringer på kontanter og kontantekvivalenter	-29	18
Netto endring i kontanter og kontantekvivalenter	-103	-135
Beholdning av kontanter og kontantekvivalenter 1.1	**261**	**396**
Beholdning av kontanter og kontantekvivalenter 31.12	**158**	**261**

Tilleggsopplysninger

Kontanter og kontantekvivalenter består av kontanter, bank og postgiro.

Norske Skogindustrier ASA

Org. nr. 911750961

Konsern
Kontantstrømoppstilling

	2016	2015
Kontantstrømmer fra operasjonelle aktiviteter		
Resultat før skattekostnad	-232	-1 005
Periodens betalte skatter	20	50
Tap/gevinst ved salg av anleggsmidler	-17	-102
Ordinære avskrivninger	682	767
Nedskrivning av anleggsmidler	1 238	0
Endring i varelager	59	-54
Endring i kundefordringer	-33	-313
Endring i leverandørgjeld	12	-152
Forskjell mellom kostnadsført pensjon og inn/-ut betalinger	-21	-25
Endring i andre tidsavgrensningsposter	-1 472	-47
Netto kontantstrøm fra operasjonelle aktiviteter	**230**	**-777**
Kontantstrømmer fra investeringsaktiviteter		
Innbetalinger ved salg av varige driftsmidler	194	2
Utbetalinger ved kjøp av varige driftsmidler	302	180
Innbetalinger ved salg av aksjer og andeler i andre foretak	0	-28
Innbetalinger ved salg av andre investeringer	1	0
Netto kontantstrøm fra investeringsaktiviteter	**-107**	**-206**
Kontantstrømmer fra finansieringsaktiviteter		
Innbetalinger ved opptak av ny langsiktig gjeld	1 544	2 614
Utbetalinger ved nedbetaling av langsiktig gjeld	1 826	1 854
Innbetalinger av egenkapital	200	0
Netto kontantstrøm fra finansieringsaktiviteter	**-82**	**760**
Effekt av valutakursendringer på kontanter og kontantekvivalenter	-45	50
Netto endring i kontanter og kontantekvivalenter	-4	-173
Beholdning av kontanter og kontantekvivalenter 1.1	**536**	**709**
Beholdning av kontanter og kontantekvivalenter 31.12	**532**	**536**

Tilleggsopplysninger

Kontanter og kontantekvivalenter består av kontanter, bank og postgiro.

Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Torstein Kinden Helleland	11.01.2013	25.01.2013
Telefon	Deres referanse	Vår referanse
22078139	Knut Kårbø Erichsen	2013/44927

NORSKE SKOGINDUSTRIER ASA
Postboks 329
1326 LYSAKER

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Norske Skogindustrier ASA, org. nr. 911 750 961

Det vises til deres brev av 11. januar 2013 samt telefonsamtale i sakens anledning. Det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for Norske Skogindustrier ASA.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering Norske Skogindustrier ASA dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

Bakgrunn
Norske Skogindustrier ASA er notert på Oslo Børs og har dispensasjon fra vphl § 5-13 vedrørende krav til språk ved informasjonspliktige opplysninger. Ca. 20 % av selskapets aksjonærer er utenlandske. De norske eierne er vesentlig profesjonelle investorer. Obligasjonslån utgjør det alt vesentlige av Norske Skogindustrier ASA sin samlede gjeldsfinansiering og 99, 3 % av obligasjonseierne er utenlandske. Konsernet driver med treforedling. Selskapet har 11 hel- og deleide papirfabrikker. Av disse er 9 lokalisert utenfor Norge. Konsernets offisielle arbeidsspråk er som en naturlig konsekvens av dette engelsk. Selskapet selger kun til bedriftsmarkedet og har ingen private kunder. Av konsernets totale driftsinntekter i 2011 stammer omlag 5 % fra salg til kunder lokalisert i Norge. Hoveddelen av den norske virksomheten i Norske Skogindustrier ASA er i dag samlet i de operative selskapene Norske Skog Skogn AS og Norske Skog Saugbrugs AS. Disse selskapene utarbeider årsregnskap og årsberetning på norsk. Siden disse selskapene er hjørnesteins bedrifter i sine lokale miljøer vil brukerne av disse regnskapene fortsatt få informasjon på norsk. Alle sentrale aktører og samarbeidspartnere innenfor denne bransjen behersker og benytter engelsk. En norsk oversettelse vil kun ha til formål å oppfylle regnskapslovens språkkrav.

Skattedirektoratets vurdering
Etter regnskapsloven § 3-4 tredje ledd skal "*årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.*"

Postadresse	Besøksadresse:	Sentralbord
Postboks 9200 Grønland	Se www.skatteetaten.no	800 80 000
0134 Oslo	Org.nr. 996250318	Telefaks
For elektronisk henvendelse se www.skatteetaten.no		22 17 08 60

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

> *"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."*

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

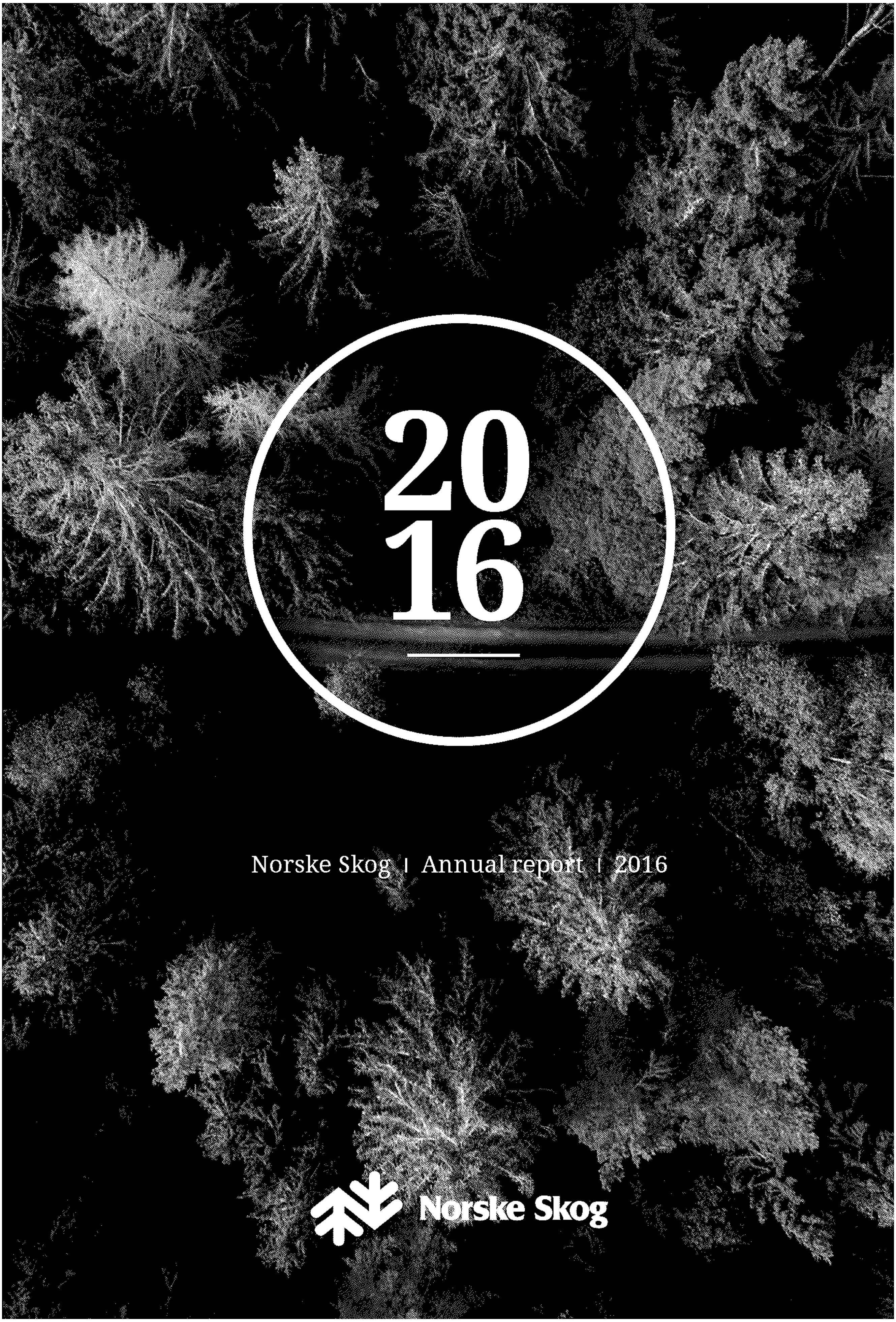
Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt særlig vekt på at det vesentlige av obligasjonene er eiet av utenlandske investorer. Aksjene er eiet av utenlandske eller profesjonelle investorer. Selskapet driver virksomhet i en internasjonal bransje der alle aktører behersker og benytter engelsk språk. De norske datterselskapene er hjørnesteins bedrifter i sine lokale miljøer og vil fortsatt utarbeide årsregnskapene på norsk. Videre er det vektlagt at det vesentlige av omsetningen finner sted utenfor Norge.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland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Consolidated financial statements

NORSKE SKOGINDUSTRIER ASA

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CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

NOK MILLION	NOTE	2016	2015
Operating revenue	3	**11 849**	**11 538**
Distribution costs		-1 229	-1 242
Cost of materials		-6 777	-6 876
Change in inventories		-66	59
Employee benefit expenses	12	-1 855	-1 848
Other operating expenses	14	-872	-877
Gross operating earnings		**1 049**	**753**
Depreciation	4	-682	-767
Restructuring expenses	20	-67	-53
Other gains and losses	16	-127	-97
Impairments	4	-1 238	0
Operating earnings		**-1 065**	**-164**
Share of profit/loss associated companies	19	-211	-41
Financial income	5	1 676	893
Financial expenses	5	-1 012	-975
Net unrealised/realised gains/losses on foreign currency	5	380	-719
Profit/loss before income taxes		**-232**	**-1 005**
Income taxes	17	538	-520
Profit/loss		**306**	**-1 526**
Basic earnings per share (NOK)	22	1.17	-8.03
Diluted earnings per share (NOK)	22	1.17	-8.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2016	2015
Profit/loss	**306**	**-1 526**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	-246	304
Tax expense on translation differences	-21	-280
Hedge of net investment in foreign operations	37	-108
Tax expense on net investment hedge	0	0
Reclassified hedging gain/loss on net investment upon divestment of foreign operations	0	95
Total	**-230**	**11**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	-10	5
Tax effect on remeasurements of post employment benefit obligations	-1	-4
Total	**-11**	**1**
Other comprehensive income	**-240**	**12**
Total Comprehensive income	**66**	**-1 514**

CONSOLIDATED BALANCE SHEET

NOK MILLION	NOTE	31.12.2016	31.12.2015
Assets			
Deferred tax asset	17	257	0
Intangible assets	4	30	87
Property, plant and equipment	3, 4	6 562	8 585
Investments in associated companies	19	151	374
Other non-current assets	10	161	426
Total non-current assets		**7 162**	**9 473**
Inventories	3, 18	1 161	1 253
Trade and other receivables	10	1 345	1 357
Cash and cash equivalents	8	532	536
Other current assets	18	44	40
Total current assets		**3 082**	**3 187**
Total assets		**10 244**	**12 660**
Shareholders' equity and liabilities			
Paid-in equity		12 502	12 302
Retained earnings and other reserves	22	-12 318	-12 532
Total equity		**184**	**-229**
Pension obligations	13	265	276
Deferred tax liability	17	293	610
Interest-bearing non-current liabilities	6, 11	6 429	7 453
Other non-current liabilities	18	524	631
Total non-current liabilities		**7 512**	**8 970**
Interest-bearing current liabilities	11	466	1 676
Trade and other payables	18	1 868	1 921
Tax payable	17	11	15
Other current liabilities	18	204	308
Total current liabilities		**2 548**	**3 920**
Total liabilities		**10 060**	**12 889**
Total equity and liabilities		**10 244**	**12 660**

SKØYEN, 14 MARCH 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Henrik August Christensen Chair	Eilif Due Board member	Nils Ingemund Hoff Board member
Joanne Owen Board member	Paul Kristiansen Board member	Cecilie Jonassen Board member
Svein Erik Veie Board member	Mimi K. Berdal Board member	Sven Ombudstvedt President and CEO

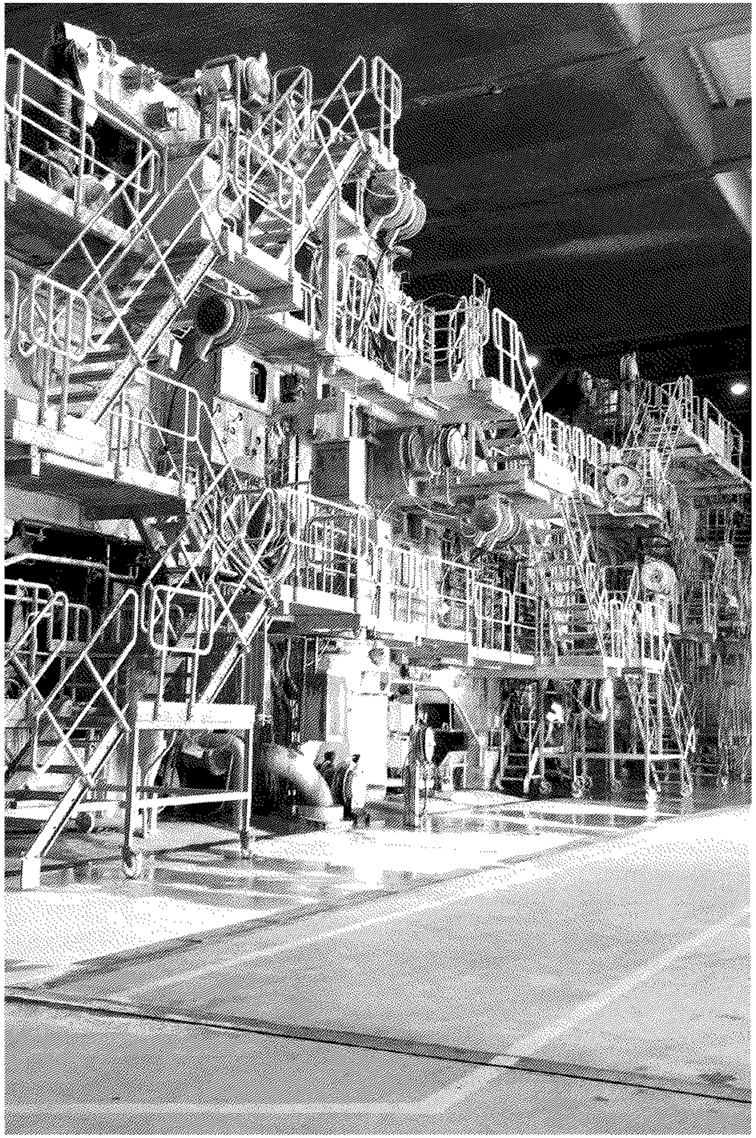
CONSOLIDATED STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2016	2015
Cash flow from operating activities			
Cash generated from operations		11 817	11 224
Cash used in operations		-10 844	-11 108
Cash flow from currency hedges and financial items		-33	-22
Interest payments received	5	6	10
Interest payments made	5	-696	-831
Taxes paid		-20	-50
Net cash flow from operating activities [1]	3	**230**	**-777**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3, 4	-302	-180
Sales of property, plant and equipment and intangible assets		194	2
Purchase of shares in companies and other financial payments		0	-1
Sales of shares in companies and other financial payments		1	-28
Net cash flow from investing activities		**-107**	**-206**
Cash flow from financing activities			
New loans raised		1 544	2 614
Repayments of loans		-1 825	-1 853
New paid in equity		200	0
Purchase/sale of treasury shares		0	0
Net cash flow from financing activities		**-82**	**760**
Foreign currency effects on cash and cash equivalents		-45	50
Total change in cash and cash equivalents		**-4**	**-173**
Cash and cash equivalents 1 January		536	710
Cash and cash equivalents 31 December		532	536
1) Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		-232	-1 005
Depreciation and impairments	4	1 920	767
Share of profit in associated companies	19	211	41
Gains and losses from divestment of business activities and property, plant and equipment	16	17	102
Taxes paid		-20	-50
Change in trade and other receivables		-33	-313
Change in inventories		59	-54
Change in trade and other payables		12	-152
Change in restructuring provision		-7	38
Financial items with no cash impact		-1 767	-42
Gains and losses on commodity contracts and embedded derivatives	16	96	-9
Value change biological assets	16	12	6
Disposal and repurchasing of renewable energy certificates		-3	-37
Change in environmental provisions with no cash impact		-3	-27
Change in pension obligations and other long term employee benefits		-21	-25
Other		-11	-16
Net cash flow from operating activities		**230**	**-777**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOK MILLION	PAID-IN EQUITY	PERPETUAL NOTES	RETAINED EARNINGS	HEDGE ACCOUNTING	OTHER EQUITY RESERVES	TOTAL EQUITY
Equity 1 January 2015	**12 302**	**0**	**-11 708**	**-331**	**1 023**	**1 285**
Profit/loss	0	0	-1 526	0	0	-1 526
Other comprehensive income	0	0	0	-108	120	12
Equity 31 December 2015	**12 302**	**0**	**-13 234**	**-439**	**1 142**	**-229**
Profit/loss	0	0	306	0	0	306
Perpetual notes	0	148	0	0	0	148
Interest on perpetual notes	0	11	-11	0	0	0
Proceeds from shares issued	199	0	0	0	0	199
Other comprehensive income	0	0	0	37	-277	-240
Equity 31 December 2016	**12 502**	**159**	**-12 939**	**-403**	**864**	**184**

The perpetual notes relates to notes issued by Norske Skogindustrier ASA. The perpetual is in accordance with IAS 32 treated as equity. See Note 21 for more information.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Norske Skogindustrier ASA ("the company") and its subsidiaries (together "the group") manufacture, distribute and sell publication paper. This includes newsprint and magazine paper. The group has seven fully-owned mills in five countries (Norway, France, Austria, Australia and New Zealand) and one partly-owned mill in Malaysia.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Skøyen outside of Oslo. The company is listed on the Oslo Stock Exchange. The consolidated financial statements were authorised for issue by the board of directors in Norske Skogindustrier ASA on 14 March 2017.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the assumption of going concern. The annual financial statements are presented in English only.

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

The table below shows the average un-weighted monthly foreign exchange rates applied in the income statement and the closing exchange rates applied in the balance sheet for the most important currencies for the Norske Skog group.

	Income statement		Balance sheet	
	2016	2015	31.12.2016	31.12.2015
AUD	6.25	6.06	6.23	6.45
EUR	9.29	8.94	9.09	9.62
GBP	11.39	12.32	10.61	13.07
NZD	5.85	5.63	5.99	6.04
USD	8.40	8.06	8.62	8.81

2. ACCOUNTING POLICIES

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

The consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS Interpretations Committee (IFRIC), as adopted by the European Union (EU) and are mandatory for financial years beginning or after 1 January 2016. They have been prepared under the historical cost convention, as modified by the revaluation of biological assets, available-for-sale financial assets and financial assets at fair value through profit or loss.

CONSOLIDATION

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Norske Skog group and its subsidiaries as at 31 December 2016. Control is achieved when the Norske Skog group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Norske Skog group controls an investee if, and only if, the Norske Skog group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the Norske Skog group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Norske Skog group's voting rights and potential voting rights

The Norske Skog group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Norske Skog group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Norske Skog group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

b) Associates

Associates are all entities over which the group exercises significant influence but not control, generally accompanying a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. The investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The group's share of post-acquisition profit or loss is recognised in the income statement as Share of profit in associated companies and is assigned to the carrying value of the investment, together with the group's share of other comprehensive income in the associated company. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Profits and losses resulting from transactions between the group and its associates are recognised in the consolidated financial statements only to the extent of unrelated investors' interests in the associates.

At each reporting date, the group determines whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the amount as Share of profit in associated companies.

Dilution gains and losses arising in investments in associates are recognised in the income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

SEGMENT REPORTING

Reportable segments

The activities in the group are divided into two operating segments: publication paper Europe and publication paper Australasia. The segment structure is in line with the group's operating model implemented in 2014. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, making strategic decisions and assessing performance of the group's mills, has been identified as corporate management.

Activities that are not part of the operating segments are included in other activities.

Accounting policies applied in the segment reporting

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

Performance measurement

The group assesses the performance of the operating segments based on a measure of gross operating earnings. These items exclude the effects of expenditure not deemed to be part of the regular operating activities of the segment, such as restructuring expenses, impairments, gains and losses from sales of non-current assets and changes in fair value of certain energy contracts, embedded derivatives in energy contracts and biological assets.

Intercompany transactions

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

FOREIGN CURRENCY TRANSLATION

a) Functional and presentational currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic location in which the entity operates (the "functional currency"). The consolidated financial statements are presented in NOK, which is both the functional and presentational currency of the parent company.

b) Transactions and balances

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

Exchange differences arising from the settlement of accounts receivable/payable and unrealised gains/losses on the same positions are recognised in Operating revenue/Cost of materials respectively. Exchange differences arising from the settlement of other items are recognised within Financial income/Financial expenses.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Financial income/Financial expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

c) Group companies

The results and financial position of all group entities which have a functional currency different from the presentational currency are translated into the presentational currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

ii. Income and expenses for each income statement are translated at average exchange rates on monthly basis,

iii. All resulting exchange differences are booked to comprehensive income and presented in other equity reserves.

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

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

Borrowing costs, which are directly related to qualifying assets, are recognised as part of the acquisition cost for the qualifying asset.

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

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

The residual value and useful life of property, plant and equipment are reviewed and adjusted. Impairment test of property, plant and equipment are performed annually or more frequently if indicators of impairment are identified. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

INTANGIBLE ASSETS
a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

b) Patents and licenses
Patents and licenses have a finite useful life and are recognised at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives.

c) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the specific software and bring it into use, and amortised over their estimated useful lives. Costs associated with maintaining computer software are recognised as an expense as they are incurred. Costs which are directly associated with the development of identifiable and unique software products controlled by the group, and which are likely to generate economic benefits exceeding the costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development personnel and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives.

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

NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

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

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

Non-financial commodity contracts where the relevant commodity is readily convertible to cash, and where the contracts are not for own use, fall within the scope of IAS 39 Financial Instruments – recognition and measurement. Such contracts are treated as derivatives in accordance with IAS 39. Norske Skog has a long-term energy contract in New Zealand that is treated as a derivative and measured at fair value through profit or loss. Embedded derivatives are separated from the host contract and accounted for as a derivative if the economic characteristics are not closely related to the economic characteristics and risk of the host contract. See Notes 7, 8 and 9 for more information. Commodity contracts within the scope of IAS 39 are classified as current assets, unless they are expected to be realised more than 12 months after the balance sheet date. In that case, they are classified as non-current assets.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables maturing less than 12 months after the balance sheet date are classified as current assets and presented as Trade and other receivables or Cash and cash equivalents in the balance sheet. Items maturing later than 12 months after the balance sheet date are presented within Other non-current assets.

c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives, which are either designated in this category or not classified in any of the other categories. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the reserve until the investment is derecognised. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

DERIVATIVES AND HEDGING
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates derivatives as either:
a) Hedging of a net investment in a foreign operation (net investment hedge),
b) Derivatives at fair value through profit or loss.

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

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

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

The fair value of quoted investments is based on the current market price. If the market for a financial asset is not active, the group applies valuation techniques to establish the fair value. These include the use of recent arm's length transactions, reference to other instruments which are substantially the same, and discounted cash flow analyses defined to reflect the issuer's specific circumstances. Fair value includes the impact of credit risk and the adjustment for credit risk is dependent on whether the derivative is in the money (asset) or out of the money (liability). Credit value adjustment is applied to assets positions based on credit risk associated with the counter-party. Debit value adjustment is (from 2015) applied to liability positions, based on Norske Skog's own credit risk.

SHARES, BONDS, CERTIFICATES, BILLS, ETC.
Shares, bonds and certificates classified as financial assets at fair value through profit or loss are valued at market value, with changes in fair value recognised in the income statement.

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

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

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

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

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

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

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

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

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

CURRENT AND DEFERRED INCOME TAX
The group's income tax expense includes current tax based on taxable profit for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases.

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

PENSION OBLIGATIONS, BONUS ARRANGEMENTS AND OTHER EMPLOYEE BENEFITS
a) Pension obligations
Group companies operate various pension schemes. These are generally funded through payments to insurance companies, as determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

A defined benefit plan is one which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

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

b) Share-based remuneration
A long-term incentive plan was launched in 2014. The plan targets a positive share price development over a three-year period from 2014 to 2017 and allows the board to grant synthetic share options to the corporate management and other key employees, including managing directors of the Norwegian business units. During the vesting period, the liability recognised at each reporting date is the IFRS 2 fair value of the award at that date multiplied by the expired portion of the vesting period. See also Note 12.

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

d) Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits and

accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

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

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

Borrowings are classified as current liabilities, unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Interest costs are recognised in profit or loss in the period in which they are incurred.

BOND LOANS
The value of bond loans in the balance sheet is reduced by holdings of Norske Skog bonds. Amounts above or below amortised costs upon buy-back are recognised in the income statement in the same period the buy-back occurs.

DERECOGNITION OF FINANCIAL LIABILITY
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as part of the gain or loss in the income statement.

PAID-IN EQUITY
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners as treasury shares until the shares are cancelled or reissued.

REVENUE RECOGNITION
Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities, taken into account contractually defined terms of payment and excluding taxes or duty. Revenue is shown net of returns, trade allowances, rebates, amounts collected on behalf of third parties and after eliminating sales within the group. The group's revenue consists almost exclusively of the sale of goods, and the principle for recognition of revenue is the same for newsprint and magazine paper.

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer. This will depend upon the buyer's delivery terms and will be in the range from the finalisation of the production to delivery of the goods to the buyer. The group's terms of delivery are based on Incoterms 2010, which are the official rules for the interpretation of trade terms issued by the International Chamber of Commerce. The timing of revenue recognition is largely dependent on these delivery terms. The group's sales are covered by the following main categories of terms:

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

DIVIDEND INCOME
Dividend income is recognised when the right to receive payment is established, which is generally when the shareholders approve the dividend.

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

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

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

GOVERNMENT GRANTS
Government grants (except for emission rights, described below) are recognised as income over the period necessary to match the grants

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

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

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares (e.g. interests to the holders of perpetual notes).
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NEW AND AMENDED INTERPRETATIONS AND STANDARDS ADOPTED BY THE GROUP

The group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the group on the current period or any prior period and is not likely to affect future periods. The following standards and amendments are applied for the first time for their annual reporting period commencing 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are not mandatory for 31 December 2016 reporting periods and have not been early adopted in 2016 by the group. New standards and amendments that are expected to have an impact on the consolidated financial statements are set out below:

IFRS 9 Financial instruments

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial Instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortised cost and fair value. IFRS 9 includes revised guidance on classification, measurement and derecognition of financial assets and financial liabilities, including a new credit loss model for calculating impairment on financial assets, and new rules for hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39 which have not been changed. The standard is mandatory for annual periods beginning 1 January 2018 or later. The group has not fully assessed the impact of the adoption of IFRS 9 but at the current stage, no material impacts have been identified. The group does not intend to adopt IFRS 9 before its mandatory date. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. Expected date of adoption by the group is 1 January 2018.

IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for recognition of revenue. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer loyalty programmes. The standard is mandatory for annual periods beginning 1 January 2018 or later. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer which is in line with the current revenue recognition at the group. An analysis of the consequences of IFRS 15 have not identified any material impacts. The group will make more detailed assessments of the impact during 2017. Expected date of adoption by the group is 1 January 2018.

IFRS 16 Leases

IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The new leases standard requires lessees to recognise assets and liabilities for most leases, which is a significant change from current requirements. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases. For lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of NOK 67 million, see note 15. However, the group has not yet assessed to what extend these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not quality as lease under IFRS 16. IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations, not yet effective, that are expected to have a material impact on the financial statements.

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the use of accounting estimates and assumptions for the future. It also requires management to exercise its judgment in the process of applying the group's accounting policies. Estimates and

assumptions, which represent a significant risk of a material adjustment in the carrying amount of assets and liabilities during the coming financial year, are discussed below.

a) Critical judgment in applying the group's accounting policies

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the end of the reporting period. Norske Skog has for instance applied judgment when identifying and recognising embedded derivatives, when choosing to present certain items as Other gains and losses as separate line items and presenting profit or loss from associated companies after operating earnings. It is important to note that the use of a different set of assumptions for the presentation of the consolidated financial statements could have resulted in significant changes in the line items presented.

New interpretations, pronouncements or practices that changes the way these requirements are applied in Norske Skog may have significant impact on the company's financial statements.

b) Estimated decline in value of intangible assets and property, plant and equipment (PPE)

The group performs impairment tests to assess whether there has been a decline in the value of intangible assets and PPE. These are written down to their recoverable amount when the recoverable amount is lower than the carrying value of the asset. The recoverable amount from assets or cash-generating units is determined by calculating the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Calculation of value in use requires use of estimates. See Note 4 for further information.

c) Annual assessment of the remaining economic life of PPE

The group conducts annual reviews of the remaining economic life of PPE. An increase or decrease in the remaining economic life will have an impact on future depreciation, as well as affect the cash flow horizon for calculating value in use. Economic life is estimated by considering the expected usage, physical wear and tear, as well as technical and commercial development. Assessment of future developments in demand in the markets Norske Skog's products are sold is central to the assessment of the economic life of the group's mills. Expected future demand, together with the competitiveness of Norske Skog's mills, is crucial for the determination of economic life. In addition, legal or other restrictions relating to usage could affect the economic life of the mills in the group.

d) Provision for future environmental obligations

The group's provision for future environmental obligations is based on a number of assumptions made using management's best judgment. Changes in any of these assumptions could have an impact on the group's provision and group costs. See Note 20 for further information.

e) Residual value and dismantling provision

The residual value of the group's production equipment is valued as the anticipated realisable value on the balance sheet date, after deducting the estimated costs relating to asset dismantling, removal and restoration. If the estimated costs exceed the estimated residual values, the net liability is added to the fixed asset cost in the balance sheet and a provision is recognised as a liability. The group performs a review of the residual value of its production equipment at the end of each accounting year. Residual value is affected by short-term changes in the underlying assumptions, for example scrap metal prices. A change in the residual value could have an impact on future depreciation costs. The provision for dismantling costs is based on a number of assumptions made using management's best judgment. See Note 20 for further information.

f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. See Note 9 for more information.

g) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets are offset against deferred tax liabilities when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is a legally enforceable right to set-off current tax assets against current deferred tax liabilities. Significant judgment is required to determine the amount that can be recognised. The recognised amount depends foremost on the expected timing and level of future taxable profits. The judgments are made on company level and on basis of long term financial forecast of taxable income. The judgments relate primarily to tax losses carried forward in Norske Skog's Norwegian and Australian operations. When an entity has a history of recent losses, the deferred tax asset arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated. Estimated future taxable profit is not considered as convincing evidence unless the entity demonstrates the ability of generating significant taxable profit in the near future accounting periods or there are certain other events providing sufficient evidence of future taxable profit. The recognition of deferred tax assets is based on a number of assumptions based on management's best judgments. See Note 17 for further information.

h) Pensions

The present value of the pension obligation depends on several input factors that are determined by means of a number of actuarial assumptions. The assumptions used in calculating the net pension expense (income) include the discount rate and salary adjustment. Changes in these assumptions will affect the carrying value of the pension obligation. See Note 13 for further information.

3. OPERATING SEGMENTS

REPORTABLE SEGMENTS
Norske Skog is a producer of publication paper. Publication paper includes newsprint and magazine paper. Newsprint encompasses standard newsprint and other paper qualities used in newspapers, inserts, catalogues, etc. These paper qualities, measured in grammes per square meter, will normally be in the range 40-57 g/m2. Magazine paper encompasses the paper qualities super calendered (SC), machine finished coated (MFC) and light weight coated (LWC). These paper qualities are used in magazines, periodicals, catalogues and brochures.

At the end of 2016, Norske Skog had seven fully owned paper mills in five countries. One of the mills produce only magazine paper, two produces both magazine paper and newsprint and four mills produce newsprint only

The activities of the Norske Skog group are focused on two business systems, publication paper Europe and publication paper Australasia. The segment structure is in line with how the group is managed internally. Norske Skog's chief operating decision maker is corporate management, who distribute resources and assess performance of the group's operating segments. Norske Skog has an integrated strategy in Europe and Australasia to maximize the profit in each region. The optimisation is carried out through coordinated sales and operational planning. The regional planning, in combination with structured sales and operational processes, ensures maximisation of profit.

Publication paper Europe
The publication paper Europe segment encompasses production and sale of newsprint and magazine paper in Europe. All the four European mills and the regional sales organization are included in the operating segment publication paper Europe.

Publication paper Australasia
The publication paper Australasia segment encompasses production and sale of newsprint and magazine paper in Australasia. All the three mills in Australasia and the regional sales organization are included in the operating segment publication paper Australasia.

Other activities
Activities in the group that do not fall into the operating segments publication paper Europe or publication paper Australasia are presented under other activities. This includes corporate functions, energy (commodity contracts and embedded derivatives in commodity contracts), green energy and other holding company activities.

REVENUES AND EXPENSES NOT ALLOCATED TO OPERATING SEGMENTS
Norske Skog manages non-current debt, taxes and cash positions on a group basis. Consequently, financial items and tax expenses are presented only for the group as a whole.

The group's investment in associated companies accounted for in accordance with the equity method is primarily related to its 33.7% share in Malaysian Newsprint Industries Sdn. Bhd., which is described in more detail in Note 19 Investments in associated companies

MAJOR CUSTOMERS
Norske Skog had a total sales volume of newsprint and magazine paper of 2 520 000 tonnes in 2016, of which sales to the group's largest customer constituted approximately 300 000 tonnes. Total sales volume in 2016 of newsprint and magazine paper to the five largest customers in Europe and Australasia amounted to approximately 356 000 and 518 000 tonnes respectively.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

2016	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**8 292**	**3 520**	**148**	**-111**	**11 849**
Distribution costs	-820	-401	-8	0	-1 229
Cost of materials	-4 824	-1 944	-9	0	-6 777
Change in inventories	-61	-12	7	0	-66
Employee benefit expenses	-1 207	-549	-99	0	-1 855
Other operating expenses	-602	-291	-90	111	-872
Gross operating earnings	**778**	**323**	**-51**	**0**	**1 049**
Depreciation	-395	-275	-12	0	-682
Restructuring expenses	-26	-38	-3	0	-67
Other gains and losses	2	-32	-97	0	-127
Impairments	-291	-947	0	0	-1 238
Operating earnings	**67**	**-969**	**-163**	**0**	**-1 065**
Share of operating revenue from external parties (%)	100	100	28		100

2015	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**8 102**	**3 422**	**139**	**-125**	**11 538**
Distribution costs	-838	-400	-4	0	-1 242
Cost of materials	-5 007	-1 894	24	0	- 6 876
Change in inventories	41	15	2	0	59
Employee benefit expenses	-1 243	-515	-90	0	-1 848
Other operating expenses	-642	-267	-92	125	-877
Gross operating earnings	**413**	**361**	**-21**	**0**	**753**
Depreciation	-417	-339	-11	0	-767
Restructuring expenses	-31	-17	-4	0	-53
Other gains and losses	-142	-9	53	0	-97
Impairments	0	0	0	0	0
Operating earnings	**-176**	**-4**	**16**	**0**	**-164**
Share of operating revenue from external parties (%)	100	100	17		100

OPERATING REVENUE PER MARKET

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

	2016	2015
Norway	281	258
Rest of Europe	6 973	6 625
North America	598	603
South America	43	154
Australasia	2 772	2 988
Asia	990	673
Africa	191	236
Total	**11 849**	**11 538**

NET CASH FLOW FROM OPERATING ACTIVITIES

	2016	2015
Publication paper Europe	802	320
Publication paper Australasia	186	172
Other activities	-16	-375
Total cash flow allocated to segments	**973**	**116**
Cash from net financial items	-723	-843
Taxes paid	-20	-50
Net cash flow from operating activities	**230**	**-777**

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2016	2015
Publication paper Europe	175	85
Publication paper Australasia	122	70
Other activities	4	25
Total	**302**	**180**

PROPERTY, PLANT AND EQUIPMENT PER GEOGRAPHICAL REGION

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

	31.12.2016	31.12.2015
Norway	2 166	2 513
Rest of Europe	1 950	2 170
Australasia	2 446	3 545
Activities not allocated to regions	0	358
Total	**6 562**	**8 585**

INVENTORIES

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

	31.12.2016	31.12.2015
Publication paper Europe	744	810
Publication paper Australasia	408	431
Other activities	9	13
Total	**1 161**	**1 253**

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	GOODWILL	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2015	4 753	122	241	5 116
Additions	0	0	25	25
Disposals	-1 378	-4	-34	-1416
Reclassified from plant under construction	0	4	0	4
Currency translation differences	0	5	6	11
Acquisition cost 31 December 2015	**3 375**	**127**	**238**	**3 740**
Accumulated depreciation and impairments 1 January 2015	4 695	99	230	5 024
Depreciation	0	2	2	4
Disposals	-1 378	-2	-4	-1 384
Currency translation differences	0	5	4	9
Accumulated depreciation and impairments 31 December 2015	**3 317**	**104**	**232**	**3 653**
Carrying value 31 December 2015	**58**	**23**	**6**	**87**
Acquisition cost 1 January 2016	3 375	127	238	3 740
Additions	0	0	20	20
Disposals	0	0	-10	-10
Reclassified from plant under construction	0	1	0	1
Currency translation differences	0	-4	-3	-7
Acquisition cost 31 December 2016	**3 375**	**124**	**245**	**3 744**
Accumulated depreciation and impairments 1 January 2016	**3 317**	**104**	**232**	**3 653**
Depreciation	0	5	5	10
Impairments	58	0	0	58
Disposals	0	0	0	0
Currency translation differences	0	-4	-3	-7
Accumulated depreciation and impairments 31 December 2016	**3 375**	**105**	**234**	**3 714**
Carrying value 31 December 2016	**0**	**19**	**11**	**30**

Goodwill is not depreciated. Licenses, patents and other intangible assets are depreciated over a period from five to 20 years. Other intangible assets consist mainly of capitalised development costs related to customising of software.

GOODWILL SPECIFIED PER ACQUISITION	ACQUISITION YEAR	31.12.2016	31.12.2015
Norske Skog Golbey	1995	0	58

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2015	306	33 533	7 524	773	591	42 727
Additions	0	27	14	1	144	186
Disposals	0	-4 190	-1 087	-137	-3	-5 417
Change in dismantling provision	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
Reclassified from plant under construction	14	500	13	7	-538	-4
Currency translation differences	19	1 351	263	34	27	1 694
Acquisition cost 31 December 2015	**339**	**31 221**	**6 727**	**678**	**221**	**39 186**
Accumulated depreciation and impairments 1 January 2015	140	27 371	5 279	711	46	33 547
Depreciation	0	600	150	13	0	763
Value changes	6	0	0	0	0	6
Disposals	0	-4 127	-797	-136	0	-5 060
Reclassifications	0	0	0	0	0	0
Currency translation differences	9	1 114	191	31	0	1 345
Accumulated depreciation and impairments 31 December 2015	**155**	**24 958**	**4 823**	**619**	**46**	**30 601**
Carrying value 31 December 2015	**184**	**6 263**	**1 904**	**59**	**175**	**8 585**
Acquisition cost 1 January 2016	339	31 221	6 727	678	221	39 186
Additions	0	55	2	1	247	305
Disposals	0	-262	-4	-1		-267
Change in dismantling provision	0	0	0	0	0	0
Reclassified from plant under construction	15	110	4	7	-137	-1
Currency translation differences	-12	-729	-174	-23	-3	-941
Acquisition cost 31 December 2016	**342**	**30 395**	**6 555**	**662**	**328**	**38 282**
Accumulated depreciation and impairments 1 January 2016	155	24 958	4 823	619	46	30 601
Depreciation	0	516	143	13	0	672
Impairments	25	1 084	71	0	0	1 180
Value changes	12	0	0	0	0	12
Disposals	0	-55	-4	0	0	-60
Currency translation differences	-5	-530	-129	-21	0	-685
Accumulated depreciation and impairments 31 December 2016	**187**	**25 973**	**4 904**	**610**	**46**	**31 720**
Carrying value 31 December 2016	**155**	**4 422**	**1 651**	**52**	**282**	**6 562**

Norske Skog owns forests in Australia. These assets are valued at fair value less estimated point-of-sale costs. Changes in value are reported in the income statement line Other gains and losses. Machinery and equipment is depreciated over a period from ten to 25 years. Buildings and other property are depreciated over a period from ten to 40 years. Fixtures and fittings are depreciated over a period from three to ten years. Land and plant under construction are not depreciated.

The difference between total additions in the table above and purchases of property, plant, equipment and intangible assets in the consolidated statement of cash flows is due to capitalised allocated emission allowances, finance leases, capitalised borrowing costs and accruals for payments. The capitalised borrowing costs in 2016 amounted to NOK 3 million, and the interest rate used was 4.2%. There was none capitalised borrowing cost capitalised during 2015.

Disposals in 2016 consists mainly of scrapping of fully depreciated assets and sale the Tasman geothermal power plan at Norske Skog Tasman in New Zealand. Disposals in 2015 were primarily related to the divestments of Walsum Papier Gmbh in Germany as well as scrapping of fully depreciated assets that no longer have any technical values.

NON-CURRENT ASSETS HELD FOR SALE
Norske Skog did not have any non-current assets held for sale at 31 December 2016.

ASSUMPTIONS APPLIED WHEN CALCULATING THE RECOVERABLE AMOUNT
Intangible non-current assets and property, plant and equipment are written down to their recoverable amount when this is lower than the carrying value of the asset. The recoverable amount of an asset or cash-generating unit (CGU) is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows expected to arise from an asset or cash-generating unit. Norske Skog applies the value in use approach when calculating recoverable amount for its cash-generating units.

Norske Skog's composition of cash-generating units were reviewed in 2016. From the second quarter of 2016, Magazine paper (Boyer) and super calendared paper (Saugbrugs) are assessed to generate independent cash inflows and to be separate CGUs. Europe Newsprint, Australasia Newsprint, Magazine and SC represent the four cash generating units that the group is focusing on in its follow-up operationally and commercially as communication with customers, suppliers, employees. The different mills within a CGU works together to generate cash inflows. The impairment tests performed in 2016 are based on the new CGU assessment.

Cash flow is calculated individually for each mill. The production machines have a long technical life, while useful lives are linked to industry cost curves and the size of the market. The estimated remaining useful life of the individual paper machines forms the basis for determining the length of the cash flow period. Estimated useful life for the individual paper machines in the group varies from one to 18 years. Sales volumes develop in accordance with the useful lives of the different paper machines in the group. Norske Skog has modelled the cash flows throughout the useful life of the paper machines. The model assumes that Norske Skog closes capacity in line with the secular decline in market demand. The timing of capacity closures follow from RISI cost curve positioning and RISI market demand projections. RISI is the leading global source for forest products information and data (www.risi.com).

Nominal cash flow is estimated in the currency in which it will be generated. The value is calculated by discounting based on a required rate of return on capital that is relevant for the cash-generating unit. The required rate of return, or weighted average cost of capital (WACC), is based on the interest rate on ten-year government bonds in the currency of the cash flow estimate, an industry debt yield premium, industry beta and an equity risk premium. A country-specfic risk premium relevant to the cash-generating unit is also included in the required rate of return on capital.

When preparing the financial statements of 2015 the impairment model included three scenarios Reactive, Proactive and Consolidated. As part of the impairment process in 2016, a new impairment model was developed using one base case scenario. Additionally, one scenario using RISI price estimates and one scenario using a -2.0% price decline across all grades in 2018 was considered. The key drivers of profitability in the industry and thus asset values for Norske Skog are product prices relative production costs. The starting point for the impairment test is the operating plan 2017 approved by the board of directors, updated with the latest forecast of sale prices and costs. Beyond 2017 sales prices are increased by inflation adjusted by a factor assuming that not all cost increases are passed on to customers. Costs beyond 2017 is extrapolated from historical figures by inflation. The inflation rates applied in the period are estimated by country, and is in the range of 1.5% to 2.5%. Contracted prices/costs are reflected when applicable.

The market outlook was discussed throughout in the second quarter 2016 impairment testing process. Norske Skog had lately reached lower levels of gross operating earnings reflecting an industry fight for market share in Europe, declining demand in Australasia and historically low prices for newsprint in Asia. To avoid low margin sales and to support the company's commercial policy, the mills have reduced their capacity utilization when needed. The management is of the opinion that a reversal towards a more sustainable industry structure represents the best estimate for cash flows over the life time of the paper machines. The IFRS accounting standard IAS 36 however requires more weight to be assigned to historical and current margins resulting in an impairment charge for Norske Skog assets of approximately NOK 1.4 billion in the second quarter 2016. The impairment charge was mainly related to the business in Australasia with NOK 947 million and NOK 291 million for the European business. In addition an impairment of NOK 205 million for the associated company Malaysian Newsprint Industries Sdn Bhd (MNI) was recognized.

When calculating value in use at 30 June 2016, the discount rate after tax (WACC) was 7% for Norway, 7% for France, 6.3% for Austria, 7.8% for Australia, 8.1% for New Zealand and 11.2% for Malaysia. The reason for differences in discount rates are different interest rate levels and country specific risks.

In connection with the impairment test carried out in second quarter 2016, Norske Skog requested the consultancy Boston Consulting Group to prepare a comprehensive analysis of the paper markets that Norske Skog operates in. The analysis gives a forward looking view based on the dynamics that have been observed in the market as well as the key drivers for prices and volumes up to 2020. The conclusions of analysis are broadly in line with management views, but slightly more conservative on prices and margins compared to the impairment model used for 2015.

An updated impairment test has been carried out as of 31 December 2016. The starting point for the impairment test was the operating plan 2017 approved by the board of directors, updated with the latest forecast of sale prices and costs. The impairment test has been prepared consistent with the impairment test as of 30 June 2016. The test shows no need for further impairment as of 31 December 2016.

When calculating value in use at 31 December 2016, the discount rate after tax (WACC) was 7.6% for Norway, 7.4% for France, 6.6% for Austria, 8.4% for Australia, 8.8% for New Zealand and 11.8% for Malaysia. The reason for differences in discount rates are different interest rate levels, different tax rates and country specific risks.

The forecast for 2017 assumes similar margins, compared to 2016, for the Norske Skog group reflecting contracted higher prices and lower costs. Weak margins in 2014 and 2015 was due to underperforming assets, investments and trough of the cycle. Higher margins outlook due to favorable pricing environment, enhanced cost position and completed investments and higher capacity utilization in industry.

SENSITIVITY TO ESTIMATES OF RECOVERABLE AMOUNT

The estimation of recoverable amount is based on assumptions regarding the future development of several factors. These include price development for finished goods, sales volumes, currency rates and interest rates. This means that there will be uncertainty when it comes to the outcome of these calculations. In relation to the assumptions made in the calculation of the present value of future cash flows, recoverable amount is most sensitive to changes in prices of finished goods, sales volumes and the discount rate used. Given the assumptions outlined above, there is no impairment indication for fully owned assets. A partial sensitivity analysis would result in the following impairment indications. The sensitivities are applied in all scenarios throughout the forecasting period.

SENSITIVITY	IMPAIRMENT INDICATION
5% decrease in the sales price	-2 540
5% decrease in volume	-798
1% increase in the discount rate (WACC)	-129

PROPERTY, PLANT AND EQUIPMENT ALLOCATED TO CASH-GENERATING UNITS

The table below shows machinery and equipment and land and buildings allocated to Norske Skog's cash-generating units.

	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS
Europe Newsprint	2 135	862
Australasia Newsprint	1 502	121
Magazine	263	217
Super calendared	512	441
Other	11	10
Carrying value 31 December 2016	**4 422**	**1 651**

EXPECTED USEFUL LIFE

Norske Skog has conducted sensitivity analyses with respect to changes in expected useful life of the group's paper machines. If the expected useful life of all the group's paper machines is reduced by one year, the annual depreciation charge will increase by around NOK 53 million.

In connection with the year-end closing process for 2016, Norske Skog performed a review of the expected remaining useful lives of PPE. The useful life of all machines were reduced by one year. The reduction in useful life has a negative impact on the estimated recoverable amount of the mills. As the level of depreciation in 2016 by far exceeded purchases of PPE the future annual depreciation amount is expected to decrease.

5. FINANCIAL ITEMS

FINANCIAL INCOME	2016	2015
Dividends received	0	0
Interest income	7	11
Gains from exchange of bonds	1 624	767
Gains from fair value hedge	0	90
Other financial income [1]	45	25
Total	**1 676**	**893**

FINANCIAL EXPENSES	2016	2015
Interest costs	-917	-929
Other financial expenses	-95	-46
Total	**-1 012**	**-975**
Net unrealised/realised gains/losses on foreign currency	**380**	**-719**
Financial items	**1 044**	**-801**

[1] Other financial income in 2016 and 2015 includes gains on the buy-back of bonds

In first quarter 2016, Norske Skog launched a new exchange offer to the holder of the senior notes due in 2017 to exchange into new notes due in 2026, perpetual notes and the right to subscribe for equity.

The exchange offer was completed on 12 April 2016. The new unsecured notes due in 2026 will, as the existing 2017 notes, rank junior to the EUR 290 million senior secured notes (SSN) due in December 2019, and the EUR 159 million 2021 and USD 61 million 2023 guaranteed unsecured notes. The 2026 notes are issued by Norske Skogindustrier ASA and have a nominal amount of EUR 114 million. Carrying value at initial recognition were EUR 34 million (NOK 321 million).

Norske Skog recognised a net gain, in connection with the exchange offer, of NOK 1 624 million in 2016, which is included in Gains from exchange of bonds. Initial recognition of the new unsecured notes due in 2026 and the perpetual notes were estimated at fair value at initial recognition in April 2016. The fair value were estimated by comparing with trading levels of similar bonds issued by Norske Skog to reflect the value of the consideration received for the exchange. The estimates are classified as level 2 fair values in the fair value hierarchy (see Note 9) due to the use of observable inputs, including own credit risk. See Note 21 for more information regarding the perpetual notes.

On 22 January 2015, Norske Skog launched two separate offers (i) an offering of EUR 290 million Senior Secured Notes (SSN) due December 2019 and (ii) an exchange offer of existing notes

On 24 February 2015, Norske Skog completed the refinancing of a portion of its bond maturities through the issuance of EUR 290 million SSN and the exchange of existing bonds into new bonds with longer maturities. Norske Skog extended the maturities on a significant portion of its indebtedness, with new notes maturing in 2019, 2021 and 2023. The new EUR 290 million SSN mature in December 2019 and is structurally senior to all remaining existing notes and notes issued in the exchange offer. The exchange notes are structurally junior to the SSN, but structurally senior to remaining existing notes and mature in 2021 and 2023. The remaining existing notes are structurally junior to the SSN and exchange notes.

Norske Skog recognised a net gain in connection with the refinancing of NOK 767 million 2015, included in Gains from exchange of bonds

6. MORTGAGES

LOANS SECURED BY MORTGAGES ON PROPERTY	31.12.2016	31.12.2015
2019 Senior Secured Notes (EUR 290 million)	2 635	2 790
Innovasjon Norge	35	95
Other mortgage debt	128	148

On 24 February 2015, Norske Skog completed the refinancing of a portion of its bond maturities through the issuance of EUR 290 million Senior Secured Notes (SSN) maturing in December 2019. The security package comprises a first-ranking security interest in the property, plant and machinery in our mills Albury and Boyer in Australia and Tasman in New Zealand, together with pledges over bank accounts, inventory, certain receivables and other assets in Australia and New Zealand. In addition, the security package includes a first-ranking security interest in all shares of and guarantees from Norske Skog Bruck GmbH, Norske Skog Golbey SAS, Norske Skog Industries Australia Limited, Norske Skog (Australasia) Pty Limited, Norske Skog Paper Mills (Australia) Limited, Norske Skog Saugbrugs AS, Norske Skog Skogn AS and Norske Skog Tasman Limited and a share capital security of Norske Skog Treindustrier AS and Lysaker Invest AS. The EUR 290 million SSN are governed by a market standard secured high yield notes indenture which, among other things, includes asset sales limitations.

The Innovasjon Norge facility is secured by a first priority pledge on property, plant and equipment at our mills in Norske Skog Saugbrugs AS and Norske Skog Skogn AS. The book value of the pledged assets is NOK 35 million. The remaining other mortgage debt is one facility secured by land and forest areas taken up at Norske Skog Boyer in Australia and one EUR 10 million loan facility taken up in Norske Skog AS secured by pledge on property, plant and equipment at our mills in Norske Skog Saugbrugs AS and Norske Skog Skogn AS.

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2016	NOTE	LOANS AND RECEIVABLES	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILBLE-FOR-SALE FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL
Other non-current assets	10	17	41	96	7	161
Trade and other receivables	10	1 257	0	0	89	1 345
Cash and cash equivalents		532	0	0	0	532
Other current assets	18	12	32	0	0	44
Total		**1 818**	**73**	**96**	**95**	

31.12.2016	NOTE	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	NON-FINANCIAL LIABILITIES	TOTAL
Interest-bearing non-current liabilities	11	0	6 429	0	6 429
Interest-bearing current liabilities	11	0	466	0	466
Other non-current liabilities	18	202	0	322	524
Trade and other payables	18	0	1 868	0	1 868
Other current liabilities	18	147	48	10	204
Total		**349**	**8 810**	**332**	

31.12.2015	NOTE	LOANS AND RECEIVABLES	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE- FOR-SALE FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL
Other non-current assets	10	22	259	145	0	426
Trade and other receivables	10	1 277	0	0	80	1 357
Cash and cash equivalents		536	0	0	0	536
Other current assets	18	13	27	0	0	40
Total		**1 848**	**286**	**145**	**80**	

31.12.2015	NOTE	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	NON-FINANCIAL LIABILITIES	TOTAL
Interest-bearing non-current liabilities	11	0	7 453	0	7 453
Interest-bearing current liabilities	11	0	1 676	0	1 676
Other non-current liabilities	18	307	0	324	631
Trade and other payables	18	0	1 921	0	1 921
Other current liabilities	18	240	55	13	308
Total		**547**	**11 105**	**337**	

FAIR VALUE MEASUREMENT HIERARCHY FOR FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

31.12.2016	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives	33	33	0	0	33
Commodity contracts	8	8	0	1	7
Miscellaneous other non-current assets	120	120	0	0	120
Other non-current assets	**161**	**161**	**0**	**1**	**160**
Accounts receivable	998	998	0	0	998
Other receivables	258	258	0	0	258
Prepaid VAT	89	89	0	0	89
Trade and other receivables	**1 345**	**1 345**	**0**	**0**	**1 345**
Cash and cash equivalents	532	532	0	0	532
Derivatives	6	6	0	0	6
Commodity contracts	26	26	0	24	2
Current investments	12	12	0	0	12
Other current assets	**44**	**44**	**0**	**24**	**20**
Interest-bearing non-current liabilities [1)]	6 429	5 175	0	4 957	217
Interest-bearing current liabilities	466	466	0	0	466
Total interest-bearing liabilities	**6 895**	**5 640**	**0**	**4 957**	**683**
Derivatives	201	201	0	0	201
Commodity contracts	1	1	0	0	1
Non-financial non-current liabilities	322	322	0	0	322
Other non-current liabilities	**524**	**524**	**0**	**0**	**524**
Accounts payable	1 078	1 078	0	0	1 078
Other payables	790	790	0	0	790
Trade and other payables	**1 868**	**1 868**	**0**	**0**	**1 868**
Derivatives	39	39	0	0	39
Commodity contracts	28	28	0	0	28
Non-financial current liabilities	137	137	0	0	137
Other current liabilities	**204**	**204**	**0**	**0**	**204**

31.12.2015	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives	28	28	0	0	28
Commodity contracts	231	231	0	0	231
Miscellaneous other non-current assets	167	167	0	0	167
Other non-current assets	**426**	**426**	**0**	**0**	**426**
Accounts receivable	1 112	1 112	0	0	1 112
Other receivables	166	166	0	0	166
Prepaid VAT	80	80	0	0	80
Trade and other receivables	**1 357**	**1 357**	**0**	**0**	**1 357**
Cash and cash equivalents	536	536	0	0	536
Derivatives	3	3	0	0	3
Commodity contracts	24	24	0	0	24
Current investments	13	13	0	0	13
Other current assets	**40**	**40**	**0**	**0**	**40**
Interest-bearing non-current liabilities [1]	7 453	3 875	0	3 703	172
Interest-bearing current liabilities	1 676	1 300	0	668	632
Total interest-bearing liabilities	**9 129**	**5 175**	**0**	**4 371**	**804**
Derivatives	269	269	0	0	269
Commodity contracts	38	38	0	18	20
Non-financial non-current liabilities	324	324	0	0	324
Other non-current liabilities	**631**	**631**	**0**	**18**	**613**
Accounts payable	1 087	1 087	0	0	1 087
Other payables	834	834	0	0	834
Trade and other payables	**1 921**	**1 921**	**0**	**0**	**1 921**
Derivatives	54	54	0	0	54
Commodity contracts	20	20	0	18	2
Non-financial current liabilities	234	234	0	0	234
Other current liabilities	**308**	**308**	**0**	**18**	**290**

[1] The fair value of foreign bonds (Interest-bearing liabilities) (Level 2) is assessed by using price indications from banks at the reporting data. There is some uncertainty associated with the calculated fair value of Level 3 interest-bearing liabilities. The fair value of non-current bank loan debt (Level 3) is based on cash flows discounted using the swap rate, plus the credit default swap (CDS). The fair value calculation on other interest-bearing liabilities (Level 3) is based on acknowledged valuation principles according to IFRS, but is not necessarily an estimate of the amount the group would have to cover if it were to repay all its debt to all lenders.

The fair values of cash and cash equivalents, trade receivables and other receivables, other assets, trade payables and other payables and other current liabilities remain largely consistent with the book value due to the short maturities of such positions. The fair value of derivatives and commodity contracts is described in Note 9.

8. FINANCIAL RISK AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

Norske Skog is exposed to various financial risk factors through the group's operating activities, including market risk (interest rate risk, currency risk and commodity risk), liquidity risk and credit risk. Norske Skog seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog monitors and manages financial risk based on internal policies and standards set forth by corporate management and approved by the board of directors. These written policies provide principles for the overall risk management as well as standards for managing currency risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored. There were no breaches of these policies during 2016 or 2015.

MARKET RISK

a) Interest rate risk

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

INTEREST-BEARING ASSETS AND LIABILITIES	31.12.2016 FLOATING	FIXED	TOTAL	31.12.2015 FLOATING	FIXED	TOTAL
Interest-bearing liabilities	529	6 364	6 893	804	8 325	9 129
Interest-bearing assets	-532	0	-532	-536	0	-536
Net exposure	**-3**	**6 364**	**6 361**	**268**	**8 325**	**8 593**

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

Interest rate sensitivity analysis

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

- Floating rate debt is exposed to changes in market interest rates, i.e. the interest costs or interest income associated with such instruments will fluctuate based on changes in market rates. These changes are accounted for in the sensitivity analysis. The result is based on the assumption that all other factors are kept constant.
- Changes in market rates on fixed rate debt will only affect the income statement if they are measured at fair value. Thus, fixed rate instruments recognised at amortised cost will not represent an interest rate risk as defined by IFRS 7. Such instruments will therefore not have any influence on the sensitivity analysis.
- Results are presented net of tax, using the Norwegian statutory tax rate of 24%.

The interest rate sensitivity analysis is based on a parallel shift in the yield curve for each relevant currency to which Norske Skog is exposed. Following a 50 basis point downward/upward parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK 1 million higher/lower at 31 December 2016 (NOK 2 million lower/higher at 31 December 2015). Change in net interest payments accounts for NOK 1 million, and the total change in market values of derivatives carried at fair value through profit or loss accounts for NOK 0 million.

b) Currency risk

Transaction risk - cash flow hedge

The group has revenues and expenses in various currencies. The major currencies are NOK, EUR, USD, GBP, AUD and NZD. Transaction risk arises because the group has a different currency split on income and expenses. Norske Skog calculates a 12-month future cash flow exposure in each currency on a rolling basis. The rolling cash flow hedge program was closed during 2014. Norske Skog is currently only doing short term hedging activities. The result of the hedging is included in financial items in the income statement. Norske Skog did not use hedge accounting for the rolling cash flow hedge. The cash flow hedge from short term FX swaps generated a gain of NOK 2 million in 2016 (gain of NOK 2 million in 2015).

Translation risk - net investment hedge

The presentational currency of the Norske Skog group is NOK. Currency translation risk arises when the financial statements of subsidiaries, presented in local currencies, are translated into NOK. In order to reduce translation risk, assets and liabilities are allocated to the same currency.

Norske Skog's net investment hedging is carried out in accordance with IAS 39. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the income statement. There was no ineffectiveness related to net investment hedge in 2016 or 2015. The effective portion recognised in equity was a loss of NOK 37 million in 2016 (loss of NOK 108 million in 2015).

Hedge accounting of the EUR loan was stopped in 2016 following the repayment of the EUR 2016 and exchange of the EUR 2017 bonds. The Foreign exchange gains and losses from such liabilities are recognised in the income statement under financial items.

Cumulative currency translation differences of NOK 0 million were reclassified from equity to the income statement in 2016 as a result of the divestments of Norske Skog Belgium N.V. Cumulative currency translation differences of NOK 95 million were reclassified from equity to the income statement in 2015 as a result of the divestments of Walsum Papier GmbH.

CHANGE IN FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS DESIGNATED AS NET INVESTMENT HEDGE	2016	2015
Changes in fair value of EUR bonds designated as net investment hedge	80	-187
The effective portion recognised in equity	-37	108
Portion without hedge accounting recognised in the income statement	43	-79

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

- Norske Skog as a group comprises entities with different functional currencies. Derivative and non-derivative financial instruments of a monetary nature, denominated in currencies different from the functional currency of the entity, create foreign exchange rate exposure on the consolidated income statement. Moreover, foreign currency risk will also affect equity.
- Financial instruments denominated in the functional currency of the entity have no currency risk and will therefore not be applicable to this analysis. Furthermore, the foreign currency exposure of translating financial accounts of subsidiaries into the group's presentational currency is not part of this analysis.
- Sensitivity on commodity contracts and embedded derivatives is presented separately under "commodity risk".
- Currency derivatives and foreign currency debt that are designated as net investment hedges and qualify for hedge accounting according to IAS 39 will only affect equity.
- Other currency derivatives that are recognised at fair value through profit and loss will affect the income statement. These effects come mainly from currency derivatives and financial liabilities managed as economic net investment hedges which do not qualify for hedge accounting according to IAS 39.
- Other non-derivative financial instruments accounted for in the analysis comprise cash and cash equivalents, accounts payable, accounts receivable and borrowings denominated in currencies different from the functional currency of the entity.
- Correlation effects between currencies are not taken into account. Figures are presented net of tax.

At 31 December 2016, if NOK had appreciated/depreciated 10% against all currencies to which the group has significant exposure, net profit after tax from financial instruments would have been NOK 470 million higher/lower (NOK 532 million higher/lower at 31 December 2015). The effect of the sensitivity analysis on the income statement is mainly caused by foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting. Because the portion of debt has decreased in the relation to the portion of the cash the effect on the income is lower in 2016 compared to 2015.

Given a 10% appreciation/depreciation of NOK, equity would have been NOK 0 million higher/lower (NOK 118 million higher/lower at 31 December 2015) as a result of foreign exchange gains/losses on financial instruments designated as net investment hedges. The sensitivity analysis on equity excludes the effects from the sensitivity analysis on the income statement, calculated above.

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

Some of Norske Skog's purchase and sales contracts are defined as financial instruments, or contain embedded derivatives, which fall within the scope of IAS 39. These financial instruments and embedded derivatives are measured in the balance sheet at fair value with value changes recognised through profit or loss. Commodity contracts are financial contracts for the purpose of either trading or hedging. The embedded derivatives are common in physical commodity contracts and comprise a wide variety of derivative characteristics.

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

Norske Skog's portfolio of commodity contracts mainly of physical energy contracts. Fair value of commodity contracts is especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts depends on currency and price index fluctuations. The energy contracts in Norway are nominated in EUR. These contracts contain embedded derivatives that are sensitive to changes in exchange rates. NOK strengthened against EUR during 2016, which had a positive effect on the fair value of the embedded derivatives.

Sensitivity analysis for commodity contracts
Trading and hedging mandates have been established for energy activity. Financial trading and hedging activities are carried out bilaterally with banks and trading companies.

When calculating fair value of future and forward contracts, cash flows are by principle assumed to occur in the middle of the period. Currency effects arise when contract values nominated in foreign currencies are translated into the reporting currency. Net profit after tax is affected in a non-linear manner due to changes in the fair value of options

COMMODITY CONTRACTS WITHIN THE SCOPE OF IAS 39	FAIR VALUE 31.12.2016	NET PROFIT AFTER TAX – INCREASE	NET PROFIT AFTER TAX – DECREASE
Energy price change 10%	-19	+146	-139
Currency change 10%	-19	0	0

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

EMBEDDED DERIVATIVES	FAIR VALUE 31.12.2016	NET PROFIT AFTER TAX – INCREASE	NET PROFIT AFTER TAX – DECREASE
Currency change 10%	-207	-219	+245
Price index change 2.5%	-207	-3	+3

LIQUIDITY RISK
Norske Skog is exposed to liquidity risk in a scenario when the group's cash flow from operating activities is not sufficient to cover payments of financial liabilities. In order to effectively mitigate liquidity risk, Norske Skog's liquidity risk management strategy focuses on maintaining sufficient cash, as well as securing available financing through committed credit facilities. Managing liquidity risk is centralised on a group level.

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long-term cash flows. Cash flow forecasts include cash flows from operations, investments, financing activities and financial instruments. The group had current investments, cash and cash equivalents of NOK 532 million at 31 December 2016 (NOK 536 million at 31 December 2015. Restricted bank deposits amounted to NOK 207 million at31 December 2016 (NOK 236 million at 31 December 2015).

The board of directors recognises the challenging markets that Norske Skog operates in with price and currency uncertainty. The board of directors will thus have a continuous focus on cash generation through 2017 to ensure sufficient liquidity for both debt maturities and the operations of Norske Skog.

The table "Financial liability payments" in Note 11 shows the contractual maturities of non-derivative financial liabilities. All amounts disclosed in the table are undiscounted cash flows. Furthermore, amounts denominated in foreign currency are translated to NOK using closing rates at 31 December. These amounts consist of trade payables, interest payments and non-derivative financial instruments. Variable rate interest cash flows are calculated using the forward yield curve. Projected interest payments are based on the maturity schedule at 31 December without accounting for forecasted refinancing and/or other changes in the liability portfolio. All other cash flows are based on the group's positions held at 31 December 2016.

CREDIT RISK
Norske Skog makes a credit evaluation of all financial trading counterparties. Based on the evaluation, a limit on credit exposure is established for each counterparty. These limits are monitored continuously in relation to unrealised profit on financial instruments and placements. The maximum credit risk arising from financial instruments is represented by the carrying amount of financial assets in the balance sheet. This includes derivatives with positive market value except for embedded derivatives. Embedded derivatives are not subjected to credit risk, as there are no future cash flows associated with such derivatives.

Norske Skog trades with a group of large Nordic and international banks which are publicly rated in the interval from AA- to A-. The credit risk on deposits and derivative transactions is spread across these banks

Norske Skog's procedures for credit management of European trade receivables, and the authority to approve credit lines to customers of European business units, are regulated by a policy drafted and maintained by a centralised credit management function at the head office. The operational responsibility to act within the guidelines as set out by this policy lies with each business unit. For operations outside of Europe, customer credit management is handled locally.

9. DERIVATIVES

FAIR VALUE OF DERIVATIVES

The table below classifies financial instruments within the scope of IAS 39 measured in the balance sheet at fair value, by valuation method. The different valuation methods are described as levels and are defined as follows:

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

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

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

31.12.2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss				
Trading derivatives	0	25	0	25
Commodity contracts and embedded derivatives	0	0	48	48
Total	**0**	**25**	**48**	**73**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	0	0	0
Commodity contracts and embedded derivatives	0	0	268	268
Total	**0**	**0**	**268**	**268**

31.12.2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss				
Trading derivatives	0	0	0	0
Commodity contracts and embedded derivatives	0	0	286	286
Total	**0**	**0**	**286**	**286**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-36	0	-36
Commodity contracts and embedded derivatives	0	0	-346	-346
Total	**0**	**-36**	**-346**	**-382**

The following table shows the changes in level 3 instruments at 31 December 2016.

	ASSETS	LIABILITIES
Opening balance	286	-346
Gains and losses recognised in profit or loss	-231	77
Currency translation differences	-7	1
Closing balance	**48**	**-268**

Norske Skog's portfolio of commodity contracts consist mainly of physical energy contracts. The commodity contracts and Embedded derivatives classified as financial within the scope of IAS 39 contracts are mainly related to energy contracts in Australia and New Zealand. Fair value of commodity contracts is sensitive to estimates of future energy prices. Fair value of embedded derivatives is sensitive to estimates of exchange rates and price indices.

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

The fair value of commodity contracts recognised in the balance sheet is calculated by using quotes from actively traded markets when available. Otherwise, price forecasts from acknowledged external sources are used. Commodity contracts that fail to meet the own-use exemption criteria in IAS 39 are recognised in the balance sheet and valued on the same principle as financial contracts. Some of these are long-term energy contracts. In calculating the fair value of embedded derivatives, valuation techniques are used in the absence of observable market inputs.

Fair value includes the impact of credit risk and the adjustment for credit risk is dependent on whether the derivative is in the money (asset) or out of the money (liability). Credit value adjustment is applied to assets positions based on credit risk associated with the counter-party. Debit value adjustment is applied to liability positions, based on Norske Skog's own credit risk, set to 11% at 31 December 2016.

The following table is presented in accordance with IFRS 13.94, showing the fair value of all commodity contracts in level 3 within the scope of IAS 39 given a change in assumptions to a reasonably possible alternative.

FAIR VALUE OF DERIVATIVES IN LEVEL 3 GIVEN A REASONABLY POSSIBLE ALTERNATIVE		31.12.2016	31.12.2015
Assets			
Commodity contracts	Energy price -2%	42	257
Liabilities			
Commodity contracts	Energy price -2%	-281	-343

The electricity prices for long-term electricity contracts in New Zealand are not directly observable in the market for the whole contract length. A change in the forecast to a reasonably possible alternative would change the fair value. For the energy contracts in New Zealand, a reasonably possible alternative at 31 December 2016 would be a downwards parallel shift of the long end of the forward curve of 2% (downwards shift of 2% in 2015).

	31.12.2016		31.12.2015	
DERIVATIVES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commodity contracts	34	-29	255	-58
Embedded derivatives	39	-240	31	-323
Total	**73**	**-268**	**286**	**-382**

The table above includes only derivatives, and the total amount may differ compared to other tables showing financial assets and liabilities. The group has no active management contracts (forward rate contracts, currency options and forward contracts) at year-end.

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	NOTE	31.12.2016	31.12.2015
Trade and other receivables			
Accounts receivable		998	1 112
Provision for bad debt		-80	-105
Other receivables		208	185
VAT receivables		89	80
Prepaid expenses		130	85
Total		**1 345**	**1 357**
Other non-current assets			
Loans to employees		1	1
Long-term shareholdings	23	96	145
Miscellaneous non-current receivables		16	21
Derivatives	7	33	28
Commodity contracts	7	8	231
Pension plan assets	13	7	0
Total		**161**	**426**

Norske Skog Bruck has a factoring facility with a limit of EUR 25 million The facility is not bearing financial covenants. Accounts receivable that have been sold are deducted from accounts receivable in the balance sheet. The utilisation at 31 December 2016 was NOK 129 million (31 December 2015 was NOK 125 million).

The credit risk on trade and other receivables is continuously monitored, independent of due date. The group's sales are mainly to large customers with a low degree of default. Collateral as security is not normally requested. Further information regarding the group's credit policy for sales is provided in Note 8.

AGEING OF THE GROUP'S ACCOUNTS RECEIVABLE	31.12.2016	31.12.2015
Not due	812	913
0 to 3 months	112	104
3 to 6 months	0	2
Over 6 months	74	93
Total [1]	**998**	**1 112**

[1] *Does not include provision for bad debt.*

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

11. INTEREST-BEARING LIABILITIES

Bond financing constitutes the majority of Norske Skog's total debt financing. The 2026 and 2033 bonds are issued by Norske Skogindustrier ASA and are unsecured. The 2021 and 2023 bonds are issued by Norske Skog Holding AS and are unsecured, but guaranteed. The 2019 bond is issued by Norske Skog AS and is guaranteed and secured. The 2026 bond has a 3.5% cash coupon and a 3.5% Payment in Kind ("PIK") interest element, which accrues throughout the duration of the bond and is paid at maturity. The Table below shows the maturity and coupon interest for the interest-bearing debt as of 31 December 2016.

MATURITY	CURRENCY	COUPON	NOMINAL VALUE AT DATE OF ISSUE	AMOUNT OUTSTANDING 31.12.2016
February 2023	USD	8.00%	USD 61 million	USD 61 million
October 2033	USD	7.125%	USD 200 million	USD 95 million
December 2019	EUR	11.75%	EUR 290 million	EUR 290 million
February 2021	EUR	8.00%	EUR 159 million	EUR 148 million
June 2026	EUR	3.50% / 3.50% PIK	EUR 114 million	EUR 117 million

INTEREST-BEARING DEBT	31.12.2016	31.12.2015
Bonds	6 381	8 777
Debt to financial institutions	405	302
Securitisation/Factoring Facilities	1 201	502
Total	**7 987**	**9 581**

INTEREST-BEARING DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2016	NOK 31.12.2016	NOK 31.12.2015
USD	156	1 341	1 370
EUR	699	6 356	7 707
AUD	29	180	175
NZD	0	0	6
Total interest-bearing debt in foreign currencies		**7 877**	**9 259**
Interest-bearing debt in NOK	110	110	322
Total interest-bearing debt		**7 987**	**9 581**

The average interest rate on par value of debt at 31 December 2016 was 8.8% (8.9% at 31 December 2015). The average effective interest rate in 2016 was 11.9% (10.8% in 2015).

FINANCIAL DEBT PAYMENTS

MATURITY OF THE GROUP'S FINANCIAL DEBT AT 31 DECEMBER 2016	PROJECTED INTEREST [1]	OTHER LOANS	BONDS	TOTAL
2017	615	466	0	1 081
2018	613	48	0	661
2019	615	35	2 635	3 285
2020	264	949	0	1 213
2021	197	21	1 341	1 559
2022	145	22	0	167
2023	125	24	523	672
2024	106	21	0	127
2025-2033	684	20	1 882	2 586
Total	**3 364**	**1 605**	**6 381**	**11 351**

MATURITY OF THE GROUP'S FINANCIAL DEBT AT 31 DECEMBER 2015	PROJECTED INTEREST [1]	OTHER LOANS	BONDS	TOTAL
2016	762	632	1 044	2 438
2017	698	47	2 044	2 789
2018	554	17	0	571
2019	553	18	2 790	3 361
2020	225	18	0	243
2021	164	20	1 530	1 714
2022	102	16	0	118
2023	81	18	534	633
2024-2033	596	18	836	1 450
Total	**3 735**	**804**	**8 777**	**13 317**

[1] *Projected interests comprise interests on bonds and loan facilities.*

Total debt listed in the repayment schedule may differ from booked debt. This is due to interest, premiums or discounts on issued bonds, hedge reserves and fair value of hedging. At 31 December 2016, the financial statements included a discount of NOK 1 153 million (discount of NOK 522 million at 31 December 2015). Premiums or discounts on issued bonds are amortised in the income statement over the lifetime of the issued bonds. See Note 6 for loans secured by mortgage. The facilities do not contain any material financial covenants.

Trade payables amounted to NOK 1 078 million at 31 December 2016 are payable in 2017.

Norske Skog has changed its accounting practice with respect to classification of the financed amount from different securitisation arrangements in Norway, France and Australia during fourth quarter 2015. The change in accounting practice has resulted in a reclassification from interest-bearing non-current liabilities to interest-bearing current liabilities.

Norske Skog has changed its interpretation based on a reassessment of the securitisation loan arrangements. The financed amount represents a group of individual loans, which are settled individually at maturity of the accounts receivable. New loans are initiated on a consecutive basis based on new accounts receivable included under the securitisation agreement. The liability is in its nature current and Norske Skog does not have an unconditional right to defer settlement beyond twelve months. The liabilities are liabilities that are settled through its normal operating cycle. The corresponding accounts receivable is derecognised when the customer pays it.

NET INTEREST-BEARING DEBT

As a result of the termination of a large part of the fair value hedge portfolio in the beginning of 2009, an amount was reclassified in the balance sheet. A hedge reserve (deferred income) amounting to NOK 61 million is included in interest-bearing debt as at 31 December 2016 (NOK 70 million at 31 December 2015). The hedge reserve does not constitute any payment obligation for the group, but will be amortised in the income statement over the term of the debt that has been hedged (i.e. until 2033).

The group's holding of own bonds in foreign currency amounted to EUR 11.4 million at 31 December 2016 (EUR 19 million at 31 December 2015). These holdings are deducted from interest-bearing debt in NOK.

As at 31 December 2016 net interest-bearing debt amounted to NOK 6 302 million.

12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2016	2015
Salaries including holiday pay		1 403	1 402
Social security contributions		315	314
Pension costs	13	73	74
Other employee benefit expenses		65	59
Total		**1 855**	**1 848**

NUMBER OF EMPLOYEES BY REGION	31.12.2016	31.12.2015
Europe	1 762	1 827
Australasia	664	688
Corporate functions (head office)	36	42
Total	**2 462**	**2 557**

The base salary for the president and chief executive officer (CEO) Sven Ombudstvedt at 31 December 2016 was NOK 4 550 000. Total salary and other benefits received by Ombudstvedt in 2016 amounted to NOK 11 134 000 (NOK 8 017 000 in 2015).

The CEO's retirement age is 64. Early retirement benefits and salary over 12 G (base amount in the Norwegian national insurance scheme) are covered by a supplementary agreement for corporate management. The CEO entered the company's defined contribution pension plan from 1 January 2011.

The mutual period of notice for the CEO is six months. If circumstances arise in which the company and the CEO, by mutual agreement, terminate the contract of employment in the best interests of the company, the CEO is entitled to severance pay equivalent to payment of base salary for 18 months after the end of the notice period. The amount receivable by other members of corporate management under the same circumstances is severance pay equivalent to payment of base salary for nine months.

The annual bonus agreements for the CEO and other members of corporate management specify a maximum payment of 50% of base salary. The basis for calculating this bonus is set annually by the board and CEO. In addition there has been project bonus payments to members of the corporate management. No members of corporate management have been given loans or granted securities or guarantees from the employer.

The total remuneration for the board of directors in 2016 was NOK 3 181 000 (NOK 3 306 000 in 2015). For the election and remuneration committee, the total remuneration was NOK 388 000 (NOK 469 000 in 2015).

Please see Note 9 Board statement on remuneration for senior executive in the parent company financial statements, for further information on remuneration to executive employees.

REMUNERATION FOR MEMBERS OF CORPORATE MANAGEMENT
(in NOK 1 000)
In accordance with the code of conduct for corporate governance recommended by the Oslo Stock Exchange, salary, benifits in kind and bonus for members of corporate management are specified below.

2016	SALARY	BENIFITS IN KIND ETC. [1]	BONUS [2]	CONTRIBUTION TO DEFINED CONTRIBUTION SCHEMES	GRANTED STOCK OPTIONS (NUMBER OF OPTIONS)
Sven Ombudstvedt (CEO)	4 817	275	5 300	742	1 000 000
Roar Ødelien (COO)	2 093	203	893	242	925 000
Rune Sollie (CFO)	2 020	199	1 493	237	925 000
Lars P. Sperre (SVP)	2 316	217	2 735	298	925 000

2015	SALARY	BENIFITS IN KIND ETC. [1]	BONUS [3]	CONTRIBUTION TO DEFINED CONTRIBUTION SCHEMES	GRANTED STOCK OPTIONS (NUMBER OF OPTIONS)
Sven Ombudstvedt (CEO)	4 609	288	2 388	732	130 000
Roar Ødelien (COO)	1 901	236	423	225	65 000
Rune Sollie (CFO)	1 793	208	1 113	215	65 000
Lars P. Sperre (SVP)	1 879	209	1 384	222	65 000

[1] *Includes car allowance, insurance, free telephone, etc.*
[2] *Based on results achieved in the financial year, partly paid in 2016 and in 2017.*
[3] *Based on results achieved in the financial year, partly paid in 2015 and in 2016.*

LONG-TERM INCENTIVE PROGRAMME
The purpose of the company's long-term incentive programme is to secure a continued strong focus on the development of shareholder value. The current long-term incentive programme was launched in 2014, and is based on rolling scheme with awards of synthetic options targeting a positive share price development over a three-year period from the date of award of the relevant synthetic options. Within the frames of the programme, the board may grant synthetic options to the corporate management and other key employees, including managing directors of the Norwegian business units. The total frame of the long-term incentive program is 7% of the shares outstanding with a total of 13 230 000 synthetic options issued. The synthetic options are settled three years following the date they are awarded, but up to one third of the options may at the board's discretion be settled through a bonus payment each year after the relevant award.

In 2014, 3 780 000 synthetic options were issued under the programme, and were awarded with 2 430 00 options on 16 July 2014 and 1 345 000 options on 2 June 2015. In 2016, 9 450 000 new synthetic options were issued under the programme. As of the date hereof, 7 180 000 of the synthetic options issued in 2016 have been awarded.

Each option carries the right to be paid an amount in cash equal to (a) the fair market value less (b) the exercise price, including any hurdle rate added to the exercise price as of the exercise date. Fair market value is the volume weighted average trading price of the shares on Oslo Stock Exchange over a period of five trading days starting on the exercise date.

The initial exercise price (strike price) for the synthetic options awarded in 2014 and 2015 were NOK 4.80 and NOK 3.85, respectively. The synthetic options issued in 2016 have a strike price of NOK 2.24, reflecting the subscription price applied in the private placement completed on 31 March 2015 and in the repair offering contemplated to be commenced at the end of May 2016. The exercise price for the synthetic options granted in 2014 and 2015 shall be increased by 10 per cent pro anno (the hurdle rate). The hurdle rate shall be added to the exercise price annually in arrears as of each anniversary of the award date, and shall from then be included in the basis for the calculation of further hurdle rate. The synthetic options issued in 2016 are not subject to a hurdle rate.

The long-term incentive falls within the scope of IFRS 2 Share-based payments. A share-based payment transaction is a transaction in which the company receives services from the employee of those services in a share-based payment arrangement. A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires services by incurring a liability to transfer cash to the employee of those services for amounts that are based on the price of the shares in the company. IFRS 2 applies not only to awards of shares but also to awards of cash of a value equivalent to the value, or a movement in the value, of a particular number of shares, which is the case for the long-term incentive plan. The ultimate cost of a cash-settled share-based transaction is the actual cash paid to the counterparty, which will be the fair value at settlement date.

The periodic determination of this liability is at each reporting date between grant and settlement the fair value of the award. The fair value of the award is determined in accordance with the specific requirements in IFRS 2. During the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period. All changes in the liability are recognised in profit or loss for the period. The fair value of the liability is determined by applying an option pricing model, taking into account the terms and conditions on which the cash-settled transaction was granted, and the extent to which the employees have rendered services to date. Norske Skog has made a fair value measurement of the liability using a Black & Scholes model for European call options with no dividends. The long-term incentive programme expense in 2016 for the member of corporate management were NOK 228 000. Share price of NOK 2.84 and volatility of 33.7% is used in the Black & Scholes calculation at 31 December 2016.

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

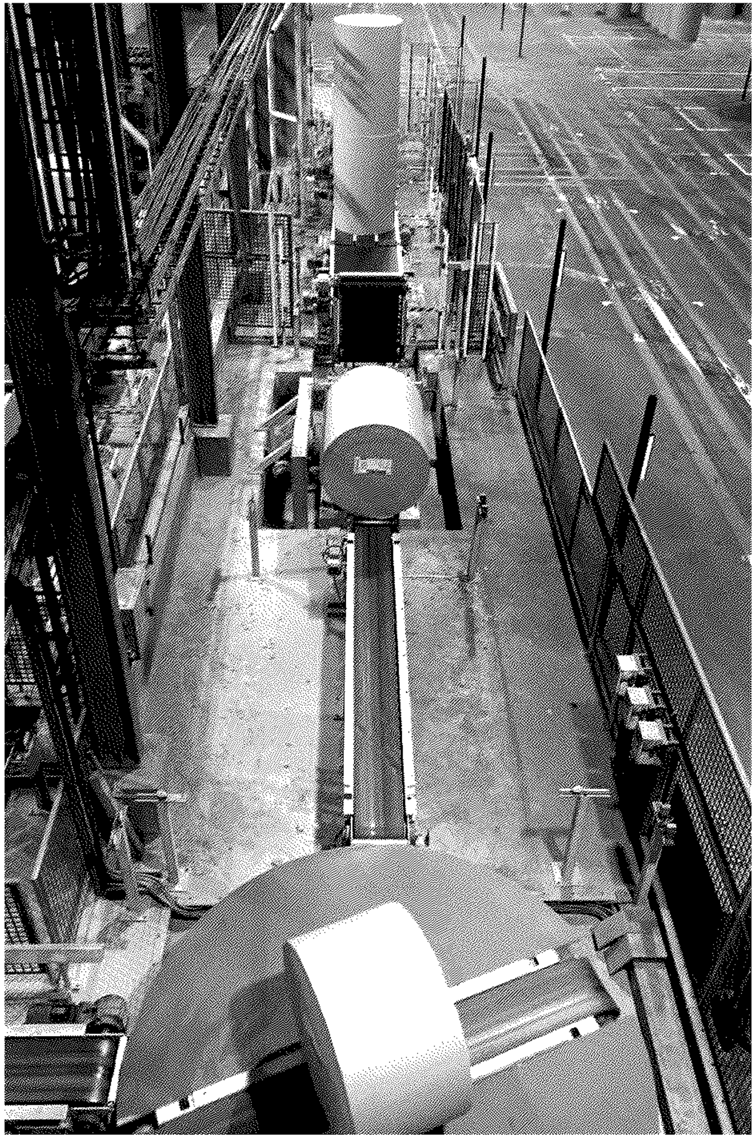
	SALARY	DIRECTORS FEE	REMUNERATION FOR COMMITTEE WORK
Henrik A. Christensen	0	198	0
Jon-Aksel Torgersen [1]	0	305	85
Eilif Due	0	328	108
Nils Ingemund Hoff	0	323	81
Joanne Owen	0	323	0
Mimi K. Berdal	0	191	0
Siri Beate Hatlen [1]	0	39	36
Paul Kristiansen	573	328	137
Karin Bing Orgland [1]	0	5	22
Svein Erik Veie	523	328	0
Ole Enger [1]	0	5	0
Cecilie Jonassen	798	328	0

[1] *Previous member who left the board during 2016.*
[2] *Previous member who left the board during 2016. Hatlen and Bing Orgland were members of the audit committee during 2015.*

AUDITORS FEES [1]
(in NOK 1 000, excluding VAT)

	PARENT COMPANY	NORWEGIAN SUBSIDIARIES AUDITED BY THE PARENT COMPANY AUDITOR	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	4 243	971	2 413	586	8 213
Audit-related assistance [2]	0	91	93	0	183
Tax assistance	270	0	0	58	328
Other fees	990	0	394	0	1 384
Total	**5 503**	**1 061**	**2 901**	**644**	**10 108**

[1] *Auditors fee in 2016 includes audit fee for both BDO and Ernst & Young.*
[2] *Audit-related assistance includes services, which only auditors can provide, such as the limited review of interim financial statements, agreed upon control procedures etc.*



13. PENSION COSTS AND PENSION OBLIGATIONS

Norske Skog has various pension schemes in accordance with local conditions and practices in the countries in which the group operates. A total of 1 803 current and former employees are covered by such schemes. Of these, 298 people are covered by defined benefit plans and 1 505 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

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

	BENEFIT IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65	30	70	62	48
Norske Skog Saugbrugs AS	65	30	70	62	106
Norske Skog Skogn AS	65	30	70	62	109
Norske Skog Deutschland GmbH		35	65	65	10

The defined benefit schemes in Norway cover people between 58 and 67 years of age, who were employed before 1 January 2011. The defined benefit obligations in Norway only encompass active members, since they leave the defined benefit scheme (having a paid-up policy) when they retire.

The defined benefit plan in Germany is closed and cover 11 previous employees

Plan assets of the pension schemes in Norske Skogindustrier ASA, Norske Skog Saugbrugs AS and Norske Skog Skogn AS are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. With effect from the beginning of 2011, a new defined contribution scheme was introduced in Norway, with a contribution of 4% for earnings between 1 and 6 G and 8% between 6 and 12 G. The defined benefit plan is closed and now only covers employees born before 1 January 1959 who were employed before the closure.

When evaluating plan assets, it is based on the assumptions as at 31 December. This estimated value is corrected every year in accordance with the figures for the market value of the assets provided by the insurance company.

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

When measuring the incurred obligations, it is based on the assumptions as at 31 December. This estimated obligation is corrected every year in accordance with the figures for incurred pension obligations provided by the actuary.

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

In addition to defined benefit plans, there are also various defined contribution plans. Norske Skog's companies in Norway participate in the AFP scheme. The AFP contractual pension scheme is a multi-employer defined benefit plan, but is recognised as a defined contribution plan. This is in line with the Ministry of Finance's conclusion regarding the AFP. Companies that participate in the AFP scheme are jointly responsible for two-thirds of the payable pension.

ASSUMPTIONS MADE WHEN CALCULATING FUTURE BENEFIT OBLIGATIONS IN NORWAY	2016	2015
Discount rate/expected return on plan assets	2.6%	2.4%
Salary adjustment	2.0%	2.2%
Social security increase/inflation rate	2.0%	2.8%
Pension growth rate	0.0%	0.0%

The discount rate applied for the pension schemes in Norway for 2016 is based on the interest rate for covered bonds. Subsidiaries can deviate from these assumptions if local conditions require this. The discount rates applied vary from 1.45 % to 2.6% and salary adjustments were 2%. Norske Skog has used the mortality table in Norway (K2013BE) and RT Heubeck 2005G in Germany.

NET PERIODIC PENSION/ INTEREST COST	2016	2015
Current service cost	6	10
Pension cost defined contribution schemes	67	66
Accrued national insurance contributions	0	0
Recognised curtailment and settlement	0	-2
Net periodic pension cost	**73**	**74**
Net periodic interest cost	**6**	**11**

Estimated payments to the group's defined benefit pension schemes in 2017 amounts to NOK 20 million (NOK 20 million in 2016).

PENSION PLANS IN THE BALANCE SHEET

PARTLY OR FULLY FUNDED PENSION PLANS	31.12.2016	31.12.2015
Projected benefit obligations including national insurance contributions	-188	-226
Plan assets at fair value	198	222
Net plan assets/pension obligations (-) in the balance sheet	**11**	**-4**

UNFUNDED PENSION PLANS	31.12.2016	31.12.2015
Projected benefit obligations including national insurance contributions	-268	-272
Net plan assets/pension obligations (-) in the balance sheet	**-258**	**-276**

The defined benefit pension plans relates to Europe. A minor defined benefit pension plan in Australia was locked during 2015.

SPECIFICATION OF PENSION PLANS IN THE BALANCE SHEET	31.12.2016	31.12.2015
Pension assets in the balance sheet	7	0
Pension liabilities in the balance sheet	-265	-276
Net pension obligations	**-258**	**-276**
Net unfunded pension plans	-268	-272
Net partly or fully funded pension plans	11	-4

CHANGES IN PENSION OBLIGATIONS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2016	2015
Balance 1 January	226	310
Service cost	6	8
Interest cost	5	6
Pension paid	-4	-2
Curtailments/settlements	-4	-59
Other changes	2	-2
Currency translation differences	0	4
Remeasurements	-44	-39
Balance 31 December	**188**	**226**

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2016	2015
Balance 1 January	222	281
Return on plan assets	5	5
Curtailments/settlements	-4	-48
Other changes	-4	0
Employer contribution	11	18
Remeasurements	-33	-32
Currency translation differences	0	-2
Balance 31 December	**198**	**222**

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2016	2015
Balance 1 January	-272	-790
Deconsolidation of Walsum Papier GmbH	0	535
Service cost	-3	-5
Interest cost	-1	0
Pension paid	6	6
Other changes	0	1
Currency translation differences	7	-9
Remeasurements	-5	-8
Balance 31 December	**-268**	**-272**

Remeasurements is mainly related to changes in financial assumptions.

SPESIFICATION OF REMEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2016	2015
Return on plan assets	0	0
Actuarial changes arising from changes in demographic assumptions	0	1
Actuarial changes arising from changes in financial assumptions	-15	0
Experience adjustments and investment management costs	8	0
Asset ceiling	-3	0
Total	**-11**	**1**

Remeasurements is mainly related to changes in financial assumptions.

	2016		2015	
INVESTMENT PROFILE FOR PENSION FUNDS	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	24	12%	23	10%
Bonds	144	73%	170	76%
Properties and real estate	28	14%	26	12%
Money market	1	0%	4	2%
Total	**198**	**100%**	**222**	**100%**

SENSITIVITY ANALYSIS

Norske Skog has performed sensitivity analyses of material group companies for the most important assumptions related to defined benefit schemes to predict how fluctuations will impact pension liabilities in the consolidated balance sheet. In relation to the assumptions made in the calculation of pension obligations the amount is most sensitive to changes in discount rate, salary adjustment and pension growth rate. The sensitivity of the pension obligation is shown in the table below:

SENSITIVITY	INCREASE	DECREASE
Discount rate - 0.5%	-14	16
Salary adjustment - 0.5%	6	-5
Future national security - 1.0%	5	-6
Future pension - 1.0%	N/A	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. No data is available for decrease of future national security. The sensitivity analysis is based on actuarial calculations for the Norwegian schemes.

14. OTHER OPERATING EXPENSES

	NOTE	2016	2015
Maintenance materials and services		477	460
Marketing expenses		11	11
Administration, insurance, travel expenses etc.		200	218
Losses on accounts receivable		-5	7
Operating leases	15	52	52
Research and development		1	1
Changes in environmental provisions		-10	-26
Miscellaneous expenses		145	153
Total		**872**	**877**
Specification of losses on accounts receivable			
Receivables written off during the period		8	4
Payments received on items previously written off		0	0
Change in provision for bad debt		-13	3
Total		**-5**	**7**

15. LEASES

OPERATING LEASES

The group recognised expenses of NOK 52 million in relation to operating leases in 2016. The equivalent expense in 2015 was NOK 52 million.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2016	31.12.2015
Not later than one year	19	24
Later than one year and not later than five years	38	60
Later than five years	10	12
Total	**67**	**96**

FINANCE LEASES

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

MINIMUM LEASE PAYMENTS RELATING TO FINANCE LEASES	31.12.2016	31.12.2015
Not later than one year	26	26
Later than one year and not later than five years	93	96
Later than five years	60	84
Total	**179**	**206**
Future finance charges on finance leases	-59	-74
Present value of minimum lease payments	**120**	**132**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2016	31.12.2015
Not later than one year	24	24
Later than one year and not later than five years	68	71
Later than five years	28	37
Total	**120**	**132**
Capitalised value of leased machinery and equipment	**48**	**101**

16. OTHER GAINS AND LOSSES

	2016	2015
Gains and losses from divestments and deconsolidating of business activities, property, plant and equipment	-17	-101
Changes in value – commodity contracts [1]	-181	8
Changes in value – embedded derivatives	85	1
Changes in value – biological assets	-12	-6
Other realised gains and losses	-2	2
Total	**-127**	**-97**

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

The net loss on divestments of business activities, property, plant and equipment in 2016 of NOK 17 million was primarily related sell of the Toppl power station at the Tasman mill and scrapping of equipment no longer in use.

The net loss on divestments of business activities, property, plant and equipment in 2015 of NOK 101 million was primarily related to deconsolidating of Walsum Papier GmbH and scrapping of equipment no longer in use.

In June 2015, the board of directors of Norske Skogindustrier ASA decided to cease the support of the operations at Walsum Papier GmbH. Thereafter local management at Walsum Papier GmbH filed for opening of insolvency proceedings. The company is currently under insolvency administration. Norske Skog is no longer the controlling owner of the mill, and Walsum Papier GmbH has therefore been deconsolidated.

The total loss of NOK 146 million on the deconsolidation includes a cumulative loss of NOK 95 million related to currency translation differences that were recognised directly in equity during the ownership period and reclassified to Other gains and losses upon deconsolidation.

A final settlement of the sales price in connection with the divestment of Catalyst Paper Corporation back in 2006 has been agreed in 2015. An accrual of NOK 44 million has been reversed in connection with the settlement. The last instalment from the settlement amounts to NOK 5 million and will be paid by Norske Skog in 2016.

Norske Skog's portfolio of commodity contracts consists mainly of physical energy contracts. The fair value of commodity contracts is especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts is influenced by currency and price index fluctuations. A sensitivity analysis of the impact on profit after tax of fluctuations in energy prices, currency and price indices is given in Note 8. The valuation techniques used are described in Note 9. The loss on embedded derivatives is due to that NOK has strengthened against EUR during the year.The loss on commodity contracts in 2016 is due to lower expected future energy prices. In 2015 the gain were due to negative change in producer price index in New Zealand.

Other realised gains and losses of NOK -2 million in 2016 and NOK 2 million in 2015 primarily related to financial hedging of energy.

17. INCOME TAXES

TAX EXPENSE	2016	2015
Current tax expense	-26	-41
Change in deferred tax	564	-479
Total	**538**	**-520**

RECONCILIATION OF THE GROUP TAX EXPENSE	2016	2015
Profit/loss before income taxes	-232	-1 005
Computed tax at nominal tax rate of 25%/27%	58	272
Differences due to different tax rates	61	82
Result from associated companies	-2	-6
Exempted income/non-deductible expenses	-97	-74
Reversal tax provision	0	20
Adjustment previous years	-10	0
Change in tax rate	56	0
Change in deferred tax	439	-822
Other items	32	8
Total tax expense (-) income (+)	**538**	**-520**
Effective tax rate	**232%**	**-52%**

The effective tax rate is calculated by dividing tax expense (-) or tax income (+) on profit / loss before income taxes. The relative high effective tax rate of 232% for 2016 is due to a tax income of NOK 538 million. This income mainly comprises of a change in deferred tax of NOK 564 million, whereof recognized deferred tax assets were NOK 257 million at 31 December 2016.

CURRENT TAX LIABILITY	31.12.2016	31.12.2015
Norway	6	18
Rest of Europe	4	-3
Outside Europe	0	0
Total	**11**	**15**

DEFERRED TAX - MOVEMENTS	2016	2015
Net deferred tax asset 1 January	-610	183
Change in deferred tax in the income statement	564	-479
Deconsolidation of subsidiaries	0	0
Tax on other comprehensive income	-22	-284
Tax effect FX net investment hedge	0	0
Group tax allocated to balance sheet	0	5
Currency translation differences	30	-35
Net deferred tax asset/liability (-) 31 December	**-36**	**-610**

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY	31.12.2016	31.12.2015
Norway	133	0
Rest of Europe	0	0
Outside Europe	125	0
Deferred tax asset	**257**	**0**
Norway	0	0
Rest of Europe	-293	-376
Outside Europe	0	-234
Deferred tax liability	**-293**	**-610**
Net deferred tax asset/liability (-)	**-36**	**-610**

DEFERRED TAX DETAILS	31.12.2016	31.12.2015
Fixed assets, excess values and depreciation	-316	-865
Pensions	9	14
Provisions and other liabilities	147	164
Currency translation differences and financial instruments	-180	390
Deferred tax current items	20	16
Tax losses and tax credit to carry forward	3 528	3 286
Deferred tax asset not recognised [1]	-3 246	-3 615
Net deferred tax asset/liability (-)	**-36**	**-610**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2016	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2017	0	118	0	118
2018	0	104	0	104
2019	0	43	0	43
2020	0	34	0	34
2021	0	33	0	33
2022 and later	0	0	0	0
Indefinite expiry	11 548	410	2 192	14 150
Tax losses to carry forward	**11 548**	**744**	**2 192**	**14 485**
Temporary differences	543	0	-491	52
Tax losses and temporary differences not recognised [1)]	-10 451	-624	-2 268	-13 343
Total tax losses to carry forward, recognised	**554**	**120**	**415**	**1 089**
Deferred tax asset	**133**	**0**	**125**	**257**
Tax rate	**24%**	**17-34%**	**28-30%**	**24%**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2015	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL Restated
2016	0	0	0	0
2017	0	125	0	125
2018	0	111	0	111
2019	0	46	0	46
2020	0	36	0	36
2021	0	35	0	35
2022 and later	0	1	0	1
Indefinite expiry	9 956	412	2 124	12 492
Tax losses to carry forward	**9 956**	**766**	**2 124**	**12 846**
Temporary differences	1 521	-97	-62	1 362
Tax losses and temporary differences not recognised	-11 694	-669	-2 062	-14 425
Tax credits, not recognised	217	0	0	217
Total tax losses and tax credits to carry forward, recognised	**0**	**0**	**0**	**0**
Deferred tax asset	**0**	**0**	**0**	**0**
Tax rate	**25%**	**17-34%**	**28-30%**	**25%**

[1)] *Basis for deferred tax asset not recognised amounted to NOK 13 343 million at 31 December 2016. NOK 13 396 million was related to tax losses to carry forward and NOK -52 million was related to other deductible temporary differences. Deferred tax asset not recognised amounted to NOK 3 246 million at 31 December 2016.*

Deferred tax assets arising from the carry forward of unused tax losses is tested against expected future taxable profit on entity level. NOK 257 million is recognised as deferred tax assets in the consolidated financial statements as of 31 December 2016. NOK 62 million relates to Norske Skog Saugbrugs AS, NOK 71 million to Norske Skog Skogn AS and NOK 125 million to Norske Skog Australia Industries Ltd. The judgment are made on basis of conservative estimates of long term financial forecast of taxable income for the next near term period. No further productivity enhancements or cost reduction programs are taken into account when estimating future taxable income.

Tax payable relates to Europe and consist mainly of income taxes, withholding taxes and a part of CVAE tax in France.

Individual companies may have permanent differences, such as received dividends, which are generally non-taxable.

Indirect tax regimes are complex in many jurisdictions and between jurisdictions in cross-border sales. Basis for indirect taxes may differ from taxes related to stamp duty tax on restructuring and business combinations.

Current and deferred taxes are recognised as expense or income in the consolidated income statement. Taxes on translation differences, net investment hedge, other reclassifications or remeasurements of post-employment benefit obligations are recognised in other comprehensive income.

18. SPECIFICATION OF BALANCE SHEET ITEMS

	NOTE	31.12.2016	31.12.2015
Inventories			
Raw materials and other production input		705	703
Semi-manufactured materials		9	12
Finished goods		447	538
Total	3	**1 161**	**1 253**
Other current assets			
Derivatives	7	4	3
Commodity contracts	7	28	24
Current investments	7	12	13
Total	7	**44**	**40**
Trade and other payables			
Accounts payable	7	1 078	1 087
Accrued labour costs and taxes		507	479
Accrued expenses		272	328
Other interest-free liabilities		11	27
Total		**1 868**	**1 921**
Other current liabilities			
Derivatives	7	39	54
Commodity contracts	7	28	20
Accrued emission rights		10	13
Accrued financial costs		80	166
Restructuring provision	20	48	55
Total		**204**	**308**
Other non-current liabilities			
Derivatives	7	201	269
Commodity contracts	7	1	38
Dismantling provision	20	83	71
Environmental provision	20	191	200
Deferred recognition of government grants		29	43
Other non interest-bearing debt		20	11
Total		**524**	**631**

19. INVESTMENTS IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2016	CARRYING VALUE 31.12.2016	SHARE OF PROFIT/LOSS 2016	CURRENCY TRANSLATION DIFFERENCES	IMPAIRMENT	CARRYING VALUE 31.12.2015
Malaysian Newsprint Industries Sdn. Bhd.	33.7%	150	-6	-12	-205	373
Other associated companies		1	0	0	0	1
Total		**151**	**-6**	**-12**	**-205**	**374**

Investments in associated companies are accounted for in accordance with the equity method. Share of profit presented in the table above is the group's percentage share of profit after tax, adjusted for amortisation of surplus value at group level allocated to the investment at the time of acquisition. In 2016, the recognised share of profit/loss in associated companies amounted to NOK -6 million, currency translation differences amounted to NOK -12 million and impairment amounted to NOK -205 million.

MALAYSIAN NEWSPRINT INDUSTRIES SDN. BHD. (MNI)
The company is incorporated in Kuala Lumpur, Malaysia, and is a producer of newsprint. Norske Skog has performed an impairment test for the investment in MNI both at year-end and at 30 June 2016. Norske Skog has in the impairment testing valued MNI within the impairment model for the fully owned mills of the group. Considering the valuation assumptions, Norske Skog's impairment testing concluded with an impairment of MYR 100 million (NOK 205 million) at 30 June 2016. For a more thorough description of Norske Skog's impairment testing model, see Note 4.

The carrying value of Norske Skog's investment in MNI was NOK 151 million at 31 December 2016, which is approximately MYR 100 million lower than Norske Skog's share (33.7%) of the equity in MNI's company financial statements, since no impairment charges were recognised in the 31 December 2016 annual accounts of MNI. Based on the company's financial statements in the year ended 31 December 2016, operating revenue was NOK 880 million (NOK 883 million in 2015) and net loss was NOK 24 million (net loss of NOK 70 million in 2015). Total assets amounted to NOK 1 456 million at 31 December 2016 (MYR 1 668 million at 30 June 2015) and total liabilities were NOK 402 million at 31 December 2016 (NOK 519 million at 31 December 2015).

20. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2015	**17**	**65**	**211**
Changes and new provisions	53	0	0
Utilised during the year	-15	0	-26
Periodic unwinding of discount	0	2	6
Currency translation differences	0	3	8
Balance 31 December 2015	**55**	**71**	**200**
Changes and new provisions	67	11	-10
Utilised during the year	-74	0	0
Periodic unwinding of discount	0	2	6
Currency translation differences	0	-1	-5
Balance 31 December 2016	**48**	**83**	**191**

RESTRUCTURING PROVISION
The restructuring provision of NOK 48 million at 31 December 2016 is classified in the balance sheet line item Other current liabilities. The provision includes various restructuring activities included provision for severance payments and other costs at Norske Skog Golbey (NOK 24 million), Norske Skog Tasman (NOK 6 million), Norske Skog Saugbrugs (NOK 6 million), Norske Skog Boyer (NOK 3 million), Australasia Corporate (NOK 5 million) and head office (NOK 2 million).

The amount expensed in 2016 in relation to restructuring activities amounted to NOK 67 million. This relates mainly to the restructuring activities listed above, including Norske Skog Bruck (NOK 18 million), Norske Skog Tasman (11 million), Norske Skog Boyer (NOK 13 million), Norske Skog Albury (NOK 9 million) and Australasia Corporate (NOK 16 million). Total payments relating to restructuring activities in 2016 amounted to NOK 74 million. This relates mainly to Norske Skog Bruck (NOK 18 million), Norske Skog Golbey (NOK 6 million), Norske Skog Saugbrugs (NOK 7 million), Norske Skog Tasman (NOK 5 million), Norske Skog Boyer (NOK 10 million, Norske Skog Albury (NOK 9 million) and Australasia Corporate (NOK 11 million) and head office (NOK 5 million).

The restructuring provision of NOK 55 million at 31 December 2015 is classified in the balance sheet line item Other current liabilities. The provision includes various restructuring activities included provision for severance payments and other costs at Norske Skog Boyer (NOK 10 million), Norske Skog Golbey (NOK 31 million), Norske Skog Saugbrugs (NOK 7 million) and head office (NOK 4 million).

The amount expensed in 2015 in relation to restructuring activities amounted to NOK 53 million. This relates mainly to the restructuring activities listed above. Total payments relating to restructuring activities in 2015 amounted to NOK 15 million. This relates mainly to Norske Skog Boyer (NOK 4 million), Norske Skog Skogn (NOK 4 million) and Norske Skog Tasman (NOK 4 million).

DISMANTLING PROVISION
Provisions related to future dismantling costs arising from a future closing down of production facilities amounted to NOK 83 million at 31 December 2016, compared to NOK 71 million at 31 December 2015. The total amount is classified as non-current and will only be realised at the time of a future shut down of any of the Norske Skog production units. The provision is the net present value of the future estimated costs, calculated using a long-term risk-free interest rate. The periodic unwinding of the discount is recognised in the income statement line Financial expenses. The opposite entry for dismantling provision and change in provision estimates is Property, plant and equipment.

Discount rates and assumptions included as part of the best estimate will impact the future carrying value of the dismantling provision. To illustrate the sensitivity, a reduction in the future discount rate of one percentage point would increase the provision by approximately NOK 11 million, with a corresponding increase in future depreciation on property, plant and equipment.

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

Provisions for future environmental obligations amounted to NOK 191 million at 31 December 2016 compared to NOK 200 million at 31 December 2015. The decrease is mainly due to decrease in environmental provision at Norske Skog Boyer Resources spent on environmental activities during 2016 amounted to NOK 10 million.

The carrying value of the provision is the best estimate made by measuring the expected value of the specific obligations, discounted to present value using a long-term risk-free interest rate when the time value of money is material. Changes in factors included in the expected value will impact the carrying value of the obligation. To illustrate the sensitivity, a reduction in the future discount rate by one percentage point would increase the provision by approximately NOK 21 million. Changes in accounting estimates not related to assets are classified as operating items in the income statement, and the periodic unwinding of the discount is recognised within the income statement line Financial expenses.

21. PERPETUAL NOTES

A perpetual debt instrument has no requirement to repay the principle. The perpetual debt provide the holder with the contractual right to receive interest at fixed dates extending into the indefinite future. The perpetual notes including accrued interests are treated as equity as the notes and interests are payable at maturity at the company's option. The perpetual notes are issued by Norske Skogindustrier ASA and have a nominal amount of EUR 79 million. The perpetual notes are unsecured and has a 2% payment in kind coupon, which is payable at the company's option. The perpetual notes has a 99 year maturity to be redeemed in 2115 plus accrued and unpaid interest amounts. If not redeemed in 2115 the principal and interest will automatically extend for another 30 years, which at the end of the same will apply. Carrying value at initial recognition were NOK 148 million (EUR 16 million). The carrying value of the perpetual notes were estimated at fair value at initial recognition in April 2016. The fair value were estimated by comparing with trading levels of similar bonds issued by Norske Skog to reflect the value of the consideration received for the exchange. The difference between the nominal amount and the carrying value at initial recognition represent a discount. Discount on perpetual notes is not amortized.

22. EARNINGS AND DIVIDEND PER SHARE

	2016	2015
Profit/loss for the year in NOK million attributable to owners of the parent	306	-1 526
Interest on perpetual notes [2]	-11	0
Adjusted profit/loss for the year in NOK million attributable to owners of the parent	295	-1 526
Weighted average number of shares in 1 000	251 593	189 912
Basic earnings/loss per share in NOK [1]	1.17	-8.03
Diluted earnings/loss per share in NOK [1]	1.17	-8.03

[1] There were no dilution effects in 2016 or 2015.
[2] In April 2016 Norske Skog issued a perpetual notes that is classified as equity with an original face value of EUR 79 million. The perpetual note has a 2% coupon, which is payable at the company's option. Any interest deferred will be accrued at a 2% rate per annum, thus 2% dividend of the nominal amount is allocated and added to the perpetual notes at a yearly basis.

No dividends were paid for the financial year 2016. The board of directors recommends that no dividend should be disbursed for the financial year 2016. The dividend decision will be made by the annual general meeting on 19 April 2017.

CONSOLIDATED FINANCIAL STATEMENTS

23. SHARES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Shares in subsidiaries owned by the parent company			
Lysaker Invest AS, Oslo	NOK	109 371	100
Norske Skog Eiendom AS, Oslo	NOK	1 500	100
Norske Treindustrier AS, Oslo	NOK	834 680	100
Shares in subsidiaries owned by consolidated companies			
Advanced Hygiene Solution GmbH, Bruck, Austria	EUR	40	100
Bruck Fibre GmbH, Bruck, Austria	EUR	35	100
NorFibres S.A, Golbey, France	EUR	10	100
Nornews AS, Oslo, Norway	NOK	100	100
Norske Skog AS, Oslo, Norway	NOK	300 000	100
Norske Skog Adria d.o.o, Trzin, Slovenia	EUR	21	100
Norske Skog (Australasia) Pty Ltd., Sydney, Australia	AUD	21 000	100
Norske Skog (Australia) No. 2 Pty Ltd., Sydney, Australia	AUD	0	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	10 000	100
Norske Skog Capital (Australia) Pty Ltd., Sydney, Australia	AUD	223 000	100
Norske Skog Capital (New Zealand) Ltd., Auckland, New Zealand	NZD	1	100
Norske Skog Danmark ApS, Værløse, Denmark	DKK	200	100
Norske Skog Deutschland GmbH, Augsburg, Germany	EUR	520	100
Norske Skog Espana S.A., Madrid, Spain	EUR	60	100
Norske Skog France SARL, Paris, France	EUR	235	100
Norske Skog Golbey SAS, Golbey, France	EUR	62 365	100
Norske Skog Holding AS, Oslo, Norway	NOK	300 000	100
Norske Skog Holdings (No.1) Ltd., Auckland, New Zealand	NZD	0	100
Norske Skog Holdings (No.3) Ltd., Auckland, New Zealand	NZD	7 750	100
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	245 105	100
Norske Skog Hungary Kft., Budapest, Hungary	HUF	3 000	100
Norske Skog Industries Australia Ltd., Sydney, Australia	AUD	190 000	100
Norske Skog Industries Canada Ltd., British Columbia, Canada	CAD	821 186	100
Norske Skog Italia SrL, Milan, Italy	EUR	10	100
Norske Skog Nordic & Export Sales AS, Oslo, Norway	NOK	1 100	100
Norske Skog Paper Mills (Australia) Ltd., Tasmania, Australia	AUD	7 539	100
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5 009	100
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Saugbrugs AS, Halden, Norway	NOK	1 152 300	100
Norske Skog Skogn AS, Levanger, Norway	NOK	1 152 300	100
Norske Skog Tasman Ltd., Auckland, New Zealand	NZD	725 000	100
Norske Skog Österreich GmbH, Graz, Austria	EUR	35	100
Norske Skog (Schweiz) AG, Zurich, Switzerland	CHF	50	100
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100
Panasia Paper Trading Co Pty Limited, Sydney, Australia	AUD	5 230	100
Saugbrugs Bioenergi AS, Halden, Norway	NOK	1 000	100
Topp1 Energy Limited, Auckland, New Zealand	NZD	16 391	100

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE[1] (IN NOK 1 000)
Miscellaneous shares owned by the parent company	NOK			**20**
Shares owned by other group companies				
Exeltium SAS, Paris, France	EUR	174 504	5	75 789
Exeltium 2 SAS, Paris, France	EUR	3 440	5	1 490
Ignite Energy Resources Ltd., Sydney, Australia	AUD	254 183	1	12 450
SEM, Golbey, France	EUR	358	10	3 344
Other shares, each with book value below NOK 1 million				3 382
Total				96 455
Total shares included as financial assets				**96 475**

[1] Carrying value for the shares is original cost less impairment.

24. CAPITAL MANAGEMENT

Norske Skog's objective when managing capital is to ensure that the company is adequately capitalised, that the funding requirements are met and to maximise return on equity within the limits set by the group's external debt financing.

In order to improve the capital structure, the group pay no dividends to shareholders at present time. Norske Skog has implemented and will continue to implement further operational enhancements, increased revenue initiatives, cost improvement measures as well as working capital management measures, to improve our cash flow. The group has one cash pool for the European entities and the cash pool is legally placed in Norske Skog AS.

Norske Skog's debt level was significantly reduced, debt maturities extended and liquidity improved by financing and recapitalisation efforts in 2016. The exchange offer to 2017 bondholders was below par and included new bonds maturing in 2026 and 2115. Liquidity improved by issuance of new equity and various other liquidity initiatives. Following the redemption of the 2016 bond, the group has no bond maturities until December 2019.

The board of directors recognizes the challenging industry Norske Skog operates in and the group's high leverage and interest expenses. The main risk exposures for the group are linked to uncertainty to price and volume developments for publication paper and the costs of key input factors such as energy and fibre. Weaker demand than expected for the group's products can impact profitability and associated cash flows in a negative way. The group operates in a multicurrency environment, where the main currencies of importance for the business are EUR, GBP, USD and AUD. Currency movements between these currencies, as well as against NOK, may impact demand as well as prices and costs of key input factors. The business risk of the group is amplified by its high financial leverage; although the group has no bond maturities until 2019, it is unlikely that those bonds maturing in 2019 can be satisfied simply from group cash generation and there is significant uncertainty as to whether a refinancing of this maturity will be available or achievable. There is uncertainty with regards to the changes in the broader economic climate development and more adverse developments than expected may influence all of the above. The aforementioned risks may all impact on the operating plan for 2017 and future results. The factors are an inherent uncertainty when the board makes its assessments. Nevertheless, the board of director's is confident that its assessment of the current and expected market conditions in 2017 is realistic given facts at hand. However, given the challenging industry and that the level of equity at year end 2016 is low the board of directors will continue working to improve all of the mentioned elements further.

In light of the low level of equity, high leverage, high interest cost and with an aim to improve the financial position of the group, Norske Skog in January 2017 discussed a recapitalisation proposal with key equity- and bondholders. Based on consistent investor feedback and broad agreement for the desirability to reduce debt and interest cost significant efforts were made to construct a balanced proposal acceptable for all investors. The proposed transaction would have equitized all unsecured debt and enlarged and extended the secured bond, reducing leverage and interest cost considerably while improving equity levels significantly. Specific investor demands could however not be met and the discussions were ended.

A deleveraged and recapitalized group would be in a better position to diversify its business model. Identified growth projects include biogas, wood pellets and tissue paper in addition to green energy savings and production of fibre based alternatives to other materials. A diversified Norske Skog with a stronger balance sheet could be an attractive consolidation partner for publication paper in Europe

In accordance with the provisions in the Norwegian Accounting Act the board has assessed the going concern assumption as basis for preparing and presenting the financial statements. The board of directors has considered the uncertainties described above and the potential impact both on liquidity and equity has been thoroughly considered as it is very important for the going concern assumption. The board of directors has also considered the operating environment for the group and the industry in general going forward as these are reflected in the operating plan for 2017 as well as the group's highly leveraged position and the significant challenge that is presented by its next bond maturity in 2019. The board of directors has further considered that the group is subject to many factors that are uncertain in nature and has evaluated these uncertainties in relation to the operations and operating environment when assessing the going concern assumption. Based on these considerations and reflecting inherent material uncertainties, also in relation to the application of the going concern assumption, the board of directors confirms that the assumption applies and that the financial statements have been prepared on the going concern basis.

25. CONTINGENT LIABILITIES

Norske Skog is an international company that, through its ongoing business operations, will be exposed to litigation and claims from public authorities and contracting parties as well as assessments from public authorities in each country it operates.

Norske Skog has continued the process related to simplification of the group's corporate structure in 2016. The simplification of the group's corporate structure in combination with changes in individual countries' tax laws could increase the group's tax exposure. However, due to completed reorganisations and tax assessments, the overall tax exposure has decreased during the last years.

26. RELATED PARTIES

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

Due to their level of ownership of Norske Skogindustrier ASA's issued share capital, GSO Capital Partners LP and Cyrus Capital Partners, L.P. may be deemed to be related parties. GSO Capital Partners LP and Cyrus Capital Partners, L.P. each submitted the name of a candidate, Ms Owen and Mr Hoff, respectively, to the Election and Remuneration Committee for consideration for nomination for election to the Board of Directors at Norske Skogindustrier ASA's extraordinary general meeting in January 2016. Both persons were nominated and elected.

The significant transactions that have been entered into with GSO Capital Partners LP and Cyrus Capital Partners, L.P. include

(i) the Norwegian Securitization Facility
Norske Skog AS has entered into a new securitisation facility of EUR 100 million with GSO Capital Partners LP and Cyrus Capital Partners, L.P. which has refinanced the NOK 250 million facility with Sparebank 1 Gruppen Finans AS. The facility has a 4 year tenor, and is secured by accounts receivables at the Skogn and Saugbrugs mills, and inventory at Skogn, Saugbrugs and Golbey.

(ii) a EUR 10 million loan facility
Norske Skog AS has entered into a EUR 10 million short-term facility with funds managed by GSO Capital Partners LP and Cyrus Capital Partners, L.P. The loan matures 30 March 2017.

(iii) financing arrangements entered into in connection with the sale of the New Zealand power plant. The sale was completed in December 2016, and the loan was settled.

Some of Norske Skogindustrier ASA's shareholders are forest owners delivering forestry products to the group's production units in Norway. One of the board members, Eilif Due, is a forest owner who supplies wood to the group on normal commercial terms. All contracts for supply of wood are entered into through forest owner associations or companies. Mr Due is chair of the board of Allskog SA.

In 2013, Norske Skog entered into a contract with Fram Eiendom (Fram Realinvest AS, Sjølyststranda Næring AS, Fram Eiendomsdrift AS and Skøyen Næringsbygg AS) for the lease of its head office at Skøyen. Torstein I. Tvenge, together with close family members, controls 100% of Fram Eiendom. Tvenge is also a shareholder of Norske Skogindustrier ASA. The lease contract for the head office has been entered into on normal commercial terms. Lease payments to Fram Eiendom recognised as an expense in 2016 amounts to NOK 4.1 million (NOK 4 million in 2015).

27. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after the balance sheet date with significant impact on the financial statements for 2016.

FINANCIAL STATEMENTS NORSKE SKOGINDUSTRIER ASA

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NORSKE SKOGINDUSTRIER ASA

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FINANCIAL STATEMENTS NORSKE SKOGINDUSTRIER ASA

INCOME STATEMENT

NOK MILLION	NOTE	2016	2015
Operating revenue	3	**109**	**119**
Employee benefit expenses	8	-94	-88
Other operating expenses		-62	-50
Gross operating earnings		**-47**	**-20**
Depreciation	4	-9	-9
Restructuring expenses		-3	-4
Operating earnings		**-58**	**-33**
Financial income	6	1 640	1 418
Financial expenses	6	-1 524	-2 267
Net unrealised/realised gains/losses on foreign currency	6	291	-573
Profit/loss before income taxes		**349**	**-1 456**
Income taxes	10	-8	-26
Profit/loss		**340**	**-1 482**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2016	2015
Profit/loss	**340**	**-1 482**
Remeasurements of post employment benefit obligations	1	-1
Tax effect on remeasurements of post employment benefit obligations	0	0
Other comprehensive income	**1**	**-1**
Comprehensive income	**341**	**-1 483**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2016	31.12.2015
Assets			
Deferred tax asset	10	9	10
Intangible assets	4	8	12
Property, plant and equipment	4	14	16
Investments in subsidiaries	5	2 103	7 016
Other non-current assets	11	740	484
Total non-current assets		**2 875**	**7 538**
Trade and other receivables	11	96	129
Cash and cash equivalents		158	261
Other current assets		3	5
Total current assets		**258**	**395**
Total assets		**3 133**	**7 933**
Shareholders' equity and liabilities			
Share capital		279	0
Retained earnings and other reserves		177	-232
Total equity	12	**456**	**-232**
Pension obligations	8	39	44
Interest-bearing non-current liabilities	7, 11	1 899	5 736
Total non-current liabilities		**1 938**	**5 780**
Interest-bearing current liabilities	7, 11	44	1 197
Trade and other payables	11	679	1 086
Tax payable	10	0	5
Other current liabilities		15	97
Total current liabilities		**738**	**2 385**
Total liabilities		**2 676**	**8 165**
Total equity and liabilities		**3 133**	**7 933**

SKØYEN, 14 MARCH 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Henrik August Christensen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Cecilie Jonassen
Board member

Svein Erik Veie
Board member

Mimi K. Berdal
Board member

Sven Ombudstvedt
President and CEO

STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2016	2015
Cash flow from operating activities			
Cash generated from operations		127	89
Cash used in operations		-142	-447
Cash flow from currency hedges and financial items		-5	-2
Interest payments received		3	5
Interest payments made		-140	-447
Taxes paid		-11	-8
Net cash flow from operating activities [1]		**-168**	**-811**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	4	-3	0
Change in intercompany balance with subsidiaries		1 020	2 233
Sales of shares in companies and other investments		1	-31
Net cash flow from investing activities		**1 018**	**2 202**
Cash flow from financing activities			
New loans raised		98	0
Repayments of loans		-1 222	-1 544
New paid in equity		200	0
Net cash flow from financing activities		**-924**	**-1 544**
Foreign currency effects on cash and cash equivalents		-29	18
Total change in cash and cash equivalents		**-103**	**-135**
Cash and cash equivalents 1 January		261	397
Cash and cash equivalents 31 December		158	261
[1] Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		349	-1 456
Depreciation	4	9	9
Taxes paid		-11	-8
Change in trade and other receivables		8	-17
Change in trade and other payables		42	-312
Change in restructuring provision		-2	4
Financial items with no cash impact		-549	978
Change in pension obligations and other long term employee benefits		-13	-9
Net cash flow from operating activities		**-168**	**-811**

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	SHARE CAPITAL	PERPETUAL NOTES	TREASURY SHARES	SHARE PREMIUM	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2015	**12**	**190**	**0**	**0**	**1 061**	**0**	**1 252**
Comprehensive income		0	0	0	0	-1 483	-1 483
Uncovered loss allocated other paid-in equity		-190	0	0	-1 061	1 252	0
Equity 31 December 2015	**12**	**0**	**0**	**0**	**0**	**-232**	**-232**
Proceeds from share issued		89	0	0	110		199
Perpetual notes		0	148	0	0	0	148
Interest on Perpetual notes		0	11	0	0	-11	0
Comprehensive income		0	0	0	0	341	341
Coverage of previous year losses		190	0	0	-91	-99	0
Equity 31 December 2016	**12**	**279**	**159**	**0**	**19**	**0**	**456**

The perpetual notes relates to notes due in 2115. In accordance with IAS 32 the perpetual notes is treated as equity. See Note 21 Perpetual notes in the consolidated financial statement for more information.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The financial statements were authorised for issue by the board of directors on 14 March 2017.

2. ACCOUNTING POLICIES

The financial statements for Norske Skogindustrier ASA have been prepared and presented in accordance with simplified IFRS pursuant to section 3-9 of the Norwegian Accounting Act.

Requirements related to recognition and measurement applied to the company financial statements of Norske Skogindustrier ASA are identical to the ones described in Note 2 Accounting policies in the consolidated financial statements, with the exception of shares in subsidiaries which are recognised at cost in the company financial statements, as well as fair value hedge and net investment hedge which are only recognised at group level.

3. OPERATING REVENUE BY GEOGRAPHICAL MARKET

Norske Skogindustrier ASA's operating revenue consists mainly of the sale of goods and services to other entities in the group.

OPERATING REVENUE BY GEOGRAPHICAL MARKET	2016	2015
Norway	34	46
Europe excluding Norway	61	58
Australasia	13	15
Total	**109**	**119**

Operating revenue arising from sales of internal services to other entities in the group amounted to NOK 106 million in 2016. The corresponding figure for 2015 was NOK 115 million. All transactions with other entities in the group are conducted in accordance with the arm's length principle.

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2015	43	148	191
Additions	0	0	0
Disposals	0	0	0
Reclassified from plant under construction	2	0	2
Acquisition cost 31 December 2015	**45**	**148**	**193**
Accumulated depreciation and impairments 1 January 2015	30	146	176
Depreciation	4	1	5
Accumulated depreciation and impairments 31 December 2015	**34**	**147**	**181**
Carrying value 31 December 2015	**11**	**1**	**12**
Acquisition cost 1 January 2016	45	148	193
Additions	0	0	0
Disposals	0	0	0
Reclassified from plant under construction	0	0	0
Acquisition cost 31 December 2016	**45**	**148**	**193**
Accumulated depreciation and impairments 1 January 2016	34	147	181
Depreciation	3	1	4
Accumulated depreciation and impairments 31 December 2016	**37**	**148**	**185**
Carrying value 31 December 2016	**8**	**0**	**8**

Licenses, patents and other intangible assets are depreciated on a straight-line basis over a period from three to 20 years. Other intangible assets consist mainly of capitalised development costs relating to customising of software.

PROPERTY, PLANT AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2015	175	2	177
Additions	0	0	0
Disposals	0	0	0
Reclassified from plant under construction	0	-2	-2
Acquisition cost 31 December 2015	**175**	**0**	**175**
Accumulated depreciation and impairments 1 January 2015	155	0	155
Disposals	4	0	4
Accumulated depreciation and impairments 31 December 2015	**159**	**0**	**159**
Carrying value 31 December 2015	**16**	**0**	**16**
Acquisition cost 1 January 2016	175	0	175
Additions	0	3	3
Disposals	0	0	0
Reclassified from plant under construction	0	0	0
Acquisition cost 31 December 2016	**175**	**3**	**178**
Accumulated depreciation and impairments 1 January 2016	159	0	159
Depreciation	5	0	5
Accumulated depreciation and impairments 31 December 2016	**164**	**0**	**164**
Carrying value 31 December 2016	**11**	**3**	**14**

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

5. SHARES IN SUBSIDIARIES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL	OWNERSHIP %	CARRYING VALUE
Lysaker Invest AS, Oslo	NOK	109	100	309
Norske Skog Eiendom AS, Oslo	NOK	2	100	17
Norske Treindustrier AS, Oslo	NOK	835	100	1 777
Total				**2 103**

The investment in subsidiaries have decreased from NOK 7 016 million to NOK 2 103 million during 2016. This is due to impairment of investments in subsidiaries at NOK 1 197 million and dividends (treated as repayment of capital) from Norske Treindustrier AS at NOK 3 716 million.

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES	NOTE	2016	2015
Norske Treindustrier AS		-1 197	-1 468
Norske Skog Eiendom AS		0	-27
Norske Skog Walsum GmbH (intercompany loan)		0	-248
Total	6	**-1 197**	**-1 743**

Investments in subsidiaries are tested for impairment in accordance with IAS 36 Impairment of assets. Shares in subsidiaries are written down to their recoverable amount when the recoverable amount is lower than the carrying value of the investment. For impairment testing purposes, investments in subsidiaries are grouped in the same manner as the cash-generating units for the group. The carrying amount of investments in subsidiaries within each cash-generating unit is measured against the recoverable amount of investments in subsidiaries within this cash-generating unit. For further information with respect to impairment testing, see Note 4 Intangible assets and property, plant and equipment in the consolidated financial statements.

6. FINANCIAL ITEMS

FINANCIAL ITEMS	NOTE	2016	2015
Financial income			
Dividends received from group companies		0	300
External interest income		3	6
Interest income from group companies [1]		14	179
Gain from intragroup sales of shares [5]		0	420
Gain from Exchange of Bonds [4]		1 624	399
Gain from fair value hedge [4]		0	90
Other financial income [3]		0	25
Total		**1 640**	**1 418**
Financial expenses			
External interest expense		-247	-389
Interest expense from group companies [1]		-69	-95
Impairment of investments in subsidiaries	5	-1 197	-1 743
Other financial expenses [2]		-12	-40
Total		**-1 524**	**-2 267**
Realised/unrealised gains on foreign currency		291	-573
Financial items		**407**	**-1 423**

[1] Intercompany interest is calculated based on a standard margin, adjusted where necessary to reflect local market conditions and transfer pricing principles.
[2] Other financial expenses in 2015 include losses from the divestment of subsidiaries.
[3] Other financial income in 2015 NOK 25 million was primarily related to gain from buy-back bonds.
[4] In April 2016 Norske Skog completed an exchange of the existing bond EUR 2017 into two new bonds with longer maturities with a gain of NOK 1 624 million. See Note 5 in the Consolidated Financial Statement for more information. In February 2015 Norske Skog completed refinancing a portion of its bond maturities though the issuance of an EUR 290 million Senior Secured Notes (SSN) and exchange of existing bonds into new bonds with longer maturities. Gain from exchange and fair value hedge was respectively NOK 399 million and NOK 90 million. The SSN was issued by the subsidiary Norske Skog AS and exchanges bond was issued by the subsidiary Norske Skog Holding AS.
[5] In connection with refinancing in 2015 the group company structure was changed. Several of the subsidiaries were sold to Norske Treindustrier AS with a gain of NOK 420 million.

7. MATURITY OF INTEREST-BEARING LIABILITIES

MATURITY OF THE COMPANY'S DEBT AT 31.12.2016	OTHER LOANS	BONDS	TOTAL
2017	35	0	35
2018	0	0	0
2019	0	0	0
2020	0	0	0
2021	0	0	0
2022	0	0	0
2023	0	0	0
2024	0	0	0
2025-2033	0	1 882	1 882
Total	**35**	**1 882**	**1 917**

MATURITY OF THE COMPANY'S DEBT AT 31.12.2015	OTHER LOANS	BONDS	TOTAL
2016	95	1 044	1 139
2017	0	2 044	2 044
2018	0	0	0
2019	0	0	0
2020	0	0	0
2021	0	0	0
2022	0	0	0
2023	0	0	0
2024-2033	0	836	836
Total	**95**	**3 924**	**4 019**

Foreign currency debt is presented at the current rate of exchange in the instalment profile. Debt used as an instrument for hedging net investments in foreign currencies is presented at historical cost in the balance sheet. For more information, see Note 11 Interest-bearing liabilities in the consolidated financial statements.

8. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2016	2015
Salaries including holiday pay	64	62
Social security contributions	21	16
Pension costs	4	5
Other employee benefit expenses	5	5
Total	**94**	**88**

The company is required by law to have a pension scheme for all employees. The company's pension plan is compliant with the requirements in well as information regarding audit fees, can be found in Note 12 Employee benefit expenses in the consolidated financial statements.

	31.12.2016	31.12.2015
Man-labour years	36	42

NET PERIODIC PENSION/INTEREST COST	2016	2015
Service cost	1	1
Pension cost defined contribution schemes	3	3
Net periodic pension cost	**4**	**4**
Net periodic interest cost	**1**	**1**

PENSION ASSET IN THE BALANCE SHEET	31.12.2016	31.12.2015
Net pension asset in the balance sheet	**0**	**0**

PENSION OBLIGATION IN THE BALANCE SHEET	31.12.2016	31.12.2015
Projected benefit obligations	-69	-87
Plan assets at fair value	33	43
Unrecognised asset due to asset ceiling	-3	0
Net pension obligation in the balance sheet	**-39**	**-44**

SPECIFICATION OF RE-MEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2016	2015
Actuarial changes arising from changes in demographic assumptions	0	2
Experience adjustments and investment management costs	-3	-9
Asset ceiling – asset adjustment	3	6
Total	**0**	**-1**

SENSITIVITY ANALYSIS	Increase	Decrease
Discount rate – 0.5%	-4	4
Salary adjustment – 0.5%	1	-1

See Note 13 Pension costs and pension obligations in the consolidated financial statements for assumptions and further information.

9. BOARD STATEMENT ON REMUNERATION FOR SENIOR EXECUTIVES

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

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

FIXED SALARY
The board has not established any upper and/or lower limits to the amounts that can be paid to senior executives in the company as fixed salary in the coming financial year. See also Note 12 Employee benefit expenses in the consolidated financial statements.

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

Annual incentive plans
The company has operated bonus schemes for executives and employees for a number of years, to ensure that important commercial goals receive adequate priority. These annual incentive plans for corporate management provide a maximum payout corresponding to 50 % of annual base salary. The performance figures are based on financial, operational and individual criteria.

Long-term incentive programme
The purpose of the company's long-term incentive programme is to secure a continued strong focus on the development of shareholder value. The current long-term incentive programme was launched in 2014, and is based on rolling scheme with awards of synthetic options targeting a positive share price development over a three-year period from the date of award of the relevant synthetic options. Within the frames of the programme, the board may grant synthetic options to the corporate management and other key employees, including managing directors of the Norwegian business units. The total frame of the long-term incentive program is 7% of the shares outstanding with a total of 13 230 000 synthetic options issued. The synthetic options are settled three years following the date they are awarded, but up to one third of the options may at the board's discretion be settled through a bonus payment each year after the relevant award.

In 2014, 3 780 000 synthetic options were issued under the programme, and were awarded with 2 430 00 options on 16 July 2014 and 1 345 000 options on 2 June 2015. In 2016, 9 450 000 new synthetic options were issued under the programme. As of the date hereof, 7 180 000 of the synthetic options issued in 2016 have been awarded.

Each option carries the right to be paid an amount in cash equal to (a) the fair market value less (b) the exercise price, including any hurdle rate added to the exercise price as of the exercise date. Fair market value is the volume weighted average trading price of the shares on Oslo Stock Exchange over a period of five trading days starting on the exercise date.

The initial exercise price (strike price) for the synthetic options awarded in 2014 and 2015 were NOK 4.80 and NOK 3.85, respectively. The synthetic options issued in 2016 have a strike price of NOK 2.24, reflecting the subscription price applied in the private placement completed on 31 March 2015 and in the repair offering contemplated to be commenced at the end of May 2016. The exercise price for the synthetic options granted in 2014 and 2015 shall be increased by 10 per cent pro anno (the hurdle rate). The hurdle rate shall be added to the exercise price annually in arrears as of each anniversary of the award date, and shall from then be included in the basis for the calculation of further hurdle rate. The synthetic options issued in 2016 are not subject to a hurdle rate.

The long-term incentive falls within the scope of IFRS 2 Share-based payments. A share-based payment transaction is a transaction in which the company receives services from the employee of those services in a share-based payment arrangement. A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires services by incurring a liability to transfer cash to the employee of those services for amounts that are based on the price of the shares in the company. IFRS 2 applies not only to awards of shares but also to awards of cash of a value equivalent to the value, or a movement in the value, of a particular number of shares, which is the case for the long-term incentive plan. The ultimate cost of a cash-settled share-based transaction is the actual cash paid to the counterparty, which will be the fair value at settlement date.

The periodic determination of this liability is at each reporting date between grant and settlement the fair value of the award. The fair value of the award is determined in accordance with the specific requirements in IFRS 2. During the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period. All changes in the liability are recognised in profit or loss for the period. The fair value of the liability is determined by applying an option pricing model, taking into account the terms and conditions on which the cash-settled transaction was granted, and the extent to which the employees have rendered services to date. Norske Skog has made a fair value measurement of the liability using a Black & Scholes model for European call options with no dividends. The long-term incentive programme expense in 2016 for the member of corporate management were NOK 228 000. Share price of NOK 2.84 and volatility of 33.7% is used in the Black & Scholes calculation at 31 December 2016.

Benifits in kind
Benifits in kind include a fixed mileage allowance, insurance, newspapers, mobile phone and coverage of the costs of broadband communication in accordance with established standards.

PENSION PLANS
Norske Skogindustrier ASA introduced the current defined contribution plan with effect from 1 January 2011, with a contribution of 4% for earnings between 1 and 12 G (base amount in the Norwegian national insurance scheme) and additional 4% between 6 G and 12 G. The previous scheme with pensionable age of 67 and providing a pension of approximately 65% of ordinary salary at retirement, and 60% from the age of 77 including national insurance, was closed from 31 December 2010, and now only covers employees who were born prior to 1 January 1959 and who were employed in the company before the closure.

The company also has a supplementary scheme for the part of salary exceeding 12 G, and there is a separate early retirement pension scheme from 64 to 67 years for corporate management, previously referred to as insured supplementary plans. It was decided to terminate these insured supplementary plans with effect from 1 January 2007 and they were replaced by a book reserve arrangement for the pension part, a disability insurance and a group life insurance (annual base salary) replacing dependents' pensions.

Corporate management is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80 G. Old age pension for the part of salary exceeding 12 G was also changed to a defined contribution plan from 1 January 2011. At the time of the change, employees who were born before 1 January 1959 were given the opportunity to continue with the defined benefit plan.

Norske Skog provided salary compensation for employees who were at a financial disadvantage because of the change from a defined benefit to a defined contribution plan, both in the main plan and in the plan for salary above 12 G. This salary compensation was based on certain assumptions about the future at the time of the change, including return on assets, salary adjustment, change in the base amount (G) and inflation. The compensation will not be changed even if these factors should turn out to be different from the assumptions.

The defined benefit plan for the part of salary exceeding 12 G was closed from 1 January 2011, and no new members will enter the scheme. The same applies for the early retirement scheme for corporate management.

TERMINATION PAYMENT AGREEMENTS
The mutual period of notice for the CEO is six months. If circumstances arise in which the company and the CEO, by mutual agreement, terminate the contract of employment in the best interests of the company, the CEO is entitled to severance pay equivalent to payment of base salary for 18 months after the end of the notice period. The amount receivable by other members of corporate management under the same circumstances is severance pay equivalent to payment of base salary for nine months.

ACCOUNT OF THE IMPACT FOR THE COMPANY AND SHAREHOLDERS OF AGREEMENTS RELATING TO OTHER REMUNERATION THAN ORDINARY SALARY ENTERED INTO OR AMENDED IN 2016
The bonus schemes in 2016 yielded a disbursement of NOK 10 million. The long-term incentive programme did not give basis for payments in 2016.

THE BOARD'S STATEMENT ON DETERMINATION OF SALARY AND OTHER REMUNERATION FOR 2016
The board aims to apply the main principles and guidelines described above to both fixed salary and other remuneration to the company's executives for the current financial year.

10. INCOME TAXES

TAX EXPENSE	2016	2015
Current tax expense	-8	-3
Change in deferred tax	-1	-23
Total	**-8**	**-26**

INCOME TAX RECONCILIATION	2016	2015
Profit/loss before income taxes	349	-1 456
Computed tax at nominal tax rate of 25%/27%	-87	393
Exempted income/non-deductible expenses	-12	962
Impairment of investments in subsidiaries	-299	-1 246
Adjustment previous years	-8	4
Change in tax rate	0	-42
Other items	1	-49
Change tax loss not recognised	398	-48
Total tax expense(-)/income	**-8**	**-26**

DEFERRED TAX	2016	2015
Net deferred tax asset /liability (-) 1 January	10	33
Deferred tax charged in the income statement	-1	-23
Tax expense in other comprehensive income	0	0
Net deferred tax asset/liability (-) 31 December	**9**	**10**

DEFERRED TAX – DETAILS	31.12.2016	31.12.2015
Property, plant and equipment, excess values and depreciation	-73	-95
Pensions	9	11
Provisions and other liabilities	6	6
Currency translation differences and financial instruments	-300	265
Current items	0	1
Tax losses and tax credit to carry forward	367	-179
Net deferred tax asset/liability (-)	**9**	**10**

TAX LOSSES AND TAX CREDIT TO CARRY FORWARD - DETAILS	31.12.2016	31.12.2015
Tax losses to carry forward	7 496	6 888
Tax losses and temporary differences not recognised [1]	-5 980	-7 831
Tax credits, not recognised [1]	0	217
Total losses to carry forward and tax credits	**1 516**	**-726**
Tax losses and tax credit to carry forward	**367**	**-179**
Tax rate	**-24.2%**	**24.6%**

[1] The company has not generated taxable profits in prior years. At 31 December 2016 there was not convincing evidence that sufficient taxable profit will be generated, against which the unused tax losses could be applied.

11. INTERCOMPANY RECEIVABLES/LIABILITIES

NON-CURRENT INTERCOMPANY RECEIVABLES	31.12.2016	31.12.2015
Lysaker Invest AS	0	80
Norske Skog AS	187	78
Norske Skog Bruck GmbH	22	0
Norske Skog Industries Australia Ltd.	436	287
Norske Skog Saugbrugs AS	73	22
Norske Skog Skogn AS	4	1
Norske Treindustrier AS	12	11
Other intercompany receivables	2	1
Total	**736**	**480**

CURRENT INTERCOMPANY RECEIVABLES	31.12.2016	31.12.2015
Lysaker Invest AS	0	29
Nornews AS	5	6
Norske Skog Danmark Aps	2	2
Norske Skog Industries Australia Ltd.	44	26
Norske Skog Saugbrugs AS	1	0
Norske Skog Skogn AS	0	1
Other current intercompany receivables	1	1
Total	**53**	**65**

NON-CURRENT INTERCOMPANY LIABILITIES	31.12.2016	31.12.2015
Lysaker Invest AS	100	0
Norske Skog Bruck GmbH	0	43
Norske Skog Golbey SA	49	237
Norske Skog Holding AS	1	1 963
Norske Treindustrier AS	529	560
Total	**679**	**2 803**

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

CURRENT INTERCOMPANY LIABILITIES	31.12.2016	31.12.2015
Lysaker Invest AS	94	0
Norske Skog Bruck GmbH	2	79
Norske Skog Deutschland GmbH	1	37
Norske Skog Eiendom AS	30	30
Norske Skog France SARL	13	14
Norske Skog Golbey SA	119	58
Norske Skog Holding AS	12	585
Norske Skog Holland B.V.	20	22
Norske Skog Italia SrL	1	0
Norske Skog Nordic & Export Sales AS	2	0
Norske Skog Saugbrugs AS	157	34
Norske Skog (Schweiz) AG	1	0
Norske Skog Skogn AS	91	54
Norske Skog Tasman Ltd.	9	59
Norske Skog (UK) Ltd	8	64
Norske Skog Österreich GmbH	4	5
Norske Treindustrier AS	1	18
Saugbrugs Bioenergi AS	13	0
Other current intercompany liabilities	1	2
Total	**579**	**1 061**

12. EQUITY

The share capital of the company at 31 December 2016 was NOK 278 994 995 and consisted of 278 994 995 shares, each with a nominal value of NOK 1. The number of treasury shares at 31 December 2016 was 290. The company purchased 158 223 and sold 177 600 treasury shares during the year.

In March 2016, Norske Skogindustrier ASA issued 63 million new shares in a private placement at a price of NOK 2.24 per share. Proceeds amounted to NOK 142 million. An equity repair offering to existing shareholders following the private placement was completed in June 2016. The company issued 26 million new shares at a price of NOK 2.24 per share. Proceeds amounted to NOK 57 million.

PRINCIPAL SHAREHOLDERS AT 31.12.2016	NUMBER OF SHARES	OWNERSHIP %
GSO Special Sit.	36 893 853	13.22
Goldman Sachs & Co	20 614 269	7.39
Nobelsystem Scandinavia AS	8 100 000	2.90
Astrup Fearnley AS	6 469 688	2.32
SES AS	6 100 000	2.19
GSO Credit Alpha Trading	5 582 305	2.00
GSO Churchill Partners	5 448 533	1.95
Allskog BA	5 296 381	1.90
Uthalden A/S	4 830 000	1.73
Fiducia AS	4 776 810	1.71
Barokk Invest AS	4 050 000	1.45
Swedbank Norge Markets	3 577 500	1.28
GSO Credit-A- Partner	3 315 955	1.19
Shareholders with <1% ownership	163 939 701	58.76
Total number of shares	**278 994 995**	**100.00**

The shareholder list is provided by VPS. Whilst every reasonable effort is made to verify all data, VPS can not guarantee the accuracy of the analysis.

SHARES OWNED BY MEMBERS OF CORPORATE BODIES AS OF 14 MARCH 2017	NUMBER OF SHARES
Board of Directors	
Henrik A. Christensen	0
Eilif Due [1]	103 256
Mimi K. Berdal [1]	0
- MKB Invest AS	85 000
Nils Hoff [1]	0
Joanne Owen	0
Cecilie Jonassen, Norske Skog Saugbrugs AS	5 143
Paul Kristiansen, Norske Skog Saugbrugs AS	62 191
Svein Erik Veie, Norske Skog Skogn AS	19 992
Employee-elected alternate board members (personal)	
Øystein Bruce (for Cecilie Jonassen)	17 748
Carl Fredrik Nilsen (for Paul Kristiansen)	0
Frode Letnes (for Svein Erik Veie)	0
Corporate management	
Chief Executive Officer (CEO) Sven Ombudstvedt	1 215 349
- Elle Holding AS	1 200 000
Chief Financial Officer (CFO) Rune Sollie	97 788
-Tia Ynwa AS	134 295
Senior Vice President (SVP) Lars P. Sperre	88 191
Chief Operating Officer (COO) Roar Ødelien	0

[1] *See Note 26 Related parties in the consolidated financial statement*

13. GUARANTEES

The company has guaranteed the EUR 290 million Senior Secured Note issued by Norske Skog AS with a total of NOK 2 635 million as at 31 December 2016 (NOK 2 790 million as at 31 December 2015). Parent company guarantees on behalf of subsidiaries amounted to NOK 550 million at 31 December 2016 (NOK 691 million at 31 December 2015). The guarantees are mainly issued to electricity and transportation services. Parent company bank guarantees on behalf of subsidiaries amounted to NOK 178 million at 31 December 2016 (NOK 157 million at 31 December 2015). The guarantees are mainly issued to electricity providers, customs- and VAT authorities.

14. RELATED PARTIES

A description of transactions with related parties is given in Note 26 Related parties in the consolidated financial statements.

15. EVENTS AFTER THE BALANCE SHEET DATE

A description of events after the balance sheet date is given in Note 27 Events after the balance sheet date in the consolidated financial statements.

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BDO AS
Munkedamsveien 45
Postboks 1704 Vika
0121 Oslo

Independent Auditor's Report

To the General Meeting of Norske Skogindustrier ASA

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the financial statements of Norske Skogindustrier ASA.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with laws and regulations, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report.

Basis for Qualified Opinion

Based upon disagreements with the previous auditor, management decided to perform a revised impairment test related to Property, Plant, and Equipment as at 30 June 2016. This impairment test was the basis for an impairment for the group of NOK 1 443 million as at this date. This also led to an impairment of NOK 1 197 million in Investment in Subsidiaries for the Parent Company. We have performed audit procedures related to this impairment test and the updated impairment test as at 31 December 2016 as described under "Key Audit Matters". However, we have not been able to obtain sufficient appropriate evidence regarding the valuation of the group's Property, Plant, and Equipment as at 31 December 2015, and consequently, we were unable to identify whether all, or parts, of the impairments recorded 30 June 2016 should have been allocated to prior accounting periods.

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We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 24 and the Board of Directors' report, which indicates that although the group has no bond maturities until 2019, it is unlikely that the bonds maturing in 2019 can be satisfied from group cash generation alone, and there is significant uncertainty as to whether a refinancing of this maturity will be available or achievable. These matters along with other matters described in note 24 and the Board of Directors' report indicate that a material uncertainty exists that may cast significant doubt on the company's and group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Description of the key audit matter	*How the key audit matter was addressed in the audit*
Valuation of Property, Plant, and Equipment (PPE) The global market for the group's products have recently been, and are still, declining. Because of this, there is an increased risk that the groups PPE booked value exceeds the net present value of future cash flows, i.e. recoverable amount of PPE, indicating that impairment may be appropriate. Accordingly, valuation of PPE has been identified as an important area in connection with the audit of the consolidated financial statements. Management has identified impairment indicators and has performed impairment tests accordingly. One impairment test was performed as at 30 June resulting in an impairment of NOK 1 443 million as at this date. This impairment test was updated for the purpose of issuing financial reporting 31 December 2016. Management engaged external experts to analyze and evaluate the prospective market for the industry to provide presumably objective	As a part of our audit, we obtained and evaluated information about the external experts' individual and collective competence and experience with the industry to be able to evaluate their independence, objectivity and professional competence to prepare adequate support to the impairment tests. Further, we performed a thorough and detailed review of the model used by management to calculate the recoverable amount of PPE, including assessment of assumptions such as WACC. We also challenged the assumptions for future cash flows provided by both management and external experts. We evaluated their views on the general market developments as well as the interpretations and use of these views in light of the requirements to use reasonable and supportable data as set forth in IAS 36. As part of this evaluation, we reviewed the degree of achievement for the 2016 forecasts and the degree of accuracy reached when

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information about industry trends and developments to support the impairment tests. In connection with the impairment tests, management also concluded that it was appropriate to redefine the number of Cash Generating Units (CGUs) from two to four.

The updated impairment test resulted in no further impairment as at 31 December 2016.

We refer to the description in note 4 to the consolidated financial statements.

comparing actual results to plans and forecasts for prior periods. Our audit procedures encompassed both the impairment test as at 30 June 2016 and the updated test related to yearend financial reporting. We also evaluated the appropriateness of redefining the CGUs compared to the requirements in IAS 36.

For issues related to allocation of impairment to appropriate accounting periods, we refer to our description under "Basis for qualified opinion".

Debt exchange offer in 2016

In April 2016, the Company settled the 2017 bond, by issuing a new bond due 2026 and a perpetual bond. The exchange was accounted for as a settlement of the existing bond, and an issuance of the new bonds. The Company recognized a gain of NOK 1 624 million, based on the difference between the fair value of the new bonds, and the carrying value of the existing bond. In addition, NOK 148 million was recognized directly to equity for the perpetual loan, based on the management assessment of the loan not being a financial liability under IFRS. The nature and complexity of the matter and related accounting standards made us identify this as a high risk area in our audit.

A further description of this matter is given in notes 5 and 6 to the consolidated financial statements.

We obtained the terms of the existing bond agreement and the new bond agreements and calculations supporting the accounting of the exchange as a settlement. We also obtained the bond agreement for the perpetual debt and the management assessment regarding the classification as equity. We examined the calculations supporting the treatments as a settlement by comparing the cash flows in the calculations with the terms of the bond agreements. We also reviewed the assumptions applied in the calculations. Further, we read the terms of the perpetual bond to determine whether the classification of the bond as equity was in compliance with IAS 32.

Deferred Tax

Several entities in the group have accumulated significant unused tax losses. In addition, several of the subsidiaries have material temporary differences linked to the property, plant and equipment. In the financial statements for 2016, the group reported a tax expense (-income) of NOK -538 million, deferred tax asset of NOK 257 million and deferred tax liability of NOK 293 million. Deferred tax asset not recognized amounts to NOK 3 246 million. The complexity and materiality of this matter has lead us to identify this as a high risk in our audit.

We refer to the description in note 17 to the consolidated financial statements.

We obtained a specification of all tax positions for the different entities in the group. We also obtained management assessment of how to account for the tax positions. We performed a detailed review of the tax positions and management assessment to ensure that that the treatment and disclosures in the financial statements were in compliance with the requirements in IAS 12.

INDEPENDENT AUDITOR'S REPORT

BDO

Revenue Recognition

The development over the recent years and the group's financial situation implies that there is an inherent risk that the operating paper mills may overstate revenues. Based on this, revenue recognition in these entities were considered a risk in our audit of the consolidated financial statements.

The audit of revenues was based on a detailed understanding of the revenue recognition accounting policies and the process of recording revenues according to the defined polices, including relevant control activities over this process. We performed tests regarding the operating effectiveness of these controls. In addition, we performed detailed tests of the entities' cut-off procedures to verify correct cut-off based on the entities' terms of delivery.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility and other information in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 16 March 2017
BDO AS

Terje Tvedt
State Authorised Public Accountant

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the financial statements for the period 1 January to 31 December 2016 have been prepared in accordance with prevailing accounting practices, and that the information in the financial statements provides a correct impression of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the annual report provides a correct overview of the development, result and position of the company and the group, along with a description of the key risk and uncertainty factors which the company and the group face.

SKØYEN, 14 MARCH 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Henrik August Christensen Chair	Eilif Due Board member	Nils Ingemund Hoff Board member
Joanne Owen Board member	Paul Kristiansen Board member	Cecilie Jonassen Board member
Svein Erik Veie Board member	Mimi K. Berdal Board member	Sven Ombudstvedt President and CEO

Alternative performance measures

The European Securities and Markets Authority's (ESMA) has defined new guidelines for alternative performance measures (APM). An APM is a financial measure of historical or future financial performance, financial position or cash flows figures, other than a financial measure defined or specified in the applicable financial reporting framework.

Norske Skog uses APMs as described below.

Gross operating earnings: Operating profit for the period, before deducting depreciation and amortization and impairment charges, determined on an entity, combined or consolidated basis

Gross operating margin: Gross operating earnings / operating revenue

Capital expenditure: Purchases of property, plant and equipment and intangible assets

Return on capital employed (annualised): (Gross operating earnings - Capital expenditure)/ Capital employed (average)

Gearing: Net interest bearing debt / equity

Net earnings per share after tax: Profit for the year / average number of shares

Cash flow per share after tax: Net cash flow from operating actvities / average number of shares

Price / Net earnings (P/E): Share prices 31 December / Net earnings per share after tax

Price / Cash flow ratio: Share price 31 December / Net cash flow from operating actvities

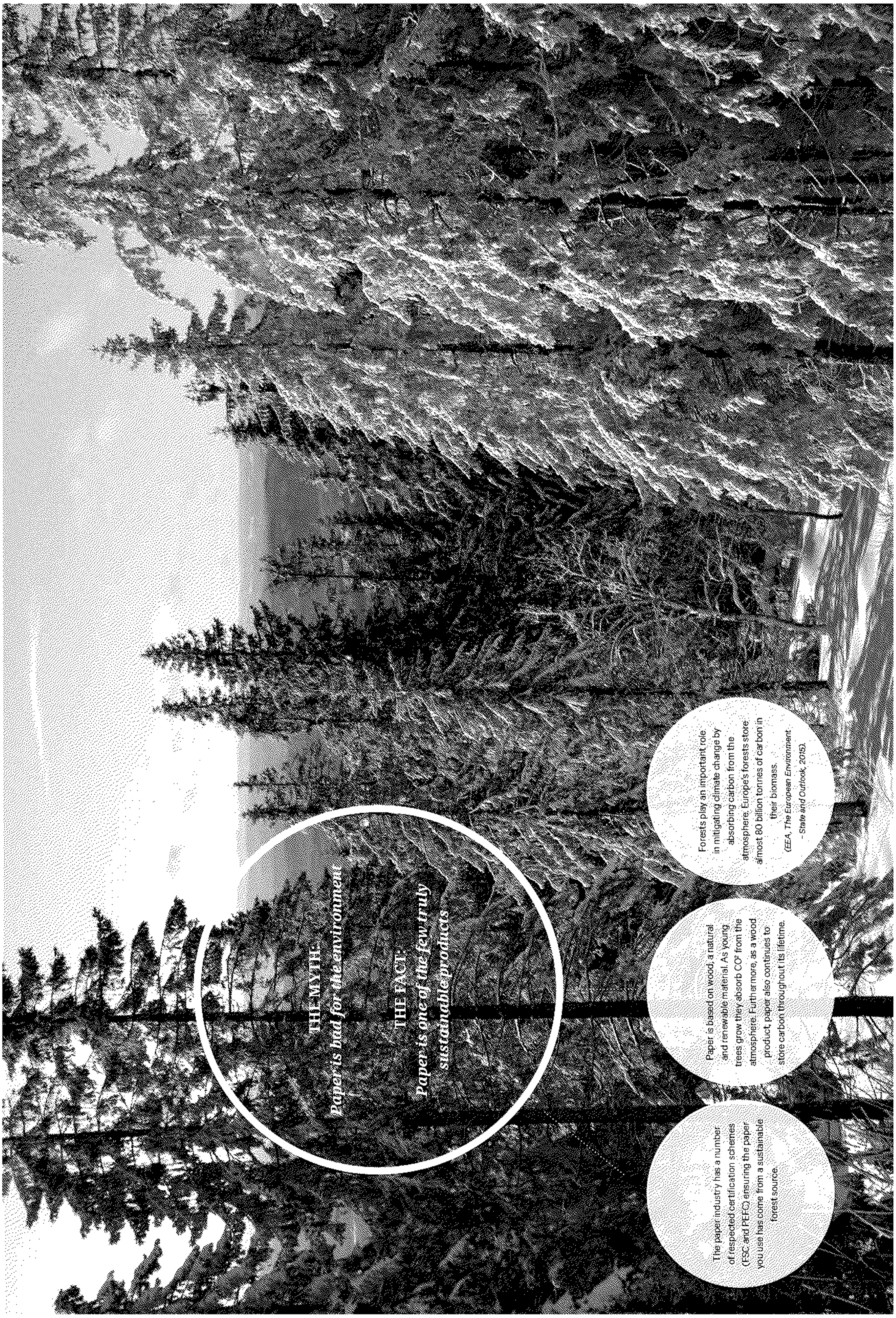
Price / Book (P/B): Share prices 31 December / Book equity per share

Enterprice value (EV): Net interest-bearing debt 31 December + market capitalization 31 December

Return on capital employed	2016	2015
Gross operating earnings	1 049	753
Capital expenditure	302	180
Average capital employed	7 996	9 200
Return on capital employed (annualised)	**9.3%**	**6.2%**

Capital employed	31.12.2016	31.12.2015
Intangible assets	30	87
Tangible assets	6 562	8 585
Inventory	1 161	1 253
Trade and other receivables	1 345	1 357
Trade and other payables	-1 868	-1 921
Other liabilities	-293	-308
Capital employed	**6 938**	**9 055**

Net interest bearing debt	31.12.2016	31.12.2015
Interest bearing non-current liabilities	6 429	7 453
Interest bearing current liabilities	466	1 676
-Hedge reserve	61	70
-Cash and cash equivalents	532	536
Net interest bearing debt	**6 302**	**8 523**


THE MYTH:
Paper is bad for the environment
THE FACT:
Paper is one of the few truly sustainable products
The paper industry has a number of respected certification schemes (FSC and PEFC) ensuring the paper you use has come from a sustainable forest source.
Paper is based on wood, a natural and renewable material. As young trees grow they absorb CO² from the atmosphere. Furthermore, as a wood product, paper also continues to store carbon throughout its lifetime.
Forests play an important role in mitigating climate change by absorbing carbon from the atmosphere. Europe's forests store almost 80 billion tonnes of carbon in their biomass.
(EEA, The European Environment - State and Outlook, 2015).

NORSKE SKOGINDUSTRIER ASA
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