



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2016 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 914 483 557
Organisasjonsform: Aksjeselskap
Foretaksnavn: NORSKE SKOG HOLDING AS
Forretningsadresse: Karenslyst allé 49
0279 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2016 - 31.12.2016

Konsern

Mørselskap 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: 29.06.2017

Grunnlag for avgivelse

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

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Brønnøysundregistrene, 08.08.2019



Resultatregnskap

Beløp i: NOK	Note	2016	2015
RESULTATREGNSKAP			
Driftsresultat			
Finansinntekter og finanskostnader			
Renteinntekt fra foretak i samme konsern	5	22 000 000	20 000 000
Annen finansinntekt	5	45 000 000	368 000 000
Sum finansinntekter		67 000 000	388 000 000
Nedskrivning av finansielle eiendeler	4,5	947 000 000	1 893 000 000
Annen rentekostnad	5	208 000 000	182 000 000
Annen finanskostnad	5	8 000 000	33 000 000
Sum finanskostnader		1 163 000 000	2 108 000 000
Netto finans		-1 096 000 000	-1 720 000 000
Ordinært resultat før skattekostnad		-1 096 000 000	-1 720 000 000
Skattekostnad på ordinært resultat	8		59 000 000
Ordinært resultat etter skattekostnad		-1 096 000 000	-1 779 000 000
Årsresultat		-1 096 000 000	-1 779 000 000
Overføringer og disponeringer			
Udekket tap		-1 096 000 000	-1 779 000 000
Sum overføringer og disponeringer		-1 096 000 000	-1 779 000 000



Balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Finansielle anleggsmidler			
Investering i datterselskap	4	2 320 000 000	4 700 000 000
Andre fordringer	9	1 000 000	1 963 000 000
Sum finansielle anleggsmidler		2 321 000 000	6 663 000 000
Sum anleggsmidler		2 321 000 000	6 663 000 000
Omløpsmidler			
Varer			
Fordringer			
Andre fordringer	9	11 000 000	585 000 000
Sum fordringer		11 000 000	585 000 000
Sum omløpsmidler		11 000 000	585 000 000
SUM EIENDELER		2 332 000 000	7 248 000 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital		681 000 000	5 390 000 000
Sum innskutt egenkapital		681 000 000	5 390 000 000
Sum egenkapital	3	681 000 000	5 390 000 000
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Øvrig langsiktig gjeld	6,9	1 598 000 000	1 741 000 000



Balanse

Beløp i: NOK	Note	2016	2015
Sum annen langsiktig gjeld		1 598 000 000	1 741 000 000
Sum langsiktig gjeld		1 598 000 000	1 741 000 000
Kortsiktig gjeld			
Betalbar skatt	8		59 000 000
Annen kortsiktig gjeld		53 000 000	58 000 000
Sum kortsiktig gjeld		53 000 000	117 000 000
Sum gjeld		1 651 000 000	1 858 000 000
SUM EGENKAPITAL OG GJELD		2 332 000 000	7 248 000 000

**Konsernets resultatregnskap**

Beløp i: NOK	Note	2016	2015
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	3	11 852 000 000	11 130 000 000
Sum inntekter		11 852 000 000	11 130 000 000
Kostnader			
Endring i beholdning av egentilvirkede anleggsmidler		66 000 000	-47 000 000
Varekostnad		8 020 000 000	7 794 000 000
Lønnskostnad	12	1 762 000 000	1 686 000 000
Avskrivning	4	674 000 000	754 000 000
Nedskrivning av varige driftsmidler og immaterielle eiendeler	4	1 180 000 000	
Annen driftskostnad	14,16, 20	1 097 000 000	924 000 000
Sum kostnader		12 799 000 000	11 111 000 000
Driftsresultat		-947 000 000	19 000 000
Finansinntekter og finanskostnader			
Inntekt på investering i datterselskap og tilknyttet selskap	19	-211 000 000	-23 000 000
Inntekt på andre investeringer	5		1 000 000
Renteinntekt fra foretak i samme konsern	5	34 000 000	38 000 000
Annen renteinntekt	5	4 000 000	5 000 000
Annen finansinntekt	5	215 000 000	368 000 000
Sum finansinntekter		42 000 000	389 000 000
Rentekostnad til foretak i samme konsern	5	62 000 000	138 000 000
Annen rentekostnad	5	638 000 000	526 000 000
Annen finanskostnad	5	43 000 000	415 000 000
Sum finanskostnader		743 000 000	1 079 000 000
Netto finans		-701 000 000	-690 000 000
Ordinært resultat før skattekostnad		-1 648 000 000	-671 000 000
Skattekostnad på ordinært resultat	17	-527 000 000	533 000 000
Ordinært resultat etter skattekostnad		-1 121 000 000	-1 204 000 000



Konsernets resultatregnskap

Beløp i: NOK	Note	2016	2015
Årsresultat		-1 121 000 000	-1 204 000 000



Konsernets balanse

Beløp i: NOK	Note	2016	2015
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Konsesjoner, patenter, lisenser, varemerker o.l.	4	22 000 000	17 000 000
Utsatt skattefordel	17	257 000 000	
Sum immaterielle eiendeler		279 000 000	17 000 000
Varige driftsmidler			
Tomter, bygninger og annen fast eiendom	4	1 651 000 000	1 904 000 000
Maskiner og anlegg	4	4 422 000 000	6 264 000 000
Driftsløsøre, inventar, verktøy, kontormaskiner	4	475 000 000	402 000 000
Sum varige driftsmidler		6 548 000 000	8 570 000 000
Finansielle anleggsmidler			
Investeringer i tilknyttet selskap	19	151 000 000	374 000 000
Andre fordringer	10	207 000 000	2 622 000 000
Sum finansielle anleggsmidler		358 000 000	2 996 000 000
Sum anleggsmidler		7 185 000 000	11 583 000 000
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	1 744 000 000	2 479 000 000
Sum fordringer		1 744 000 000	2 479 000 000
Investeringer			
Andre finansielle instrumenter	18	49 000 000	95 000 000
Sum investeringer		49 000 000	95 000 000
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	8	371 000 000	271 000 000
Sum bankinnskudd, kontanter og lignende		371 000 000	271 000 000



Konsernets balanse

Beløp i: NOK	Note	2016	2015
Sum omløpsmidler		3 325 000 000	4 098 000 000
SUM EIENDELER		10 510 000 000	15 681 000 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital		3 556 000 000	7 169 000 000
Sum innskutt egenkapital		3 556 000 000	7 169 000 000
Opptjent egenkapital			
Udekket tap		3 104 000 000	1 750 000 000
Sum opptjent egenkapital		-3 104 000 000	-1 750 000 000
Sum egenkapital		452 000 000	5 419 000 000
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser	13	226 000 000	232 000 000
Utsatt skatt	17	303 000 000	619 000 000
Sum avsetninger for forpliktelser		529 000 000	851 000 000
Annen langsiktig gjeld			
Øvrig langsiktig gjeld	6,11,1 8	7 094 000 000	6 635 000 000
Sum annen langsiktig gjeld		7 094 000 000	6 635 000 000
Sum langsiktig gjeld		7 623 000 000	7 486 000 000
Kortsiktig gjeld			
Gjeld til kredittinstitusjoner	11,18	430 000 000	536 000 000
Leverandørgjeld	18	1 805 000 000	1 878 000 000
Betalbar skatt	17	11 000 000	66 000 000
Annen kortsiktig gjeld	18	189 000 000	296 000 000
Sum kortsiktig gjeld		2 435 000 000	2 776 000 000



Konsernets balanse

Beløp i: NOK	Note	2016	2015
Sum gjeld		10 058 000 000	10 262 000 000
SUM EGENKAPITAL OG GJELD		10 510 000 000	15 681 000 000



REPORT OF THE BOARD OF DIRECTORS

Norske Skog Holding Group (Norske Skog or group) is one of the leading producers of publication paper in the world, with an annual production capacity of 2.7 million tonnes. The group is geographical diverse with production sites in Europe and Australasia. In Europe, the group has four production sites, two in Norway, one in France and one in Austria. In Australasia, the group has two sites in Australia and one in New Zealand. The European segment is the largest with 2.0 million tonnes of capacity, of which 1.1 million tonnes newsprint and 0.9 million tonnes magazine paper. Norske Skog acquired its Australasian assets in 2000 and only produced newsprint in the region for a number of years. The production capacity in the Australasian segment is 0.6 million tonnes newsprint and 0.1 million tonnes magazine paper. Importantly, Norske Skog is the only domestic producer in the region, giving the group a considerable competitive advantage.

Norske Skog aims to generate 25% of group GOE from new businesses by 2020, with the shift predominantly involving new green investments like biogas and wood pellets. In 2017 Norske Skog will add a new revenue stream, biogas. The biogas production at Saugbrugs in Norway will provide environmental friendly fuel to local buses. In 2015, Norske Skog acquired Nature's Flame, the market leading wood pellets producer in New Zealand. The production of wood pellets has since increased and export opportunities to Japan are being explored. At the Bruck mill in Austria, Norske Skog intends to close its oldest and least efficient paper machine towards the end of 2017. A project is ongoing to replace the newsprint machine from 1953 with a state of the art tissue machine.

NORSKE SKOG IN 2016

Norske Skog benefitted from a better market for publication paper in Europe in 2016 compared to the previous year. Newsprint prices increased and the group re-established and increased its presence in the German market and increased its market share in other markets. In 2015 Norske Skog reduced volumes to the German market for parts of the year to avoid delivering newsprint with open price contract. Consequently, capacity utilization increased to 92% (82%) in 2016.

In Australasia, domestic newsprint prices remained stable with long-term customer contracts. Exports of newsprint to Asia increased due to a structural demand decline in domestic markets. Norske Skog has a significant competitive advantage in Australasia as the only domestic producer. Capacity utilization increased to 95% (91%) in 2016 with improved export prices for newsprint in Asia. Despite this, more exports to Asia negatively impacts margins given the still low prices in the Asian markets, relative to other markets.

As part of the year-end audit for 2015, Norske Skog and our auditors at such time, Ernst & Young AS disagreed the on the basis for calculating the value in use of the group's property, plant and equipment. On the basis of the disagreement, Ernst & Young resigned as auditor. Following the resignation Norske Skog commenced work to appoint a new auditor. BDO AS was appointed as auditor for the parent and the group companies in August 2016.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue was NOK 11.9 billion in 2016 (NOK 11.1 billion). The increase reflected better newsprint prices in Europe and higher sales volumes. Group variable costs decline per tonne with lower energy costs, while fixed costs remained stable. A weaker GBP following the UK's vote to leave the EU in June 2016 had a negative impact on Norske Skog's newsprint exports from Norway to the UK. The negative currency effect was however partly offset by higher newsprint prices in the UK.

Gross operating earnings improved to NOK 1 097 million in 2016 (NOK 818 million) with the better market on the continent clearly offsetting the headwind from a weaker GBP. Depreciation was NOK 674 million in 2016 (NOK 754 million), the reduction is due to impairment charges recognised in 2016.

Restructuring expenses in 2016 amounted to NOK 64 million (NOK 49 million), mainly related to de-manning. Other gains and losses in 2016 were NOK -126 million (NOK 5 million), largely reflecting a lower valuation of energy contracts in Norway and New Zealand. A total impairment charge of NOK 1.4 billion was recognized in the second quarter of 2016, predominately reflecting a more conservative projection for the Australasian business.

Operating earnings were NOK -947 million in 2016 (NOK 19 million). The decline reflected the impairment charge.

Financial items in 2016 were NOK -489 (NOK -667 million) due to the deleveraging effect from the modified exchange offer. Net interest expenses were NOK 662 million in 2016 (NOK 621 million). Currency gains of NOK 170 million (NOK -332 million) reflected NOK appreciation to debt denominated in EUR and USD.

Income taxes recognized in the income statement for 2016 amounted to NOK 527 million (NOK -533 million). This included a change in deferred tax of NOK 543 million, whereof recognized deferred tax assets were NOK 257 million at 31 December 2016.



Loss for the period was NOK 1.1 billion in 2016 (NOK 1.2 billion). Net cash flow from operating activities was NOK 375 million in 2016 (NOK 88 million). Cash from operations was NOK 988 million (NOK 588 million) reflecting the better operating environment in 2016. Cash from net financial items, primarily interest payments, was NOK -609 million (NOK -491 million), while taxes paid was NOK 4 million (NOK 9 million).

BALANCE SHEET

Total assets were NOK 10.5 billion at 31 December 2016 (NOK 15.7 billion). Total non-current assets were NOK 7.2 billion at 31 December 2016 (NOK 11.6 billion). The reduction of NOK 4.4 billion mainly reflected impairment charges, depreciations and changes in non-current receivables. Investments in property, plant and equipment were NOK 305 million in 2016 (NOK 184 million). Investments in 2016 included the construction of the new biogas facility at Saugbrugs in Norway in addition to normal maintenance capital expenditure.

Total current assets were NOK 3.3 billion at 31 December 2016 (NOK 4.1 billion), a decrease due to lower other receivables and inventories. Cash and cash equivalents were NOK 371 million at 31 December 2016 (NOK 271 million).

Total non-current liabilities were NOK 7.6 billion at 31 December 2016 (NOK 7.5 billion). Net interest-bearing debt, the main portion of non-current liabilities, increased by NOK 0.6 billion through 2016 and amounted to NOK 6.6 billion at 31 December 2016. Total current liabilities were NOK 2.4 billion (NOK 2.8 billion) whereof trade payables were NOK 1 805 million (NOK 1 878 million).

Equity was NOK 452 million at 31 December 2016 (NOK 5 419 million). The decrease reflected loss for the period, negative other comprehensive income and repayment of paid-in capital.

DIVIDEND PROPOSAL

The board recommends that no dividend is disbursed for the financial year 2016.

PROFITABILITY IMPROVEMENTS AND FINANCIAL POSITION

Norske Skog's European operations has sites in Norway, France and Austria. Annual production capacity is 2.0 million tonnes. Operating revenue was NOK 8.3 billion in 2016 (NOK 7.7 billion). Gross operating earnings clearly improved to NOK 778 million (NOK 458 million). The improvement reflected better newsprint prices and higher sales volumes. Sales volumes in the segment increased by 7% to 1.9 million tonnes. An on average weaker NOK to EUR and USD compared to the previous year was favourable, but a weaker GBP reduced the export margin for newsprint to the UK. Variable costs per tonne were helped by lower energy costs, but spot electricity prices in Norway and higher recovered paper prices were headwinds in the second half of the year. Fixed costs were somewhat lower.

The market for publication paper in Europe improved in 2016 with better prices for newsprint following announcements of capacity closures/conversions and a modest demand decline. The announced capacity take outs will support high industry utilization rates for newsprint in Europe throughout 2017. For magazine paper the industry utilization rate for SC is acceptable, while LWC is oversupplied with an industry utilization rate below 90%. Norske Skog's SC exports from Norway to North America benefits from a strong USD, while the LWC production in Austria has a competitive advantage locally.

Norske Skog's Australasia operations has sites in Australia and New Zealand. Annual production capacity is 0.7 million tonnes. Operating revenue in 2016 was NOK 3.5 billion (NOK 3.4 billion), while gross operating earnings declined slightly to NOK 323 million (NOK 361 million). Revenue increased with higher sales volumes, up 3% on 2015, due to a better export market for newsprint to Asia. Relatively more exports to Asia, offsetting the secular demand decline in domestic markets, however weighed on margins as Norske Skog has a significant domestic competitive advantage being the sole producer. An on average weaker NOK to AUD and diversification into wood pellets resulted in higher fixed costs. Variable costs per tonne were stable with predominantly long-term sourcing contracts.

Asian newsprint prices improved in 2016, but lagged the price increases in the North American market. A historical correlation between the two prices are supportive for the Asian prices in 2017. In Australasia, the domestic prices are stable with a considerable element of long-term contracts, while Asian prices could be a tailwind for Norske Skog's newsprint exports.

A weaker NOK makes Norske Skog more competitive in international markets. Norske Skog is predominately financed through international bonds denominated in EUR and USD. NOK appreciated from year-end 2015 to year-end 2016. A stronger NOK makes foreign debt smaller in NOK terms.

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, the ultimate parent company Norske Skogindustrier ASA has in 2017 discussed a recapitalisation proposal with key equity- and bondholders of the group. On June 2, 2017, Norske Skog launched an exchange offer to significantly reduce the group's debt level and interest cost, increase the equity value, and position the company to deliver on its future growth strategy. As of June 13, 2017, the exchange offers and consent solicitations announced on June 2, 2017 had received significant engagement from debtholders, but not yet reached the adequate level of acceptance. The board of Norske Skogindustrier ASA has thus decided to amend the terms of the exchange offers and consent solicitations to extend the acceptance and consent deadline until July 12, 2017. The Board has also decided to use the 30-day interest payment grace period on the existing 2019 senior secured notes (SSN) to support the operating business. A successful transaction will pro forma reduce the total debt inclusive perpetual notes from NOK 8.7 billion to around NOK 4.2 billion and improve the group's book equity to approximately NOK 3.5 billion.

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.

PARENT COMPANY

The parent company, Norske Skog Holding AS, is incorporated in Norway and has its head office at Skøyen in Oslo. The company is a subsidiary of Norske Skogindustrier ASA listed on the Oslo Stock Exchange, with the ticker NSG.

BOARD OF DIRECTORS & MANAGEMENT

Norske Skog Holding's board of directors consists of Rune Sollie (Chair) and Lars P. Sperre. The company has no employees and services are purchased from Norske Skogindustrier ASA.

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Norske Skog is subject to reporting requirements for corporate governance and corporate social responsibility pursuant to the Norwegian Accounting Act Section 3-3b and 3-3c. Corporate governance and corporate social responsibility are described in separate sections of the Annual Report 2016 for Norske Skogindustrier ASA (www.norskeskog.com/Investors/Reports).

EMPLOYEES

Norske Skog had 2 426 employees at year end 2016 (2 515). The reduction is due to general staff reductions in all units.

HEALTH AND SAFETY

Norske Skog aims to have zero injuries among employees. Health and safety is a corporate responsibility, followed up by the individual business units. All near misses and injuries are reported in a global system. Experiences from every single incident are shared with the entire organisation. The H1-value, which represents lost-time injuries per million working hours, was 1.5 in 2016. Norske Skog had an absence rate due to sickness of 3.8% in 2016.



RESEARCH AND DEVELOPMENT

Norske Skog's research and development work is performed at the individual business units and in cooperation with external research institutions. The work is coordinated centrally, with the aim to leverage synergies and best practices throughout the group. There is a continued focus on evolution of paper products and new innovative green alternatives to existing materials.

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

The paper industry has traditionally had few female employees. At Norske Skog, the proportion women has been around 10% for many years. The board of directors consists of three members, all men. Norske Skog is working to encourage the Norwegian Discrimination Act's objective within our business. This include activities to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith.

RISK MANAGEMENT

Norske Skog performs an annual Enterprise Risk Management (ERM) evaluation based on reports from all operating units and corporate functions. The report is presented to the board and is part of the group's risk management activities.

The main risk exposures for the group are linked to price and volume developments for publication paper and the costs of key input factors such as energy and fibre. Currency movements and developments in the broader economic climate remain the largest uncertainties influencing all of the above. The business risk for the group is amplified by high financial leverage.

Norske Skog's operations are predominantly production of publication paper in Europe and Australasia. Exposure to both newsprint and magazine paper grades give some product diversification. Business segments located on opposite sides of the world provide geographical diversification. The group's green diversification strategy will gradually shift the focus beyond publication paper.

Norske Skog is not vertically integrated and has to source input factors from third parties. The supply of these input factors is largely covered by long-term contracts which reduce cost fluctuations.

Financial risk management includes currency and liquidity planning. Balance sheet volatility is mitigated by natural hedging, currency matching of debt and assets. Norske Skog has issued bonds denominated in EUR and USD, replicating cash flows from the EUR based European market and USD based exports. The interest rates (coupons) on these bonds are fixed, providing predictability. Liquidity is ensured by sufficient cash balances and open credit lines linked to accounts receivables facilities. Norske Skog continuously assess the most competitive funding sources for the group.

Norske Skog performs credit evaluations of counterparties. The group's general insurance is managed centrally through a well-established insurance program.

Risk factors are further discussed in Notes 8 and 22 in the consolidated financial statements.

ENVIRONMENT

Norske Skog sets environmental targets for each individual production unit, with clear procedures for performance reporting. The group's annual report is prepared in accordance with the Global Reporting Initiative (GRI). In 2003, Norske Skog signed the UN Global Compact treaty, for compliance with the principles of human rights, employee rights, the environment and anti-corruption work. All of Norske Skog's business units are certified in accordance with ISO 14001. For further details of Norske Skog's GRI and UN Global Compact reporting, please see, www.norskeskog.com/responsibility.

RESOURCES AND GREENHOUSE GAS EMISSIONS

Use of recovered paper is an important part of the group's energy and climate work. Recovered paper requires less energy in the production process than wood, thereby reducing greenhouse gas emissions.

Norske Skog prioritizes the procurement of logs and wood chips from certified forestry. The company's procurement policy states that all wood must come from sustainable forests. Norske Skog's business units all have traceability certificates to document the origin of wood.

Norske Skog has decided to reduce its greenhouse gas emissions by 25% from 2006 to 2020. The reduction target includes direct greenhouse gas emissions from paper production and indirect emissions from purchased electricity and heat. The goal will be achieved through a combination of energy conservation and use of alternative energy sources.

OUTLOOK FOR 2017

The market balance for publication paper in Europe is expected to improve with announced capacity conversions/closures in the industry. This has resulted in a favourable pricing environment for newsprint with operating rates to remain well above 90% throughout 2017. Cost inflation



from recovered paper and energy prices, together with headwinds from a weaker GBP, will however dampen the positive price effect.

The Asian export market for newsprint, constituting around a quarter of the Australasian business for the group, is encouraging with improved prices. Domestically in Australia and New Zealand, the group has margin protection through long-term customer contracts, but the business is exposed to a secular decline in demand.

Group sales volumes are expected to be on level with the previous year in 2017. Fixed cost initiatives target a group run rate of NOK 600 million per quarter by year-end 2017.

Given high leverage, inflated interest costs and low equity, the board of directors remain focused on improving Norske Skog's financial position. As part of this the board of directors has continuous attention on operational enhancements, increased revenue and cost improvement measures. The board of directors has pursued significant recapitalisation options in the prior year and will continue to explore further financing and recapitalisation opportunities with the aim of reducing leverage and interest cost and improving equity level. This will enable Norske Skog to develop its current business, diversify its business model and be an attractive consolidation partner for publication paper in Europe.

NORSKE SKOG HOLDING AS (THE PARENT COMPANY)

The activities of Norske Skog Holding AS is merely a holding company owning 100% of the shares in Norske Skog AS. At year-end 2016, Norske Skog Holding AS had no employees.

Financial items amounted to NOK -1 096 million (NOK -1 720 million) mainly due to external interest expense of NOK 208 million and impairment of investments in subsidiaries of NOK 947 million. The loss for Norske Skog Holding AS was NOK 1 096 million in 2016 (NOK 1 779 million).

Net cash flow from operating activities was NOK -139 million (NOK -59 million). The figure largely constituted interest payments of NOK 161 million (NOK 59 million).

Total assets were NOK 2.3 billion at 31 December 2016 (NOK 7.2 billion). The reduction of NOK 4.9 billion mainly reflected change in intercompany receivables of NOK 1 962 million, repayment of paid-in capital from subsidiaries of NOK 1 434 million and impairment of shares in subsidiary of NOK 947 million.

Total non-current liabilities were NOK 1.6 billion at 31 December 2016 (NOK 1.7 billion) remains at the same level as last year.

Equity was NOK 681 million at 31 December 2016 (NOK 5 390 million). The decrease reflected loss for the period in addition to proceeds from shares issued and classification of perpetual notes as equity.

As described above the board of directors recognizes the challenging industry Norske Skog operates in, the remaining high financial leverage in Norske Skog Holding AS and the exposures to the groups various risks that could impact the financial performance, liquidity and equity in the parent company. The risk factors described for the group are also relevant for the parent company. Furthermore, Norske Skog Holding AS is also exposed to the risks of funding from the cash generating operations being available for the company when required by way of intragroup loans or other capital transactions such as dividends. The business risk of the company is impacted by its high financial leverage which is exposed to currency developments in EUR and USD against NOK.

PROFIT/LOSS ALLOCATION

The loss for the year for Norske Skog Holding AS (the parent company) in 2016 was NOK 1 096 million (NOK 1 779 million) which has been allocated from share premiums.

SKØYEN, 28 JUNE 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOG HOLDING AS

Rune Sollie
Chair

Lars Spørre
Board member



CONSOLIDATED INCOME STATEMENT

NOK MILLION	NOTE	2016	2015
Operating revenue	3	11 852	11 130
Distribution costs		-1 229	-1 217
Cost of materials		-6 791	-6 577
Change in inventories		-66	47
Employee benefit expenses	12	-1 762	-1 686
Other operating expenses	14	-907	-879
Gross operating earnings		1 097	818
Depreciation	4	-674	-754
Restructuring expenses	20	-64	-49
Other gains and losses	16	-126	5
Impairments	4	-1 180	0
Operating earnings		-947	19
Share of profit in associated companies	19	-211	-23
Financial income	5	83	411
Financial expenses	5	-742	-746
Net unrealised/realised gains/losses on foreign currency	5	170	-332
Profit/loss before income taxes		-1 648	-671
Income taxes	17	527	-533
Profit/loss		-1 121	-1 204



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME


NOK MILLION	2016	2015
Profit/loss	-1 121	-1 204
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	-223	197
Tax expense on translation differences	0	0
Total	-223	197
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Remeasurements of post employment benefit obligations	-10	6
Tax effect on remeasurements of post employment benefit obligations	-1	-4
Total	-11	2
Other comprehensive income	-234	199
Total Comprehensive income	-1 355	-1 005



CONSOLIDATED BALANCE SHEET

NOK MILLION	NOTE	31.12.2016	31.12.2015
Assets			
Deferred tax asset	17	257	0
Intangible assets	4	22	17
Property, plant and equipment	3, 4	6 548	8 570
Investments in associated companies	19	151	374
Other non-current assets	10	207	2 622
Total non-current assets		7 185	11 583
Inventories	3, 18	1 161	1 253
Trade and other receivables	10	1 744	2 479
Cash and cash equivalents	8	371	271
Other current assets	18	49	94
Total current assets		3 325	4 097
Total assets		10 510	15 681
Shareholders' equity and liabilities			
Paid-in equity		3 556	7 169
Retained earnings and other reserves		-3 104	-1 750
Total equity		452	5 419
Pension obligations	13	226	232
Deferred tax liability	17	303	619
Interest-bearing non-current liabilities	6, 11, 18	6 589	6 003
Other non-current liabilities	18	524	631
Total non-current liabilities		7 623	7 486
Interest-bearing current liabilities	11, 18	430	536
Trade and other payables	18	1 805	1 878
Tax payable	17	11	66
Other current liabilities	18	190	296
Total current liabilities		2 435	2 776
Total liabilities		10 058	10 262
Total equity and liabilities		10 510	15 681

SKØYEN, 28 JUNE 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOG HOLDING AS



Rune Solle
Chair



Lars Spørre
Board member



CONSOLIDATED STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2016	2015
Cash flow from operating activities			
Cash generated from operations		11 804	10 872
Cash used in operations		-10 816	-10 284
Cash flow from currency hedges and financial items		-28	-20
Interest payments received	5	37	50
Interest payments made	5	-618	-521
Taxes paid		-4	-9
Net cash flow from operating activities	3	375	88
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3, 4	-299	-179
Sales of property, plant and equipment and intangible assets		194	2
Dividend received		0	0
Purchase of shares in companies and other financial payments		0	-1
Sales of shares in companies and other financial payments		-1	3
Net cash flow from investing activities		-105	-174
Cash flow from financing activities			
New loans raised		1 446	2 614
Repayments of loans		-599	-305
New equity		0	0
Change in intercompany balance with group		-1 000	-1 969
Net cash flow from financing activities		-154	340
Foreign currency effects on cash and cash equivalents		-17	18
Total change in cash and cash equivalents		99	271
Cash and cash equivalents per opening balance		271	0
Cash and cash equivalents 31 December		371	271



CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	PAID-IN EQUITY	RETAINED EARNINGS	OTHER EQUITY RESERVES	TOTAL EQUITY
Opening balance per incorporation 5 November 2014	0	0	0	0
Contribution in kind 14 January 2015	7 169	-645	0	6 524
Profit/loss	0	-1 204	0	-1 204
Group contributions	0	-100	0	-100
Other comprehensive income	0	0	199	199
Equity 31 December 2015	7 169	-1 949	199	5 419
Profit/loss	0	-1 121	0	-1 121
Repaid paid-in capital	-3 613	0	0	-3 613
Other comprehensive income	0	-35	-199	-234
Equity 31 December 2016	3 556	- 3 105	0	452



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Norske Skog Holding AS ("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 Skog Holding AS is incorporated in Norway and has its head office at Skøyen outside of Oslo. Norske Skog Holding AS was founded 5 November 2014 and became owner of the operating entities (business units and sales offices) from the beginning of 2015. The consolidated financial statements covers the calendar year 2015 and were authorised for issue by the board of directors in Norske Skog Holding AS on 28 June 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 Skog Holding AS 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.

Business Combinations

Acquisitions in 2015

In January 2015, the Norske Skog Holding AS group acquired 100% of the voting shares of the operating mills in the Norske Skog group and Nornews AS. Norske Skog Holding AS group acquired 100% of the shares in Norske Skog Bruck GmbH, Norske Skog Skogn AS, Norske Skog Saugbrugs AS, Norske Skog Golbey SA, Norske Skog Industries Australia Ltd. (owns 100% of the shares in Norske Skog Paper Mills (Australia) Ltd and Norske Skog Tasman Ltd.) and Norske Skog Papers (Malaysia) Sdn Bhd (owns 33.3% of the shares in Malaysian Newsprint Industries Sdn Bhd). Nornews AS is the owner of all the European sales companies. All the operating mills in the group are producing publication paper (newsprint and magazine paper). The Norske Skog AS group acquired the mills and the European sales companies as part of the restructuring of the Norske Skog group in connection with the refinancing conducted during first quarter 2015.

Accounting treatment of the business combinations

All the entities involved in the business combinations were previously part of the group accounts (Norske Skog group) for the ultimate parent company Norske Skogindustrier ASA. As this was a business combination of entities under common control, the carrying value of the assets and liabilities in the Norske Skog group consolidated financial statements were carried forward. Revenues and expenses are included from the acquisition date. Financial information for periods prior to the business combination under common control has not been restated.

Consolidation

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Norske Skog Holding AS group and its subsidiaries as at 31 December 2016. Control is achieved when the Norske Skog Holding AS 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 Holding AS group controls an investee if, and only if, the Norske Skog Holding AS 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 Holding AS 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 Holding AS group's voting rights and potential voting rights

The Norske Skog Holding AS 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 Holding AS 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 Holding AS 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 Holding AS.

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,
- 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 (except for goodwill).

Non-current assets (or disposal groups) held for sale

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

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 receivables

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.

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 in group companies, change of deferred income taxes for the financial period and adjustments to previous periods. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

Deferred tax 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) Bonus arrangements

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

c) 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

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.

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 and interpretations 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 extent 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 qualify 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 adapt 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 Holding AS 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 further 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 Holding AS group 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 Holding AS 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	40	0	11 852
Distribution costs	-820	-401	-8	0	-1 229
Cost of materials	-4 824	-1 944	-23	0	-6 791
Change in inventories	-61	-12	7	0	-66
Employee benefit expenses	-1 207	-549	-5	0	-1 762
Other operating expenses	-602	-291	-14	0	-907
Gross operating earnings	778	323	-3	0	1 097
Depreciation	-395	-275	-4	0	-674
Restructuring expenses	-26	-38	0	0	-64
Other gains and losses	2	-32	-96	0	-126
Impairments	-233	-947	0	0	-1 180
Operating earnings	125	-969	-103	0	-947
Share of operating revenue from external parties (%)	100	100	100		100

2015	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	7 688	3 422	20	0	11 130
Distribution costs	-814	-400	-4	0	-1 217
Cost of materials	-4 674	-1 894	-9	0	-6 577
Change in inventories	29	15	2	0	47
Employee benefit expenses	-1 168	-515	-2	0	-1 686
Other operating expenses	-603	-267	-9	0	-879
Gross operating earnings	458	361	-2	0	818
Depreciation	-414	-339	-2	0	-754
Restructuring expenses	-31	-17	0	0	-49
Other gains and losses	7	-9	6	0	5
Impairments	0	0	0	0	0
Operating earnings	20	-4	3	0	19
Share of operating revenue from external parties (%)	100	100	100		100

OPERATING REVENUE PER MARKET

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

	2016	2015
Norway	286	258
Rest of Europe	6 971	6 385
North America	598	582
South America	43	148
Australasia	2 772	2 880
Asia	990	649
Africa	191	228
Total	11 852	11 130



NET CASH FLOW FROM OPERATING ACTIVITIES

	2016	2015
Publication paper Europe	802	432
Publication paper Australasia	186	172
Other activities	0	-16
Total cash flow allocated to segments	988	587
Cash from net financial items	-609	-491
Taxes paid	-4	-9
Net cash flow from operating activities	375	88

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2016	2015
Publication paper Europe	175	84
Publication paper Australasia	122	70
Other activities	1	25
Total	299	179

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	2 152	2 498
Rest of Europe	1 950	2 170
Australasia	2 446	3 545
Activities not allocated to regions	0	358
Total	6 548	8 570

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

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-specific 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 233 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 EQUIPMENT	AND LAND BUILDINGS	AND
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.



INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS	LICENSES AND PATENTS	TOTAL
Historical acquisition cost from new companies	131	77	208
Additions	0	0	0
Disposals	-4	0	-4
Reclassified from plant under construction	1	2	3
Currency translation differences	5	5	10
Acquisition cost 31 December 2015	133	84	217
Historical accumulated depreciation from new companies	123	67	190
Depreciation	0	1	1
Disposals	0	0	0
Currency translation differences	5	4	9
Accumulated depreciation and impairments 31 December 2015	128	72	200
Carrying value 31 December 2015	5	12	17
Acquisition cost 1 January 2016	133	84	217
Additions	20	0	20
Disposals	-10	0	-10
Reclassified from plant under construction	0	1	1
Currency translation differences	-3	-4	-7
Acquisition cost 31 December 2016	140	81	221
Accumulated depreciation and impairments 1 January 2016	128	72	200
Depreciation	4	2	6
Disposals	0	0	0
Currency translation differences	-3	-4	-7
Accumulated depreciation and impairments 31 December 2016	129	70	199
Carrying value 31 December 2016	11	11	22

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.

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTR- UCTION	TOTAL
Historical acquisition cost from new companies	306	29 688	6 497	467	587	37 545
Additions	0	27	14	1	142	184
Disposals	0	-178	-18	0	0	-196
Reclassified from plant under construction	14	500	13	7	-537	-3
Currency translation differences	19	1 170	216	27	29	1 461
Acquisition cost 31 December 2015	339	31 207	6 722	502	221	38 991
Historical accumulated depreciation from new companies	140	23 587	4 530	427	45	28 729
Depreciation	0	594	150	9	0	753
Value changes	6	0	0	0	0	6
Disposals	0	-177	-18	0	0	-195
Currency translation differences	9	939	156	24	0	1 128
Accumulated depreciation and impairments 31 December 2015	155	24 943	4 818	460	45	30 421
Carrying value 31 December 2015	184	6 264	1 904	42	176	8 570



Acquisition cost 1 January 2016	339	31 207	6 722	502	221	38 991
Additions	0	55	2	1	247	305
Disposals	0	-262	0	-1	0	-263
Reclassified from plant under construction	15	110	4	7	-137	-1
Currency translation differences	-12	-729	-174	-23	-7	-945
Acquisition cost 31 December 2016	342	30 381	6 554	486	324	38 087
Accumulated depreciation from new companies	155	24 943	4 818	460	45	30 421
Depreciation	0	517	143	7	0	667
Impairment	25	1 084	71	0	0	1 180
Value changes	12	0	0	0	0	12
Disposals	0	-55	0	0	0	-55
Currency translation differences	-5	-530	-129	-22	0	-686
Accumulated depreciation and impairments 31 December 2016	187	25 959	4 903	445	45	31 539
Carrying value 31 December 2016	155	4 422	1 651	41	279	6 548

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 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.



5. FINANCIAL ITEMS

FINANCIAL ITEMS	2016	2015
Financial income		
Dividends received	0	1
External interest income	4	5
Interest income from group companies ¹⁾	34	38
Gains from exchange of bonds	45	368
Total	83	411
Financial expenses		
External interest expense	-638	-526
Interest expense from group companies ¹⁾	-62	-138
Other financial expenses	-42	-82
Total	-742	-746
Realised/unrealised gains / (loss) on foreign currency	170	-332
Financial items	-489	-667

¹⁾ Intercompany interest is calculated based on a standard margin, adjusted where necessary to reflect local market conditions and transfer pricing principles.



6. MORTGAGES

	31.12.2016	31.12.2015
Loans secured by mortgages on property		
2019 Senior Secured Notes (EUR 290 million)	2 635	2 790
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.



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	AVAILABLE-FOR-SALE FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL
Other non-current assets	10	13	41	146	7	207
Trade and other receivables	10	1 691	0	0	52	1 744
Cash and cash equivalents		371	0	0	0	371
Other current assets	18	17	32	0	0	49
Total		2 093	73	146	59	

	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, 18		0	6 569	0	6 569
Interest-bearing current liabilities	11, 18		0	430	0	430
Other non-current liabilities	18		202	0	322	524
Trade and other payables	18		0	1 805	0	1 805
Other current liabilities	18		67	46	77	190
Total			268	8 850	399	

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	18	259	2 346	0	2 622
Trade and other receivables	10	2 422	0	0	56	2 479
Cash and cash equivalents		271	0	0	0	271
Other current assets	18	67	27	0	0	94
Total		2 778	286	2 346	56	

	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, 18		0	6 003	0	6 003
Interest-bearing current liabilities	11, 18		0	536	0	536
Other non-current liabilities	18		307	0	324	631
Trade and other payables	18		0	1 878	0	1 878
Other current liabilities	18		232	51	13	296
Total			540	8 468	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	166	166	0	0	166
Other non-current assets	207	207	0	1	206
Accounts receivable	998	998	0	0	998
Other receivables	693	693	0	0	693
Prepaid VAT	52	52	0	0	52
Trade and other receivables	1 744	1 744	0	0	1 744
Cash and cash equivalents	371	371	0	0	1
Derivatives	6	6	0	0	6
Commodity contracts	26	26	0	24	2
Current investments	17	17	0	0	17
Other current assets	49	49	0	24	25
Interest-bearing non-current liabilities ¹⁾	6 569	5 827	0	3 326	2 501
Interest-bearing current liabilities	430	430	0	0	430
Total interest-bearing liabilities	6 999	6 256	0	3 326	2 931
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	997	997	0	0	997
Other payables	808	808	0	0	808
Trade and other payables	1 805	1 805	0	0	1 805
Derivatives	39	39	0	0	39
Commodity contracts	28	28	0	0	28
Non-financial current liabilities	123	123	0	0	123
Other current liabilities	190	190	0	0	190
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	2 363	2 363	0	0	2 363
Other non-current assets	2 622	2 622	0	0	2 622
Accounts receivable	1 091	1 091	0	0	1 091
Other receivables	1 332	1 332	0	0	1 332
Prepaid VAT	56	56	0	0	56
Trade and other receivables	2 479	2 479	0	0	2 479
Cash and cash equivalents	271	271	0	0	271
Derivatives	3	3	0	0	3
Commodity contracts	24	24	0	0	24
Current investments	67	67	0	0	67
Other current assets	94	94	0	0	94
Interest-bearing non-current liabilities ¹⁾	6 003	4 315	0	2 660	1 655
Interest-bearing current liabilities	536	536	0	0	536
Total interest-bearing liabilities	6 539	4 851	0	2 660	2 191



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	1 042	1 042	0	0	1 042
Other payables	836	836	0	0	836
Trade and other payables	1 878	1 878	0	0	1 878
Derivatives	54	54	0	0	54
Commodity contracts	20	20	0	18	2
Non-financial current liabilities	221	221	0	0	221
Other current liabilities	296	296	0	18	278

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 Holding AS group 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 Holding AS group seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog Holding AS group 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 Holding AS 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			31.12.2015		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	493	5 144	5 637	706	4 348	5 055
Interest-bearing assets	-371	0	-371	-271	0	-271
Net exposure	122	5 144	5 266	435	4 348	4 783

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 Holding is exposed. Following a 50 basis point downward/upward parallel shift in the yield curve in all interest rate markets to which Norske Skog Holding is exposed, net earnings would have been NOK 1 million higher/lower at 31 December 2016 (NOK 2 million higher/lower at 31 December 2015). Change in net interest payments accounts for NOK 2 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 Holding AS group has not done any cash flow hedging during 2016 or 2015.

Translation risk - net investment hedge

Norske Skog Holding AS group do not do net investment hedge.

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 Holding AS 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 395 million higher/lower (NOK 338 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.

c) Commodity risk

A major part of Norske Skog Holding AS group global commodity demand is secured through long-term contracts. Norske Skog Holding AS group 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 Holding AS group 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 Holding AS group 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%	-292	175	-175
Price index	change 2.5%	-292	3	-3

Liquidity risk

Norske Skog Holding AS group 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 Holding'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. This is done in the Group's parent company Norske Skogindustrier ASA in 2016 and 2015.

In order to uncover future liquidity risk, Norske Skog Holding forecasts both short- and long-term cash flows. Cash flow forecasts include cash flows from operations, investments, financing activities and financial instruments. Norske Skog Holding AS group had current investments, cash and cash equivalents of NOK 371 million at 31 December 2016 (NOK 271 million at 31 December 2015). Restricted bank deposits amounted to NOK 130 million at 31 December 2016. (NOK 171 million at 31 December 2015)

The board of directors recognises the challenging markets that Norske Skog Holding AS group 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 Holding AS group.

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 2016. 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 2016 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 Holding AS group 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 Holding AS group 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. This is done in the Group's ultimate parent company Norske Skogindustrier ASA.

Norske Skog Holding AS group 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				
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).

DERIVATIVES	31.12.2016		31.12.2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commodity contracts	34	-29	255	-58
Embedded derivatives	39	-240	31	-22
Total	73	-268	286	-80

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	1 091
Provision for bad debt		-80	-105
Current receivable group companies Norske Skogindustrier ASA		446	1 186
Other receivables		204	182
VAT receivables		52	56
Prepaid expenses		125	69
Total		1 744	2 479
Other non-current assets			
Non-current receivables group companies Norske Skogindustrier ASA		50	2 243
Long-term shareholdings	21	97	102
Derivatives	7	33	28
Commodity contracts	7	8	231
Pension plan assets	13	7	0
Loans to employees		1	1
Other non-current receivables		12	17
Total		207	2 622

Norske Skog Bruck have a factoring facility agreement. The facility has a limit of EUR 25 million and no 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 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 CURRENT RECEIVABLES	31.12.2016	31.12.2015
Not due	1 639	2 385
0 to 3 months	112	104
3 to 6 months	0	2
Over 6 months	74	93
Total ¹⁾	1 825	2 584

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 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 Table below shows the maturity and coupon interest for the interest-bearing debt as of 31.12.2016.

MATURITY	CURRENCY	COUPON	NOMINAL VALUE DATE OF ISSUE	AT 31.12.2016	AMOUNT OUTSTANDING 31.12.2016
February 2023	USD	8.00%	USD 61 million		USD 61 million
December 2019	EUR	11.75%	EUR 290 million		EUR 290 million
February 2021	EUR	8.00%	EUR 159 million		EUR 148 million

INTEREST-BEARING DEBT	31.12.2016	31.12.2015
Bonds	4 499	4 854
Debt to financial institutions	368	206
Securitisation/Factoring Facilities	1 201	502
Total	6 068	5 562

INTEREST-BEARING DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2016	NOK 31.12.2016	NOK 31.12.2015
USD	61	523	534
EUR	582	5 291	4 612
AUD	29	180	175
NZD	0	0	6
Total interest-bearing debt in foreign currencies		5 994	5 327
Interest-bearing debt in NOK	173	73	235
Total interest-bearing debt		6 068	5 562

The average interest rate on par value of debt at 31 December 2016 was 9.0% (9.5% at 31 December 2015).

FINANCIAL DEBT PAYMENTS

MATURITY OF THE GROUP'S FINANCIAL DEBT AT 31.12.2016	PROJECTED INTEREST ¹⁾	OTHER LOANS	BONDS	TOTAL
2017	518	430	0	947
2018	515	48	0	563
2019	517	35	2 635	3 187
2020	164	949	0	1 112
2021	95	21	1 341	1 457
2022	42	22	0	64
2023	21	24	523	567
2024	0	21	0	21
2025-2033	0	20	0	20
Total	1 872	1 569	4 449	7 940

MATURITY OF THE GROUP'S FINANCIAL DEBT AT 31. 12. 2015	PROJECTED INTEREST ¹⁾	OTHER LOANS	BONDS	TOTAL
2016	493	537	0	1 030
2017	493	47	0	540
2018	493	17	0	510
2019	493	17	2 790	3 300
2020	165	18	0	183
2021	104	20	1 530	1 654
2022	43	16	0	59
2023	21	18	534	573
2024-2033	0	18	0	18
Total	2 305	708	4 854	7 867

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 other loans. At 31 December 2016, the financial statements included a discount of NOK 431 million (discount of NOK 505 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 997 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.



12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2016	2015
Salaries including holiday pay		1 339	1 318
Social security contributions		294	286
Pension costs	13	68	30
Other employee benefit expenses		60	52
Total		1 762	1 686

NUMBER OF EMPLOYEES BY REGION	31.12.2016	31.12.2015
Europe	1 762	1 827
Australasia	664	688
Parent company	0	0
Total	2 426	2 515

The company has not paid any remuneration or other benefits, as there are no employees. There are no incentive programs. Norske Skogindustrier ASA manages the company. No remuneration is paid to the board of directors.

AUDITORS FEES (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	215	698	2 413	586	3 912
Audit-related assistance ¹⁾	0	91	93	0	183
Tax assistance	0	0	0	58	58
Other fees	0	0	394	0	394
Total	215	789	2 901	644	4 548

¹⁾ Audit-related assistance includes services, which only auditors can provide, such as the 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 1 727 current and former employees are covered by such schemes. Of these, 250 people are covered by defined benefit plans and 1 477 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 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.

Plan assets of the pension schemes in 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 was 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.

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 2015 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 2.4% to 3.8% and salary adjustments vary from 2.2% to 3%. Norske Skog has used the mortality table in Norway (K2013BE) and Richttafeln 2005G in Germany.

NET PERIODIC PENSION COST	2016	2015
Current service cost	5	7
Pension cost defined contribution schemes	64	25
Accrued national insurance contributions	0	0
Recognised curtailment and settlement	0	-2
Net periodic pension cost	68	30
Net periodic interest cost	5	6

Estimated payments to the group's defined benefit pension schemes in 2017 amounts to NOK 13 million.



PENSION PLANS IN THE BALANCE SHEET

	31.12.2016	31.12.2015
PARTLY OR FULLY FUNDED PENSION PLANS		
Projected benefit obligations including national insurance contributions	-158	-183
Plan assets at fair value	165	179
Net plan assets/pension obligations (-) in the balance sheet	7	-4
UNFUNDED PENSION PLANS	31.12.2016	31.12.2015
Projected benefit obligations including national insurance contributions	-226	-228
Net plan assets/pension obligations (-) in the balance sheet	-233	-232

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

	31.12.2016	31.12.2015
SPECIFICATION OF PENSION PLANS IN THE BALANCE SHEET		
Pension assets in the balance sheet	7	0
Pension liabilities in the balance sheet	-226	-232
Net pension obligations	-219	-232
Net unfunded pension plans	-226	-228
Net partly or fully funded pension plans	7	-4

	2016	2015
CHANGES IN PENSION OBLIGATIONS FOR PARTLY OR FULLY FUNDED PENSION PLANS		
Balance 1 January	183	270
Deconsolidated company	0	0
Current years' service cost	5	7
Current years' interest cost	4	5
Pension paid	-2	-1
Curtailements/settlements	-3	-53
Other changes	-1	0
Currency translation differences	0	4
Re-measurements	-28	-49
Balance 31 December	158	183

	2016	2015
CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS		
Balance 1 January	179	235
Divested companies	0	0
Return on plan assets	4	4
Curtailements/settlements	-3	14
Other changes	-1	-39
Employer contribution	7	-2
Re-measurements	-20	-34
Currency translation differences	0	1
Balance 31 December	165	179



CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS	2016	2015
Balance 1 January	-228	-207
Current years' service cost	-2	-7
Current year's interest cost	-1	0
Pension paid	1	4
Contributions to the plan assets	0	0
Curtailments/settlements	0	0
Other changes	0	-12
Currency translation differences	7	-3
Re-measurements	-4	-6
Balance 31 December	-226	-231

Re-measurements is mainly related to changes in financial assumptions.

SPECIFICATION OF RE-MEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2016	2015
Return on plan assets	0	0
Actuarial changes arising from changes in demographic assumptions	0	6
Actuarial changes arising from changes in financial assumptions	-15	0
Experience adjustments + investment management costs	4	0
Asset ceiling	0	0
Total	-11	6

INVESTMENT PROFILE FOR PENSION FUNDS	2016		2015	
	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	17	10%	27	15%
Bonds	120	73%	134	75%
Properties and real estate	24	14%	17	9%
Money market	0	0%	1	1%
Other	4	2%	0	0%
Total	165	100%	179	100%

SENSITIVITY ANALYSIS

Norske Skog Holding 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%	-10	12
Salary adjustment - 0.5%	5	-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		450	419
Marketing expenses		10	10
Administration, insurance, travel expenses etc.		185	188
Losses on accounts receivable		-5	7
Operating leases	15	47	46
Research and development		1	1
Changes in environmental provisions		-10	-26
Internal services to group companies		106	112
Other expenses		121	123
Total		907	879
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 47 million in relation to operating leases in 2016. The equivalent expense in 2015 was NOK 46 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
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16. OTHER GAINS AND LOSSES

	2016	2015
Gains and losses from divestments and deconsolidating of business activities, property, plant and equipment	-17	0
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	-126	5

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 Topp1 power station at the Tasman mill and scrapping of equipment no longer in use.

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	-16	-68
Change in deferred tax	543	-465
Total	527	-533
RECONCILIATION OF THE GROUP TAX EXPENSE		
	2016	2015
Profit/loss before income taxes	-1 648	-671
Computed tax at nominal tax rate of 25%/27%	412	181
Differences due to different tax rates	61	2
Result from associated companies	-2	-6
Exempted income/non-deductible expenses	-54	-20
Reversal tax provision	0	0
Adjustment previous years	-12	-10
Change in tax rate	56	0
Deferred tax asset not recognised	46	-677
Other items	18	-3
Total tax expense (-) income (+)	527	-533
Effective tax rate	32%	-79%
CURRENT TAX LIABILITY		
	31.12.2016	31.12.2015
Norway	4	59
Rest of Europe	7	7
Outside Europe	0	0
Total	11	66
DEFERRED TAX - MOVEMENTS		
	2016	2015
Net deferred tax asset 1 January	-619	-36
Change in deferred tax in the income statement	543	-465
Deconsolidation of subsidiaries	0	0
Tax on other comprehensive income	-1	6
Tax effect FX net investment hedge	0	0
Group tax allocation balance sheet	0	-94
Currency translation differences	-30	-30
Net deferred tax asset/liability (-) 31 December	-46	-619
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	-303	-385
Outside Europe	0	-234
Deferred tax liability	-303	-619
Net deferred tax asset/liability (-)	-46	-619



DEFERRED TAX DETAILS	31.12.2016	31.12.2015
Fixed assets, excess values and depreciation	-247	-775
Pensions	0	3
Provisions and other liabilities	139	153
Currency translation differences and financial instruments	140	231
Deferred tax current items	20	17
Tax losses and tax credit to carry forward	1 138	1 010
Deferred tax asset not recognised ¹⁾	-1 236	-1 258
Net deferred tax asset/liability (-)	-46	-619

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	2 338	95	2 192	4 625
Tax losses to carry forward	2 338	428	2 192	4 958
Temporary differences	-498	0	-491	-989
Tax losses and temporary differences not recognised ¹⁾	-2 282	-334	-2 268	-4 884
Total tax losses to carry forward, recognised	554	94	415	1 063
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
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	1 511	97	2 124	3 732
Tax losses to carry forward	1 511	451	2 124	4 086
Temporary differences	1 117	-70	-62	985
Tax losses and temporary differences not recognised	-2 628	-381	-2 062	-5 071
Total tax losses and tax credits to carry forward (recognised)	0	0	0	0
Deferred tax asset	0	0	0	0
Tax rate	25%	25-34%	28%	25%

¹⁾ Basis for deferred tax asset not recognised amounted to NOK 4 884 million at 31 December 2016. NOK 3 895 million was related to tax losses to carry forward and NOK 989 million was related to other deductible temporary differences. Deferred tax asset not recognised amounted to NOK 1 236 million at 31 December 2016.

Deferred tax asset 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 judgement 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	10	9
Interest-free assets group			
Norske Skogindustrier ASA	7	7	58
Total	7	49	94
Trade and other payables			
Accounts payable	7	997	1 042
Accrued labour costs and taxes		490	465
Accrued expenses		246	306
Interest-free liabilities group			
Norske Skogindustrier ASA		53	53
Norske Treindustrier AS		9	0
Other interest-free liabilities		11	13
Total		1 805	1 878
Other current liabilities			
Derivatives	7	39	54
Commodity contracts	7	28	20
Accrued emission rights		10	13
Accrued financial costs		68	158
Restructuring provision	20	46	51
Total		190	296
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 emission rights		0	0
Deferred recognition of government grants		29	43
Other non interest-bearing debt		20	11
Total		524	631
Interest-bearing non-current liabilities			
Bond adjusted for amortization		4 068	4 348
Debt to financial institutions		1 139	170
Interest-bearing non-current liabilities group			
Norske Skogindustrier ASA		724	553
Lysaker Invest AS		66	338
Norske Treindustrier AS		573	593
Total	7	6 569	6 003
Interest-bearing current liabilities			
Debt to financial institutions		151	34
Securitisation / Factoring Facilities		278	502
Total	7	430	536



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 (approximately 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
Addition from acquisition	15	65	211
Changes and new provisions	49	0	0
Utilised during the year	-14	0	-26
Periodic unwinding of discount	0	2	6
Currency translation differences	0	3	8
Balance 31 December 2015	51	71	200
Changes and new provisions	64	11	-10
Utilised during the year	-69	0	0
Periodic unwinding of discount	0	2	6
Currency translation differences	0	-1	-5
Balance 31 December 2016	46	83	191

Restructuring provision

The restructuring provision of NOK 46 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) and Australasia Corporate (NOK 5 million).

The amount expensed in 2016 in relation to restructuring activities amounted to NOK 64 million. This relates mainly to the restructuring activities listed above, including Norske Skog Bruck (NOK 13 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 69 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).

The restructuring provision of NOK 51 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) and Norske Skog Saugbrugs (NOK 7 million).

The amount expensed in 2015 in relation to restructuring activities amounted to NOK 49 million. This relates mainly to the restructuring activities listed above. Total payments relating to restructuring activities in 2015 amounted to NOK 14 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. SHARES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Shares in subsidiaries owned by the parent company			
Norske Skog AS, Oslo	NOK	300 000	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 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 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, 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, Zürich, 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)
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

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



22. CAPITAL RISK 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. 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, The ultimate parent company Norske Skogindustrier ASA has in 2017 discussed a recapitalisation proposal with key equity- and bondholders of the group. On June 2, 2017, Norske Skog launched an exchange offer to significantly reduce the group's debt level and interest cost, increase the equity value, and position the company to deliver on its future growth strategy. As of June 13, 2017, the exchange offers and consent solicitations announced on June 2, 2017 had received significant engagement from debtholders, but not yet reached the adequate level of acceptance. The board of Norske Skogindustrier ASA has thus decided to amend the terms of the exchange offers and consent solicitations to extend the acceptance and consent deadline until July 12, 2017. The Board has also decided to use the 30-day interest payment grace period on the existing 2019 senior secured notes (SSN) to support the operating business. A successful transaction will pro forma reduce the total debt inclusive perpetual notes from NOK 8.7 billion to around NOK 4.2 billion and improve the group's book equity to approximately NOK 3.5 billion. Existing shareholders will hold 10% of the new book equity following the transaction.

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.



23. CONTINGENT LIABILITIES

Norske Skog Holding AS and its subsidiaries is an international group 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.

The Norske Skog Holding AS group has simplified 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.



24. EVENTS AFTER THE BALANCE SHEET DATE

On May 7, 2017, we announced that Norske Skogindustrier ASA's Board of Directors have unanimously appointed Lars P. S. Sperre as interim President and Chief Executive Officer with immediate effect. Mr. Sperre, who was our Senior Vice President Corporate Strategy & Legal, replaced Sven Ombudstvedt, who notified the Board of Directors of his resignation, which the Board accepted with immediate effect.

On June 2, 2017, we announced launch of an exchange offer to significant reduce the group's debt level. See Note 22 for further information.

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



25. 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 EUR10 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 was settled 30 March 2017 at maturity.

(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.

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



FINANCIAL STATEMENTS NORSKE SKOG HOLDING AS

INCOME STATEMENT

NOK MILLION	NOTE	2016	2015
Operating revenue		0	0
Gross operating earnings		0	0
Operating earnings		0	0
Financial income	5	67	388
Financial expenses	5	-1 155	-2 075
Net unrealised/realised gains/losses on foreign currency	5	-8	-33
Profit/loss before income taxes		-1 096	-1 720
Income taxes	8	0	-59
Profit/loss		-1 096	-1 779



STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2016	2015
Profit/loss	-1 096	-1 779
Other comprehensive income	0	0
Comprehensive income	-1 096	-1 779



BALANCE SHEET

NOK MILLION	NOTE	31.12.2016	31.12.2015
Assets			
Investments in subsidiaries	4	2 320	4 700
Other non-current assets	9	1	1 963
Total non-current assets		2 321	6 663
Trade and other receivables	9	12	585
Cash and cash equivalents		0	0
Total current assets		12	585
Total assets		2 332	7 248
Shareholders' equity and liabilities			
Paid-in equity		681	5 390
Retained earnings and other reserves		0	0
Total equity	3	681	5 390
Interest-bearing non-current liabilities	6	1 590	1 741
Other non-current liabilities	9	9	0
Total non-current liabilities		1 598	1 741
Tax payable	8	0	59
Other current liabilities		52	58
Total current liabilities		52	117
Total liabilities		1 650	1 858
Total equity and liabilities		2 332	7 248

SKØYEN, 28 JUNE 2017 – THE BOARD OF DIRECTORS OF NORSKE SKOG HOLDING AS


Rune Selie
Chair


Lars Sperre
Board member



STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2016	2015
Cash flow from operating activities			
Cash generated from operations		0	0
Cash used in operations		0	0
Interest payments received		22	0
Interest payments made		-161	-59
Net cash flow from operating activities		-139	-59
Net cash flow from investing activities		0	0
Cash flow from financing activities			
Repayments of loans		-45	0
Change in intercompany balance with group		184	59
Net cash flow from financing activities		139	59
Foreign currency effects on cash and cash equivalents		0	0
Total change in cash and cash equivalents		0	0
Cash and cash equivalents 1 January / per incorporation 5 November 2014		0	0
Cash and cash equivalents 31 December		0	0



STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	TOTAL EQUITY
Opening balance per incorporation 5 November 2014	3	0	0	0	0
Contributions in kind 14 January 2015		300	6 869	0	7 169
Comprehensive income		0	0	-1 779	-1 779
Uncovered loss allocated other paid in equity		0	-1 779	1 779	0
Equity 31 December 2015	3	300	5 090	0	5 390
Group contribution		0	-159	0	-159
Repayment of paid-in equity		0	-3 454	0	-3 454
Comprehensive income		0	0	-1 096	-1 096
Uncovered loss allocated other paid in equity		0	-1 096	1 096	0
Equity 31 December 2016	3	300	381	0	681



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.

Norske Skog Holding AS was founded 5 November 2014. The income statement, statement of comprehensive income and statement of cash flows for 2015 cover the period from 5 November 2014 until 31 December 2015.

The financial statements were authorised for issue by the board of directors on 28 June 2017.



2. ACCOUNTING POLICIES

The financial statements of Norske Skog Holding AS 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 Skog Holding AS 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. EQUITY

The share capital of Norske Skog Holding AS at 31 December 2016 was NOK 300 000 000 and consisted of 30 000 shares, each with a nominal value of NOK 10 000.

The share capital was initially NOK 30 000 when the company was founded, 5 November 2014. The share capital was increased in a private in-kind placement against the company's shareholder, Norske Treindustrier AS, 14 January 2015. The capital increase was made by increasing the nominal amount of each share from NOK 1 to NOK 10 000. The increase in share capital amounted in total to NOK 299 970 000, in addition to an increase in share premium of NOK 6 869 030 000. The capital increase was register at Brønnøysund Register Centre, 21 January 2015.

A private placement against Norske Treindustrier AS was carried out as consideration for the contribution in-kind. The contribution in-kind consisted of a combination of shares in operating subsidiaries and receivables from the sale of operating subsidiaries to Norske Skog Holding AS from Norske Treindustrier AS. Furthermore, all the shares in the operating subsidiaries were used as contribution in-kind or sold to the fully owned subsidiary Norske Skog AS.

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
Norske Treindustrier AS	100.00



4. SHARES IN SUBSIDIARIES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Norske Skog AS, Oslo	NOK	300 000	100	2 319 546
Total				2 319 546

The investment in subsidiary Norske Skog AS have decreased from NOK 4 700 million to NOK 2 320 million during 2016 due to repayment of paid-in equity of NOK 1 434 million and impairment of NOK 947 million.

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES (IN NOK 1 000)

	2016
Norske Skog AS	947 000
Total	947 000

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.



5. FINANCIAL ITEMS

FINANCIAL ITEMS	Note	2016	2015
Financial income			
Interest income from group companies ¹⁾		22	20
Gains from exchange of bonds		45	368
Total		67	388
Financial expenses			
External interest expense		-208	-182
Impairment of investments in subsidiaries	4	-947	-1 893
Total		-1 155	-2 075
Gains on foreign currency		-8	-33
Financial items		-1 096	-1 720

¹⁾ Intercompany interest is calculated based on a standard margin, adjusted where necessary to reflect local market conditions and transfer pricing principles.



6. MATURITY OF INTEREST-BEARING LIABILITIES

MATURITY OF THE COMPANY'S DEBT AT 31.12.2016	BONDS
2017	0
2018	0
2019	0
2020	0
2021	1 341
2022	0
2023	523
Total	1 864

MATURITY OF THE COMPANY'S DEBT AT 31.12.2015	BONDS
2016	0
2017	0
2018	0
2019	0
2020	0
2021	1 530
2022	0
2023	534
Total	2 064

Foreign currency debt is presented in the current rate of exchange in the instalment profile. Total debt listed in the repayment schedule may differ from carrying value of debt due to interest, premiums or discounts on issued bonds. For more information, see Note 11 Interest-bearing liabilities in the consolidated financial statements.



7. SALARY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

Norske Skog Holding AS is a purely holding company with no employees. Norske Skogindustrier ASA, which is the ultimate parent company in the Norske Skog group, employs all the members of the board of directors. The members of the board of directors did not receive any remuneration from Norske Skog Holding AS.



8. INCOME TAXES

	2016	2015
TAX EXPENSE		
Current tax expense ²⁾	0	-59
Change in deferred tax	0	0
Total	0	-59
INCOME TAX RECONCILIATION	2016	2015
Profit/loss before income taxes	-1 096	-1 720
Computed tax at nominal tax rate of 25% / 27%	274	464
Exempted income/non-deductible expenses	0	-12
Impairment of investments in subsidiaries	-237	-500
Change tax loss not recognised	-37	-11
Total tax expense(-)/income	0	-59
TEMPORARY DIFFERENCES AND TAX LOSSES - DETAILS	31.12.2016	31.12.2015
Financial debt and currency translation	274	44
Tax losses to carry forward	-467	0
Tax losses and other tax credits not recognised ¹⁾	193	-44
Basis for deferred tax	0	0
DEFERRED TAX	2016	2015
Net deferred tax asset/liability (-) 31 December	0	0

1) The value of tax losses and other tax credits are written down, subsequently the tax losses are lower than total tax benefits not recognised.

2) Taxes payable will be offset by group contribution to parent company.



9. INTERCOMPANY RECEIVABLES/LIABILITIES

	31.12.2016	31.12.2015
NON-CURRENT INTERCOMPANY RECEIVABLES		
Norske Skogindustrier ASA	1	1 963
Total	1	1 963
CURRENT INTERCOMPANY RECEIVABLES		
Norske Skogindustrier ASA	12	585
Total	12	585
CURRENT INTERCOMPANY LIABILITIES		
Norske Treindustrier AS	9	0
Total	9	0

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.



10. 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).



11. RELATED PARTIES

A description of transactions with related parties is given in Note 24 Related parties in the consolidated financial statements.



12. EVENTS AFTER THE BALANCE SHEET DATE

A description of events after the balance sheet date is given in Note 25 Events after the balance sheet date in the consolidated financial statements.



BDO AS
Munkedamsveien 45
Postboks 1704 Vika
0121 Oslo

Independent Auditor's Report

To the General Meeting of Norske Skog Holding AS

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the financial statements of Norske Skog Holding AS.

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 notes to the financial statements, including a summary of significant accounting policies.
- 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 1 385 million as at this date. This also led to an impairment of NOK 947 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.

Independent Auditor's Report 2016 - Side 1 av 6



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 22 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 22 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 1 385 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



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.

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 -527 million, deferred tax asset of NOK 257 million and deferred tax liability of NOK 303 million. Deferred tax asset not recognized amounts to NOK 1 236 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.

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.

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".

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.

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 and statements on Corporate Governance and Corporate Social Responsibility, 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. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about 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. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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.

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.



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, 28 June 2017
BDO AS


Terje Tvedt
State Authorised Public Accountant



Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Torstein Kinden Helleland	03.05.2016	23.05.2016
Telefon	Deres referanse	Vår referanse
22078139	Knut Kåre Erichsen	2016/422698

NORSKE SKOGINDUSTRIER ASA
Postboks 294 Skøyen
0213 OSLO

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk

Vi viser til deres brev mottatt 3. mai 2016 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende selskaper;

Norske Skog Holding AS org. nr. 914 483 557
Norske Skog AS org. nr. 914 483 549

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering de overnevnte selskaper 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.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Norske Skog Holding AS og Norske Skog AS er underkonsern i Norske Skogindustrier ASA konsernet som er det ultimate morselskapet i Norske Skog konsernet. Skattedirektoratet ga i 2013 Norske Skogindustrier ASA dispensasjon til å utarbeide årsregnskap og årsberetning på engelsk. Begge selskaper har børsnoterte obligasjoner som er registrert på Luxembourg Stock Exchange og må i den forbindelse rapportere på engelsk. Norske Skog har åtte hel- og deleide papirfabrikker, hvorav seks er lokalisert utenfor Norge. Per 31. mars 2016 hadde Norske Skog konsernet omlag 2 500 ansatte, hvorav ca. 1 600 utenfor Norge. Konsernets offisielle arbeidsspråk er engelsk. Hoveddelen av den norske virksomheten i Norske Skog er i dag samlet i de to fabrikkende selskapene Norske Skog Saugbrugs AS og Norske Skog Skogn AS. Disse to selskapene utarbeider på ordinær måte årsregnskap og årsberetning på norsk. Siden disse selskapene er hjørnesteins bedrifter i sine lokale miljøer er det viktig at regnskapsinformasjonen er lett tilgjengelig på norsk. Alle sentrale aktører og samarbeidspartnere innen 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
Postboks 9200 Grønland
0134 Oslo

Besøksadresse:
Se www.skatteetaten.no
Org.nr: 996250318
E-post: skatteetaten.no/sendepost

Sentraltbord
800 80 000
Telefaks
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 selskapene er eid av et selskap som har fått dispensasjon fra språkkravet. Eierkretsen er begrenset. Selskapene har et børsnotert obligasjonslån og må rapportere på engelsk. Virksomheten er internasjonal. Videre er det vektlagt at alle sentrale aktører og samarbeidspartnere innen bransjen selskapet opererer i behersker og benytter engelsk.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer