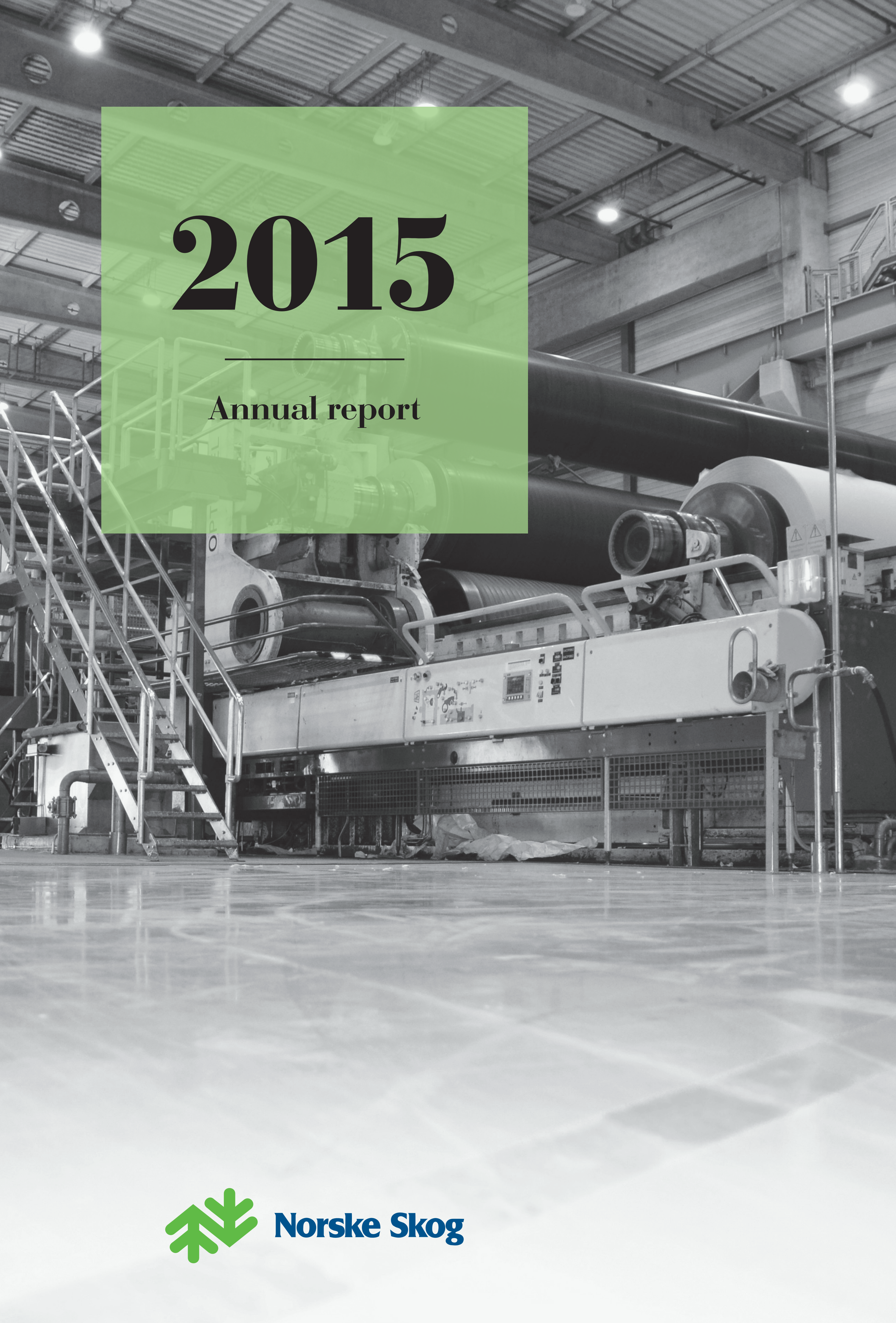

2015

Annual report

Norske Skog

THE MYTH:
Digital is now the preferred means of communication

THE FACT:
Many consumers value paper based communications

THE MYTH:
Making paper always destroy forests

THE FACT:
Paper production supports sustainable forest management

THE MYTH:
Paper is bad for the environment

THE FACT:
Paper is one of the few truly sustainable products

THE MYTH:
Paper-making uses a lot of non-renewable energy and has a high carbon footprint

THE FACT:
Most energy used is renewable and carbon intensity is surprisingly low

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Photo and editor: Carsten Dybevig *(Jens Borge page 9 (2 pictures), 33, 66. Erik Sandersen page 15)*

Contents

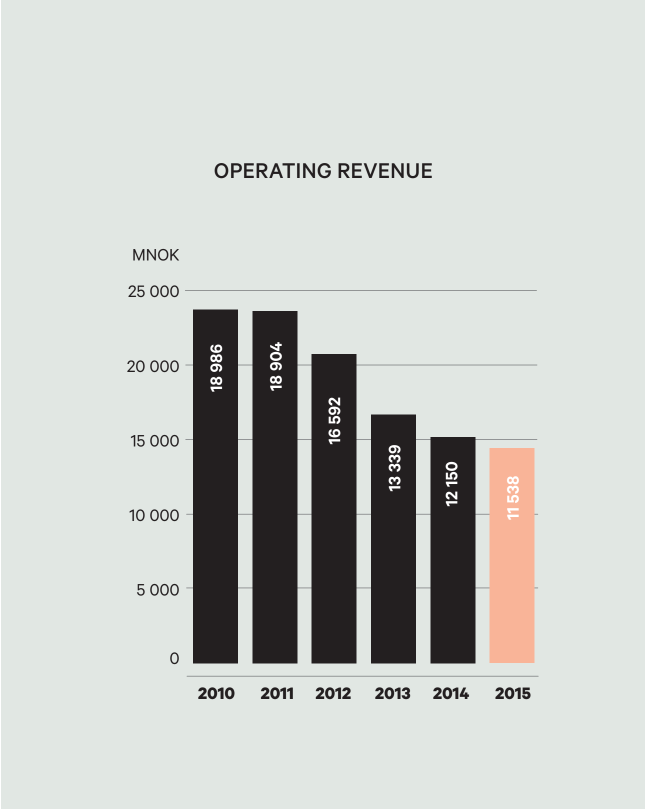
Key figures

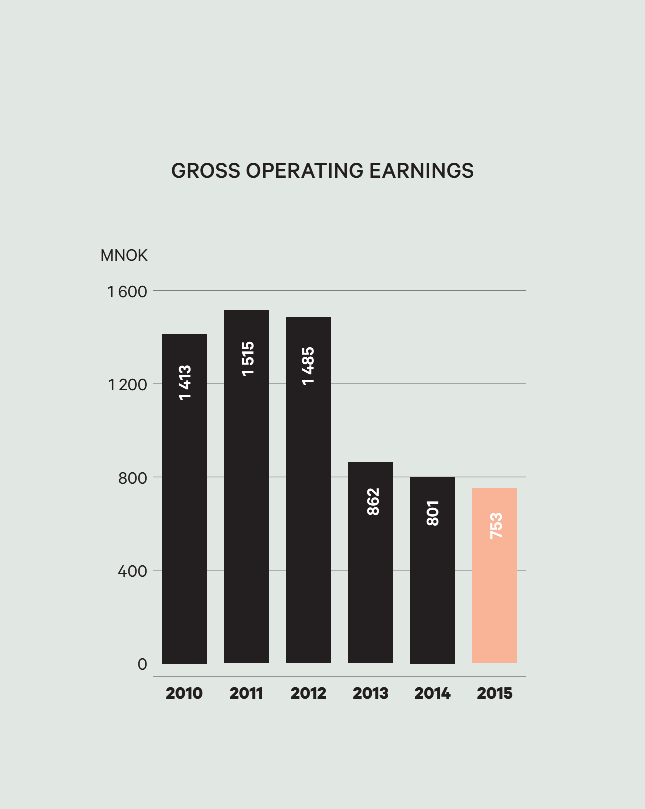
	DEFINITIONS	2015	2014	2013	2012	2011	2010	2009
INCOME STATEMENT								
Operating revenue		11 538	12 150	13 339	16 592	18 904	18 986	20 362
Gross operating earnings	1	753	801	862	1 485	1 515	1 413	2 185
Operating earnings		-164	65	-1 111	-2 663	-2 701	-2 379	-1 325
Profit/loss		-1 526	-1 504	-1 844	-2 781	-2 545	-2 469	-1 400
Earnings per share (NOK)		-8.03	-7.92	-9.71	-14.63	-13.36	-12.97	-6.36
CASH FLOW								
Net cash flow from operating activities		-777	200	68	982	455	397	1 697
Net cash flow from investing activities		-206	48	-169	300	470	415	-587
Cash flow per share (NOK)		-4.09	1.06	0.36	5.18	2.40	2.09	8.95
OPERATING MARGIN AND PROFITABILITY (%)								
Gross operating margin	2	6.5	6.6	6.5	9.0	8.0	7.4	10.7
Return on capital employed	3	-6.2	5.6	3.3	7.9	6.3	5.4	17.0
Return on equity	4	-289.0	-86,9	-58.3	-48.0	-28.9	-22.2	-10.9
Return on assets	5	-1.8	0.6	-6.7	-14.5	-8.7	-7.5	-3.1
PRODUCTION / DELIVERIES / CAPACITY UTILISATION								
Production (1 000 tonnes)		2 444	2 612	3 039	3 555	3 832	3 998	3 895
Deliveries (1 000 tonnes)		2 432	2 616	3 050	3 588	3 857	4 013	3 894
Production / capacity (%)		85	88	88	88	87	89	79

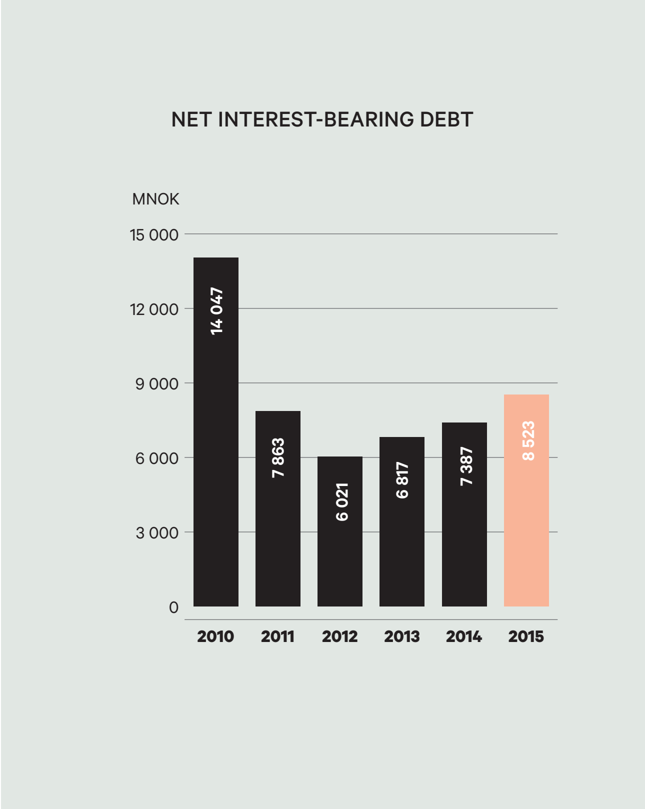
		31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
BALANCE SHEET								
Non-current assets		9 473	10 686	10 611	11 393	15 803	19 271	23 546
Current assets		3 187	3 291	4 005	4 650	6 171	10 027	9 609
Total assets		12 660	13 977	14 617	16 043	21 974	29 297	33 155
Equity		-229	1 285	2 175	4 151	7 433	10 183	12 015
Net interest-bearing debt	6	8 523	7 387	6 817	6 021	7 863	8 889	9 595
Gearing (net interest-bearing debt / equity)	7	-37.15	5.75	3.13	1.45	1.06	0.87	0.80

DEFINITIONS KEY FIGURES

1. Gross operating earnings = Operating earnings + Ordinary depreciation + Restructuring expenses + Other gains and losses + Impairments
2. Gross operating margin = Gross operating earnings : Operating revenue
3. Return on capital employed (annualised) = (Gross operating earnings – Capital expenditure) : Capital employed (average)
4. Return on equity = Net profit/loss for the year : Equity (average)
5. Return on total assets = Earnings before financial expenses : Total assets (average)
6. The calculation of net interest-bearing debt is presented in Note 11 in the consolidated financial statements
7. Gearing = Net interest-bearing debt : Equity


OPERATING REVENUE
MNOK
25 000
20 000
15 000
10 000
5 000
0
18 986
18 904
16 592
13 339
12 150
11 538
2010
2011
2012
2013
2014
2015


GROSS OPERATING EARNINGS
MNOK
1 600
1 200
800
400
0
1 413
1 515
1 485
862
801
753
2010
2011
2012
2013
2014
2015


NET INTEREST-BEARING DEBT
MNOK
15 000
12 000
9 000
6 000
3 000
0
14 047
7 863
6 021
6 817
7 387
8 523
2010
2011
2012
2013
2014
2015

6 countries

Skogn, Norway
Saugbrugs, Norway
Golbey, France
Bruck, Austria

MNI, Malaysia – 34%
Albury, Australia
Boyer, Australia
Tasman, New Zealand

Corporate management

CEO – *Sven Ombudstvedt*

CFO – *Rune Sollie*

COO – *Roar Ødelien*

SVP – *Lars Sperre*

Sales in

85

countries

8

paper mills

Employees

total **2 557**

11% *female employees*

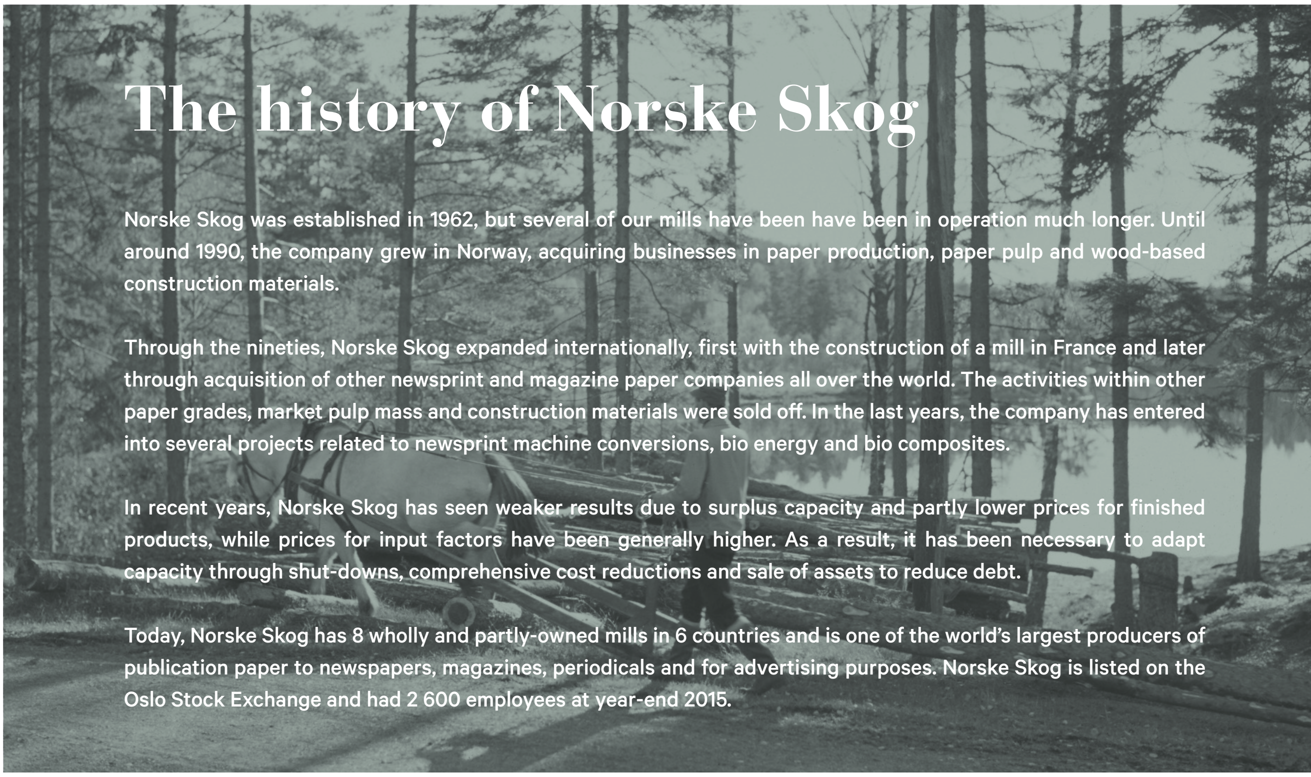
Capacity utilisation

85%

2 695 000 *production capacity*

2 432 000 *tonnes sold*

2 444 000 *tonnes produced*



The history of Norske Skog

Norske Skog was established in 1962, but several of our mills have been have been in operation much longer. Until around 1990, the company grew in Norway, acquiring businesses in paper production, paper pulp and wood-based construction materials.

Through the nineties, Norske Skog expanded internationally, first with the construction of a mill in France and later through acquisition of other newsprint and magazine paper companies all over the world. The activities within other paper grades, market pulp mass and construction materials were sold off. In the last years, the company has entered into several projects related to newsprint machine conversions, bio energy and bio composites.

In recent years, Norske Skog has seen weaker results due to surplus capacity and partly lower prices for finished products, while prices for input factors have been generally higher. As a result, it has been necessary to adapt capacity through shut-downs, comprehensive cost reductions and sale of assets to reduce debt.

Today, Norske Skog has 8 wholly and partly-owned mills in 6 countries and is one of the world's largest producers of publication paper to newspapers, magazines, periodicals and for advertising purposes. Norske Skog is listed on the Oslo Stock Exchange and had 2 600 employees at year-end 2015.

1962	Norske Skog was established by Norwegian forest owners. The purpose was to exploit timber resources in central Norway, and a newsprint mill was built in Skogn, starting production in 1966.
1970-1990	Expansion in Norway, within other paper industry, paper pulp and wood-based construction materials. Norske Skog merged with two other publication paper companies.
1992	Start-up of production in Golbey in France, our first business outside of Norway.
1996-1997	Purchase of paper mills in Austria and the Czech Republic.
1999	Global expansion: establishment of the joint venture PanAsia Paper.
2000	Sale of mass mills in Norway. Purchase of Fletcher paper in New Zealand, a firm that had business in Australasia, South America, Canada and Asia.
2001	Purchase of mills in Germany and the Netherlands. Comprehensive restructuring of the business, and divestment of activities outside the defined core area of newsprint and magazine paper.
2006	Five newsprint machines shut down, shares in the Canadian business sold.
2008	Sale of two mills in South Korea, sale of property, shut-down of two paper machines in Europe.
2009	Sale of two mills in China, shut-down of one paper machine in Europe.
2012	Sale of two mills in Chile and Netherlands, shut-down of Follum paper mill in Norway.
2013	Sale of two mills in Brazil and Thailand. Two machines idled at Tasman and Walsum.
2014	Ramp-up of a converted newsprint machine to LWC-products at Boyer in Australia.

Norske Skog 2015

Q1
First quarter

The financial results for 2014 was reported. Despite a demanding market, the capacity utilisation in the fourth quarter remained high at around 86%. The weaker Norwegian krone was supportive to operating margins, particularly for the Norwegian units.

Norske Skog successfully completed a EUR 290 million five-year Senior Secured Notes issue to achieve a broader refinancing and debt extension of the group's capital structure.

Q2
Second quarter

Norske Skog reported that the gross operating earnings (EBITDA) in the first quarter of 2015 were NOK 192 million. It was a weak market for publication paper in Europe and low Asian export prices for newsprint, outweighing for positive foreign exchange effects and improvement at Boyer. The profit after tax was NOK 663 million in the first quarter mainly due to gains on exchanged bonds.

The annual general meeting re-elected Eilif Due, Siri Beate Hatlen, Karin Bing Orgland and Jon-Aksel Torgersen as shareholder-elected members of Norske Skog's board of directors. Ole Enger was elected new member. The annual general meeting elected Jon-Aksel Torgersen as chair of the board.

Norske Skog purchased the wood pellet business 'Natures Flame' from Solid Energy of New Zealand. It is a strategic move into a new area outside of the production of publication paper.

Norske Skog discontinued the operation at Walsum in Duisburg to prevent further losses for the group. The mill had about 300 employees and an annual production capacity of 205 000 tonnes of light-weight coated (LWC) paper.

Q3
Third quarter

Norske Skog's gross operating earnings (EBITDA) in the second quarter of 2015 were NOK 138 million. The market for publication paper was weak, and the industry had focus on market share.

Norske Skog launched plans to build a biogas facility at Saugbrugs, utilizing bio-waste from the paper production to renewable energy. The construction of a biogas facility in connection to its effluent plant will cost around NOK 150 million. Enova granted NOK 52 million to the project.

Norske Skog announced plans to convert the newsprint site at Bruck in Austria to tissue production. The total investment for the tissue conversion project is around EUR 80 million.

Q4
Fourth quarter

Norske Skog's gross operating earnings (EBITDA) in the third quarter of 2015 were NOK 163 million. Positive foreign exchange effects was somewhat offset by lower sales prices in a challenging export markets for Australasia.

Norske Skog launched an offer to holders of the senior notes due in 2016 for new unsecured notes due in June 2019 and to holders of the senior notes due in 2017 into a mix of new unsecured notes due in June 2026 and perpetual notes.

Norske Skog Golbey entered into a partnership with Biomethodes, a subsidiary of Arbiom, to exploit the opportunity to construct a biorefinery at Golbey.

Norske Skog Boyer and Circa Group Pty Ltd entered into a joint venture to produce "green chemicals" alternative to existing solvents used in pharmaceutical and agrichemical industries. The AUD 6.6 million plant will produce around 50 tonnes per annum of Cyrene, following a grant of AUD 1.5 million from the Tasmanian Government.

"Norske Skog has a very competitive portfolio of factories, precisely because they are large and effective. However, the entire European industry is ripe for consolidation and restructuring."

Sven Ombudstvedt
President and CEO

NORSKE SKOG – IN A NEW ERA

Norske Skog was some years ago among Norway's largest industrial groups with nearly 30 billion in sales and more than 5 billion in operating profit, and among the biggest players in the paper industry. Demand for paper has fallen 40% since the peak year 2007. Most people know that we consume less paper as a result of people's increased use of digital media and less paper advertising. Therefore, the world needs fewer paper mills. Simplified it can be said that: "Factories with high cost die, while factories with low cost survive". It is almost fated. The closures of Norske Skog mills Follum and Union were victims of high costs.

WE SEE STRENGTH IN PAPER AND TECHNOLOGY

The competition among manufacturers of newsprint and magazine paper is formidable, and it has increased over the past years. Will there be room for the remaining Norske Skog paper mills? Let it be very clear, there will still be a paper market going forward. Different research concludes that communication on paper is very effective. Many advertisers know this. If paper communication had not been effective, the biggest retailers would not at all have used paper-based advertising.

Several media houses run for digital only, putting all efforts to disengage on printed media. At the same time, these media houses experience a sharp fall in revenue with consequent downsizing due to fewer paper readers and advertisers. A sort of self-fulfilling prophecy? I am more confident than ever that the products we deliver have a long and successful future, and that Norske Skog will remain a leading supplier of these products.

Paper is an environmentally friendly and renewable product. The main raw material is wood. Waste products are used for bio energy, and most of the paper that is produced is eventually recycled. In Europe, the recycling rate is 72 percent, according to the European Recovered Paper Council. This should be a source of pride for everyone in our industry and is clearly higher than other materials like glass and aluminium.

...AND WE HANDLE FIERCE COMPETITION

Norske Skog has a very competitive portfolio of factories, precisely because they are large and effective. However, the entire European industry is ripe for consolidation and restructuring. A number of paper manufacturers operate at a loss, but allow other product segments to subsidize the unprofitable part awaiting the paper market to recuperate. This makes no sense for a sustainable future. Economically, the most energy, environmental and cost-effective plants should survive. Allowing the survival of small and inefficient manufacturers is no good for anyone.

Norske Skog has 7 major units left, and they are currently performing at world class levels on energy consumption and environmental issues. It would be an industrial and political mystery if these mills should disappear instead of cross-subsidized mills.

NEW BUSINESSES SUCCEED BETTER WITHIN ESTABLISHED COMMUNITIES

We seek to create new businesses from wood. This is a chance of succeeding by leveraging existing plants is far superior to starting from a green field. This is simply because our mills have a lot of productive equipment, functioning infrastructure and skilled staff, which would cost considerable resources to re-establish. In addition, Norske Skog has a global marketing organization that is important in the commercialization of new products. Surveys show that research and development around existing business clusters have 4-5 times greater chance to succeed than green field initiatives. At each mill, there is an enthusiastic effort among our skilled staff to exploit new wood-based product segments:

- Boyer has proceeded in a joint venture with Circa Group, an Australian bio-chemical company, and initiated the construction of a 50 tonnes commercial scale demonstration plant at the mill to manufacture CyreneTM. This is a non-toxic "green chemical" alternative to existing polar aprotic solvents used in pharmaceutical and agrichemical industries.
- Bruck has diversified into a growing niche by announcing a joint venture with the Italian tissue paper producer Roto-cart. The joint venture is currently converting the newsprint site at Norske Skog's Bruck plant in Austria.
- In New Zealand, Norske Skog has ramped up production of wood pellets to 40 000 tonnes annually and is considering further expansion. At the Saugbrugs mill, we will produce high quality biogas suitable for vehicles based on wastewater from the paper production process. This will simultaneously reduce the mill's current energy consumption.

THE FUTURE – HERE WE COME

There is no doubt that our industry has faced challenges over the last years, primarily due to overcapacity in the market, but at Norske Skog we have navigated these challenges, and we firmly believe we can manage new challenges going forward. Large and modern facilities, world class research, qualitatively recognized products, highly competent staff as well as an historical ability to improve competitiveness, are all factors that I believe will create a sustainable future.

I will give credit to our dedicated employees for delivering inspiring ideas for the future, and for their every day supply of high-quality publication paper to customers in more than 80 countries.

Biogas is a win-win solution

In a major strategic push, Norske Skog is equipping its first paper plant with facilities for biogas production.

The first project is carried out at the Saugbrugs mill in Halden, Norway, and will produce biogas based on wastewater from the paper production process. The investments will result in a facility that can produce high-quality biogas suitable for vehicles. In addition, this will reduce the mills current energy consumption.

The biogas facility is expected to be operational in 2017, at which point it will produce 2.7 million normal cubic metres annually, the equivalent of 2.7 million litres of diesel. Most of the biogas will be sold to international gas supplier AGA and will power busses and lorries.

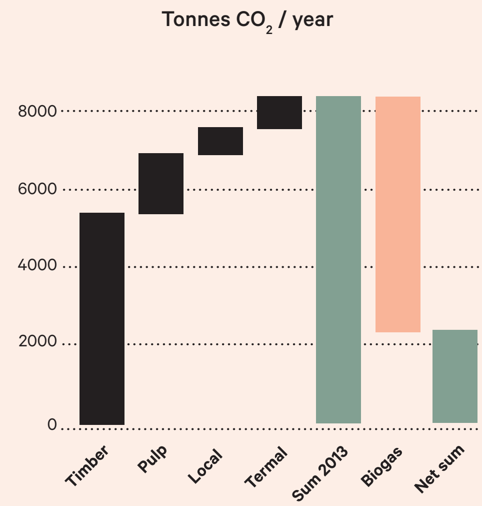
The investment is NOK 150 million, of which NOK 52 million is support from Enova, a public enterprise dedicated to promoting sustainable energy consumption and generation in Norway.

The intent is for the Saugbrugs project to be followed by biogas extensions to the other plants in the Norske Skog group, contributing to earnings and improving the environment. The biogas business, along with pellets production, will be marketed under the brand name Nature's Flame.

The Saugbrugs mill has a proud history, going back to a royal privilege to start a sawmill in 1575. Now, by starting biogas production, it is entering a new era, creating even more value from fibre and energy. This is a win-win situation that increases revenues and lower costs. Or rather a win-win-win, as it also benefits the environment.

Norske Skog sees several benefits from the biogas project:

- Sale of biogas will increase revenues.
- Energy costs will be reduced as the paper plant will utilize biogas.
- The waste water treatment process will be improved.
- The CO_2 footprint of the plant is drastically reduced from 8 400 tonnes a year to 2 400 tonnes.
- We will meet future demands and regulation today.




The Biogas project team at Saugbrugs

New opportunities through research and development

While paper may seem like a simple product to most of us, the production process requires highly specialized expertise, and Norske Skog is actively using this expertise in the pursuit of new products and revenue streams.

Among Norske Skog's employees are some of the world's leading experts on the processes involved in utilizing the fibre in wood for paper and for other purposes.

One example of this expertise can be seen at Norske Skog Saugbrugs in Halden, Norway, where a pilot facility is being built for the production of MFC (micro fibrillated cellulose), or nanocellulose, as it is also called. This is the result of additional treatment of thermomechanical pulp, the main raw material for paper. MFC may not only improve paper, it also has potential as a strengthening additive to other materials, such as plastic.

One specific avenue being explored by Norske Skog's engineers is the production of fibreboard for insulation. The boards will be produced without the use of glue and have a unique combination of low weight, strength and excellent environmental qualities.

This is a prime example of Norske Skog exploring additional revenue streams, leveraging existing plants and infrastructure as well as expertise.

Entering growing tissue niche

In 2015 Norske Skog diversified into a growing niche by announcing a joint venture with Italian tissue paper producer Roto-cart. The joint venture is currently converting a newsprint machine at Norske Skog's Bruck plant in Austria.

"The joint venture will replace newsprint production at Bruck with tissue. Thus, supporting the market balance for newsprint and exposing Norske Skog towards the growing market for tissue," Sven Ombudstvedt, President and CEO of Norske Skog, said.

The European tissue market represents a market volume of about 19 billion euro and is expected to show steady growth in the coming years. The project, which was announced last summer, is progressing according to plan. Total investment is 80 million euro, of which 75 percent is financed by debt.

In choosing to do the conversion as a joint venture, Norske Skog emphasized the experience of Roto-cart, which was founded in 1981 and is an established producer and distributor of sanitary and household paper.

In addition to the newsprint machine now being converted to tissue paper, the Bruck plant also includes a machine that produces coated magazine paper.

From waste to warmth

In line with the strategy of building new and profitable businesses based on fibre and energy, Norske Skog is currently ramping up production of wood pellets in New Zealand. The business was acquired in the second quarter 2015, and production will be increased to a capacity of 80 000 tonnes annually.

The goal is to build a thriving business, while at the same time reducing waste and carbon emission. Renewable wood pellets bring significant environmental benefits when replacing fossil fuels for heating.

The wood pellets are essentially compressed sawdust parcels that are uniform in size and shape and held together with lignin, a naturally occurring polymer from plants.

The acquired business in New Zealand is already the dominant supplier of high-grade wood pellets and has a state-of-the art plant in Taupo on the North Island of New Zealand.

Along with the actual manufacturing operation, Norske Skog acquired the brand name Nature's Flame, which is now being rolled out as a common name for the group's new growth initiatives within renewable energy.

"There are large environmental benefits to be harvested in replacing fossil fuels for heating with renewable wood pellets. If a proven stand-alone concept is established, Norske Skog will consider expanding the pellets production to the Tasman newsprint site, leveraging waste fibre for renewable pellets revenue. The export potential to Asia is large, given the site's favourable New Zealand location, Sven Ombudstvedt, President and CEO of Norske Skog, said when the acquisition was announced.

BOARD OF DIRECTORS

From left Nils Ingemund Hoff, Paul Kristiansen, Jon-Aksel Torgersen, Cecilie Jonassen, Svein Erik Veie, Joanne Owen and Eilif Due.

JON-AKSEL TORGERSEN (64)

Chairman since 2015, board member and deputy chairman since 2012

Residence:	Oslo
Education:	Master of business administration, University of St. Gallen (Switzerland)
Position:	Chief executive officer (CEO) Astrup Fearnley AS and Vergjedalsbruket A/S
Director-ships:	Chairman of the board Atlantic Container Line AB and Finnlines Plc Board member I.M. Skaugen SE and Awilco LNG. He is also chairman and board member of several companies in the Fearnley group

EILIF DUE (61)

Board member since 2012

Residence:	Levanger
Education:	Master of science in engineering, Norwegian University of Science and Technology (NTNU) (Norway), Foundation program in business administration, Norwegian Business School (BI) (Norway)
Position:	Consultant/Forest owner
Director-ships:	Chairman of the board Allskog SA, Hoff SA and Allskog Holding SA. Board member Arcus AS and Norges Skogeierforbund (the Norwegian Forest Association).

NILS INGEMUND HOFF (54)

Board member since 2016

Residence:	Oslo
Education:	Bachelor's degree in shipping, economy and administration from Agder Distriktshøgskole (Kristiansand, Norway)
Position:	Chief Financial Officer (CFO) in Bergen Group ASA
Director-ships:	Chairman of the board of directors of Eagle AS, RTC Tech AS, Postlogi AS og Molvik Grafisk AS. Director of Oppie Design AS and director in different Bergen Group ASA subsidiaries.

CECILIE JONASSEN (34)

Board member since 2015

Residence:	Sarpsborg
Education:	Master of Science, Norwegian University of Sciences and Technology (NTNU), Norway
Position:	Assistant line manager pulp
Director-ships:	Chair TEKNA group at Norske Skog Saugbrugs, member European Works Council (EWC), Secretary Norske Skog Work Council Norway

SVEIN ERIK VEIE (43)

Board member since 2010

Residence:	Skogn
Education:	Process operator and industrial mechanic
Position:	1. Machine operator Skogn
Director-ships:	Main employee representative Norske Skog Skogn, chairman Fellesforbundet dept. 461, representative to Fellesforbundet board, deputy chairman of Norske Skog Works Council Norway, member of EWC and GEF, chairman of Fellesforbundets department management forum Nord-Trøndelag, council member in Levanger municipality (Labour Party) and member Plans- and development committee Levanger municipality. Board member of Nord-Trøndelag Arbeiderparti (Labour Party).

PAUL KRISTIANSEN (60)

Board member since 2009

Residence:	Halden
Education:	Certificate of apprenticeship as process operator
Position:	Line driver at Norske Skog Saugbrugs
Director-ships:	Main employee representative Norske Skog Saugbrugs, chairman Norske Skog Works Council Norway, deputy chair European Works Council (EWC), member Global Works Council, member the section council Fellesforbundet, council member in Halden municipality (Labour Party) and board member Halden Municipality Pension Fund.

JOANNE OWEN (42)

Board member since 2016

Residence:	London
Education:	Law degree LLB Hons, Exeter University (UK), legal practice course at Nottingham Trent University (UK)
Position:	Partner in the global law firm DLA Piper
Director-ships:	

CORPORATE MANAGEMENT

SVEN OMBUDSTVEDT (49)

CEO in Norske Skog since 2010

BACKGROUND:

2010 – dd	CEO Norske Skog ASA
2008 – 2009	Senior vice president SCD SAS
2006 – 2008	Chief financial officer and Head of strategy Yara International ASA
2003 – 2006	Senior vice president upstream operations Yara International ASA
2002 – 2003	Senior vice president corporate strategy Norsk Hydro ASA
1999 – 2002	Senior vice president commercial policy and industrial restructuring Hydro Agri
1995 – 1999	Vice president market strategy and planning Hydro Agri
1991 – 1995	Various positions within Norsk Hydro
EDUCATION:	Bachelor in Business Administration from Pacific Lutheran University (USA), Master in International Management from Thunderbird University (USA)

RUNE SOLLIE (49)

CHIEF FINANCIAL OFFICER (CFO) in Norske Skog since 2014

BACKGROUND:

2014 – dd	Chief financial officer (CFO)
2011 – 2013	Senior Director Financial Reporting & Compliance, Statoil Fuel & Retail AS
2009 – 2011	Partner, UNIconsult AS
2005 – 2009	Chief Accounting Officer, Yara International ASA
1993 – 2005	Senior Manager, KPMG AS
EDUCATION:	Bachelor of Science in Accounting and Auditing from Oslo University College (Norway), State Authorized Public Accountant, Norwegian School of Economics (NHH) (Norway)

ROAR ØDELIEN (47)

CHIEF OPERATING OFFICER (COO) in Norske Skog since 2013

BACKGROUND:

2013 – dd	Chief operating officer (COO)
2012 – 2013	Group Warehouse Director, Carlsberg Supply Company AG
2010 – 2012	Warehouse Director, Ringnes AS
2007 – 2010	Logistics Manager, Ringnes AS
2006 – 2007	Commercial Director, SONY BMG Music Entertainment
2004 – 2006	Regional Manager, Grocery, Ringnes AS
2003 – 2004	Sales Director, Grocery, Midelfart & Co AS (P&G, J&J, etc)
2001 – 2002	Country Manager, Thomson Multimedia Norway
1999 – 2001	Key Account Manager, Philips Norge AS
1992 – 1999	Various positions in Norwegian retail business
EDUCATION:	Bachelor of Science in Business Administration from Buskerud and Vestfold University College (Norway)

LARS P. SPERRE (39)

SVP CORPORATE STRATEGY AND LEGAL in Norske Skog since 2006

BACKGROUND:

2014 – dd	Senior Vice President Strategy and Legal
2007 – 2014	Vice President Legal, Norske Skogindustrier ASA
2006 – 2007	Legal Counsel, Norske Skogindustrier ASA
2003 – 2006	Associate, Wikborg, Rein & Co. Law Firm, Oslo
2002 – 2003	Legal advisor, The Norwegian Export Credit Guarantee Agency
EDUCATION:	Practicing certificate from the Norwegian Bar Association. Master of Law, University of Bergen (Norway)

DOING THE RIGHT THING – THE RIGHT WAY

We are a progressive and viable group with belief in the company, the products and the future.

OUR CORE VALUES

Our core values of openness, honesty and cooperation as well as our policies and guidelines build on the UN Universal Declaration of Human Rights and the 10 principles of UN Global Compact. Our values openness, honesty and cooperation guide our business activities and sustainability work across regions and are, together with our leadership principles, the fundament to ensure ethical and competitive business conduct within and on behalf of Norske Skog.

OUR BUSINESS GOALS AND RESPONSIBILITY

The group's aim is to maximize shareholders' value through operations within the publication paper industry and other related industrial investments. Our attitude and ability to be entrepreneurial, empower each other and behave consistently, define our results in changing and challenging markets. Through reliable, responsible and sustainable conduct, we will win the trust and confidence of our stakeholders, both within and outside of Norske Skog. We monitor activities in order to achieve sustainable products and processes throughout the entire value chain. We continuously strive to maintain our status as the most attractive industry partner for suppliers and customers.

Our group has been a pioneer in setting a global standard for social responsibility and worker-management relations. We were the first international paper manufacturer to sign an agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and the Norwegian United Federation of Trade Unions concerning employee rights on a global basis. We were also an early adopter of the 10 principles in the UN Global Compact. Through our development programme for managers and employees, the whole organisation is being familiarised with the values, ethical standards and good business conduct on which we build our business.

To meet the future sustainability expectations, we conduct our business mandates and activities according to internally developed Steering Documents, Power of Attorney structure and Operating Model. These provide the basic framework for our mandates and activities. The Steering Documents describe in general how Norske Skog employees are expected to carry out activities and operations. The Power of Attorney structure, as set out by the Board of Directors to the CEO and further delegated through the organisation, describes financial empowerment to individual positions. The Operating Model establishes the functional roles, responsibilities and dependencies for organisational bodies and top management positions in Norske Skog.

Norske Skog's business units have a high degree of independence and accountability. Local managers are responsible and accountable for decisions and results within their unit. However, we apply a uniform basis for our operations across countries and cultures with regard to HESQ (health, environment, safety and quality), people development, financial reporting and legal compliance. In these areas, our conduct must be based on the same sustainable principles to promote the shared interests of Norske Skog and our stakeholders.

BUSINESS CHALLENGES

Norske Skog still faces some major challenges that must be resolved: declining demand and handling of the significant debt maturities. The fall in demand in recent years is due to both to changes in macroeconomic conditions (so-called cyclical reasons) and structural changes in the industry, such as changing reading habits and the phasing out of soft demand or free distribution of newspapers.

The fall in demand has led to major capacity cuts in the industry and in Norske Skog. However, the large gap between demand and supply of paper has decreased, due to substantial capacity reductions. Increased capacity utilisation at our plants both improves profitability and increases the opportunities for price increases for our products.

SUSTAINABLE FUTURE

Norske Skog is committed to contributing to sustainable development. Customers, suppliers and the world at large can rely on us. We have a serious intention to produce and deliver products in a sustainable manner in collaboration with customers, suppliers and local communities.

Our business units are often cornerstones of local communities. These facilities work closely at the local level with communities to assist with other needs. Social responsibility involves remaining sensitive to the needs of local communities and aware of the impact our operations have upon them. It means maintaining an open dialogue and responding with local measures. It also means showing respect for, and building upon, local cultures and traditions.

STAKEHOLDER AND MATERIALITY ANALYSIS

Norske Skog reported last year according to the GRI G4 sustainability reporting guidelines and we carried out an in depth stakeholder and materiality analysis. Corporate management and key stakeholders have this year reviewed the result together with the input from our Enterprise Risk Management process.

The stakeholders affect Norske Skog's decisions, activities and performance in many ways. In the stakeholder analysis part we have assessed to what extent different stakeholder groups are affected by our activities and/or to what extent they are affecting our sustainability work and performance. In our opinion, our most important stakeholders are our own management and employees, local communities where we operate, investors and owners, creditors and lenders, our key suppliers, and regulatory authorities.

In the materiality analysis, all 46 aspects of the GRI G4 guidelines are assessed on how important they are for Norske Skog and how important they are for our key stakeholders. The aspects cover the three main categories Economic, Environmental and Social. The Social category in turn covers the sub-categories Labour Practices and Decent Work, Human rights, Society, and Product Responsibility. The materiality analysis high-lights areas of opportunity and risk that will be a fundamental to the group's strategy and integrated in daily operational activities.

The three main categories Economic, Environmental and Social represent vital but differentiated impacts on the group. The economic category reflects the fundamental ramifications and market conditions that encompass the underlying business case for Norske Skog's operations. The environmental issues have been a concern to a great number of stakeholders since the start-up of Norske Skog in 1962. The aspects of the environmental category have undergone a substantial quality improvement and the group has achieved significant results in collaboration with stakeholders, governmental authorities and employee initiatives.

The outcome of the materiality review is shown in the picture on the next page. It shows that economic performance, water, effluent and waste, anti-corruption and occupational health and safety have the most vital impact for the firm and our stakeholders. Further, the aspects and forced and compulsory labour have high impact to the stakeholders. For Norske Skog, both raw materials, emissions and anti-competitive behavior will have serious impact on daily and long-term business performance, whereas aspects such as market presence, employment, security practices, marketing communications, customer privacy and compliance have the least impact for both stakeholders and the firm.

The impact on the firm and the stakeholders has some geographic differences described in the respective chapter in the CSR-report. Norske Skog has through the year been nationally recognized for its labour practices and decent work environment, and the outstanding health and safety performance compared to the industry average. The commercial organization in Norske Skog regularly performs customer surveys. The most important customers are followed up closely for each delivery.

The picture on the next page depicts the impact to both the stakeholders and the firm in a scale from low to high impact. Green area indicates the lowest level of reporting necessity, whereas the red area depicts the necessity to increase reporting and description of the issues in concern.

COMPLIANCE

The risk of non-compliance may entail unethical conduct and legal and financial consequences, and may affect our reputation negatively. Norske Skog emphasizes that the line organisation has the responsibility to comply with the Steering Documents. Compliance must take place where the risk lies, primarily in the production and commercial operations and their associated activities.

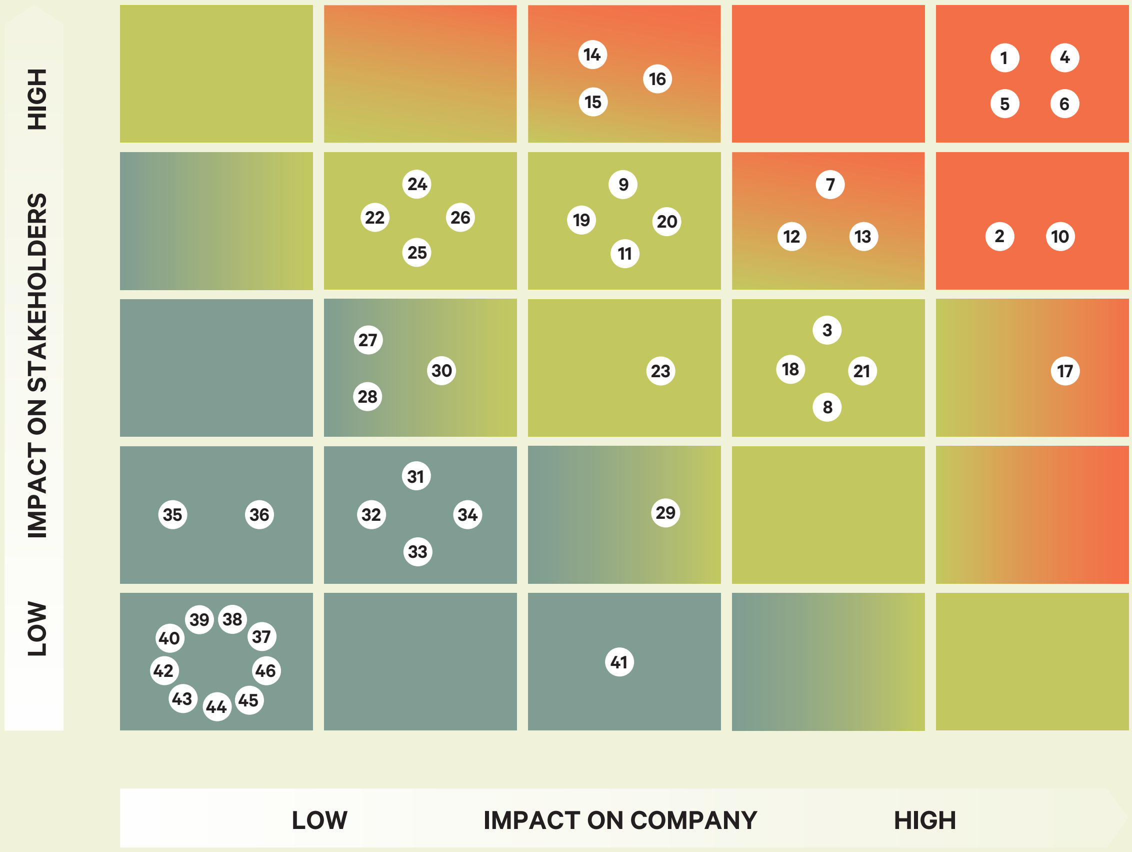
Norske Skog has common standards of conduct for all business units and all employees. This strengthens the quality of our operations and promotes our predictability and credibility with customers, suppliers and other partners. In this manner, the compliance work strengthens the company's commercial position. Compliance is included a specific topic in the group's risk reporting, and is followed up centrally in order to ensure systematic follow-up locally.

The company has established a system where a compliance officer for the group ensures that that the Steering Documents are up to date and ensures that adequate internal control systems exist globally and locally. Norske Skog has for a number of years maintained a whistle-blowing channel, where employees can report irregular conditions or matters he/she finds difficult to confront with superiors.

Norske Skog considers it important that each employee is ensured confidential and serious treatment of reported issues. Whistle blowing can be reported to:

compliance@norskeskog.com.

STAKEHOLDER AND MATERIALITY ANALYSIS



1. Economic Performance
2. Materials
3. Water
4. Effluents and Waste
5. Occupational Health and Safety
6. Anti-corruption
7. Product and Service Labeling
8. Energy
9. Biodiversity
10. Emissions
11. Indigenous Rights
12. Compliance (environment)
13. Supplier Assessment for Labor Practices
14. Freedom of Association and Collective Bargaining
15. Child Labor
16. Forced or Compulsory Labor
17. Anti-competitive Behavior
18. Diversity and Equal Opportunity
19. Supplier Human Rights Assessment
20. Compliance (local communities)
21. Supplier Assessment for Impacts on Society
22. Procurement Practices
23. Products and Services (environment)
24. Indirect Economic Impacts
25. Non-discrimination
26. Local Communities
27. Supplier Environmental Assessment
28. Environmental Grievance Mechanisms
29. Human Rights Grievance Mechanisms
30. Customer Health and Safety
31. Equal Remuneration for Women and Men
32. Labor Practices Grievance Mechanisms
33. Public Policy
34. Grievance Mechanisms for Impacts on Society
35. Transport
36. Assessment (human rights)
37. Market Presence
38. Overall (environmental investments and costs)
39. Employment
40. Labor/Management Relations
41. Training and Education
42. Investment (human rights)
43. Security Practices
44. Marketing Communications
45. Customer Privacy
46. Compliance

HEALTH AND SAFETY

Health and Safety has the highest priority for Norske Skog, twenty four hours a day, seven days a week. Norske Skog's health and safety programme at the business units, called "Take Care 24 hours", is adapted to our different cultures, requirements and local requirements where we operate, but shall always meet the requirements of our health and safety standards for international activities. Our goal is a safe working environment where health and safety receive equal attention in planning and in the daily operations of the company.

All employees in Norske Skog must take responsibility for improving the working environment for themselves, their colleagues, visitors and sub-contractors. Internal cooperation, involving sharing of experience and best practice, enables us to adapt preventive activities to all our Business Units. Through the activities in Take Care 24 hours, the group stimulates and encourages the same attitudes and behaviour at work and during our spare time, for our own employees and their families. At Norske Skog, we believe that issues relating to health, safety and the environment must be fully integrated into all our activities at every level and not managed as a separate and distinct function. That is why everyone working in Norske Skog – whether an employee or contractor – is accountable for the company's health, environmental and safety performance.

The Process for Safety Excellence (PSE) is an ongoing, structured process integrated into the day-to-day business of the company. Its aim is to achieve the highest level of health, safety and environmental performance. It applies to every organisation within Norske Skog and every activity carried out by its employees and contractors. PSE focuses on three management components, people, assets and systems. Each component includes ten elements (standards), which provide the framework for health, safety and loss prevention efforts.

Our identified nine key elements (standards) are:

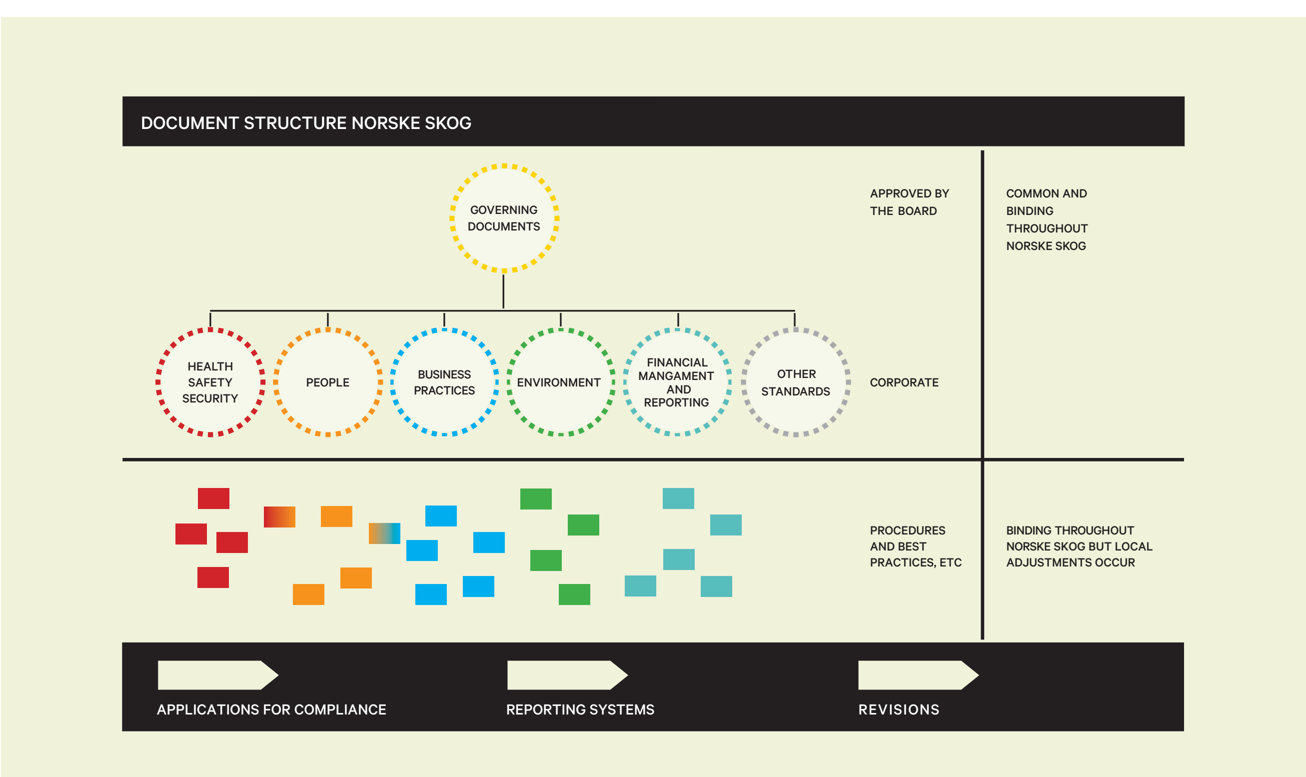
- Leadership commitment
- Employee participation and safe behavior
- Training and competence
- Hazard and risk management
- Management systems, reviews, audits, inspections
- Performance measurement and reporting
- Emergency prep. and response
- Health
- Contractors
- PPE, Personal Protective Equipment

These Standards are applicable to all operations, throughout Norske Skog, which have the potential to adversely affect the health and safety of people, including employees, contractors, visitors and the public.

The objectives of these Standards are as follows:

- To define the minimum requirements for the Health and Safety Systems at all levels of operation,
- To provide a framework for Health and Safety Systems measurement,
- To encourage a consistent approach to Health and Safety Systems,
- To assist with the identification and sharing of current best practice between Mills/Units,
- To provide the Mills/Units the opportunity to assess themselves against the Standards and continually improve their systems,
- To enable inter-Mill/Unit reviews to provide an external perspective and recommendations for improvement.

Where Norske Skog has no operational responsibility, but has an equity stake, or where significant Norske Skog assets are involved in a subcontracting site, arrangements shall be made to ensure that comparable standards of safety are maintained. We strongly believe



SUBJECT	TARGET 2015	RESULT 2015	COMMENTS
Health & Safety			
H1	0	1	Same as in 2015
H2	< 7.43	9.7	Improved from 2015
Absence due to illness	< 3.6	3.8	Same as in 2015

in Behavioral Based Safety Observations and Audits. These are observations of people's workplace behaviour that enables positive feedback for safe behavior, recognition and correction of unsafe acts.

Norske Skog had an absence rate due to sickness of 3.8 per cent in 2015, an increase compared to last year. We achieved an H1 level, lost time injuries per million working hours, of 1.0 compared to 0.97 in 2014.

Our Norwegian business units have signed a letter of intent regarding a more inclusive workplace (IA Agreement) (with supplementary agreements). Although the IA Agreement is a distinctly Norwegian concept, it is fair to say that our other Business Units operate under similar conditions with the aim of reducing sickness absence rates and increasing focus on job attendance for all employees. The IA Agreement builds on a tripartite cooperation between the national authorities, the trade unions and the company. This cooperation ensures the participation of all parties involved.

The IA Agreement and Norske Skog's operational objective is to develop targets for our work to prevent sickness and absence and to establish verifiable activity targets to achieve a professional attitude to both preventive and reactive health care in the company.

The IA Agreement has been renewed until 2018 and continues the operational objectives for the cooperation:

- Reduction of sick leave
- Lower employee dropout rates and increase employment of people with functional impairments
- Increase the retirement age

Our work with the IA Agreement has been extended to apply to all of Norske Skog's local business units and is intended to be an integral part of our targeted HSE work.

All our business units also have local HSE forums where the company and trade unions have regular meetings to address local HSE issues. At these meetings, there should be an equal number of representatives from the company and the employees, with as many different groups as possible from within the organisation represented. If the organisation has Occupational Health Services, it should also be represented on the committee. Occupational Health Services should be an advisory and independent body, and represent the interests of both the employer and the employees.

Norske Skog has used Synergi Life for many years. Synergi Life is an operational risk management tool from DNV GL. We have a monthly Management Focus Report (MFR), which is distributed to all business units for internal distribution and includes type of injury and rates of injury, occupational disease rate, lost work days accidents, absenteeism, total number of work-related personal injuries and fatalities, by region, gender and business unit. All business units report this information in Synergi, which is also a source for the transfer of experience and sharing of best practices. Reports from Synergi are analysed and form the basis for our internal HSE audits conducted by our HSE&Q staff at the group level.

Norske Skog and local communities

Our activities affect employees, suppliers, customers and partners in many countries, regions, towns and villages. Our decisions and activities, production and sales have an impact on a multitude of individuals, groups and companies, both financially and otherwise. We recognize our impact and consider this when making decisions.

Sales revenue from production in Norske Skog in 2015 traced back to key stakeholders:

- Purchase of goods and services: NOK 9.0 billion
- Capital expenditures: NOK 0.2 billion
- Salaries: NOK 1.5 billion
- Taxes and public fees: NOK 0.4 billion
- Financial costs and working capital: NOK 1.3 billion

The list shows that Norske Skog is important for many parts of society. Down-stream the value chain, our paper is a vital source of income for newspapers and magazines, with all their journalists and other contributors, and a natural source of ideas for business people and other readers throughout the world. This network of businesses, communities and individuals generates significant value in the public and private sectors, as well as stability and other benefits to all affected individuals. To improve and maintain our role in society and as an important employer in local communities, our business units are encouraged to be active and open in their communication and contact with local stakeholders. Examples include reports to neighbors and other local stakeholders, open days for the public to inform about paper production, engagement in nature protection projects, support to local museums, involvement in sports and cultural initiatives, support to charitable organizations, as well as integration of immigrants and disabled persons through vocational training. We encourage employees to take part in local community work as many of them do. Most business units cooperate with educational institutions at different levels, such as visits from schools, colleges, high schools and universities, scholarships for students, trainees and apprentices working at our mills or engaged in project work.

Key figures – employees

BUSINESS UNIT	NUMBER OF EMPLOYEES (FTE) END OF DECEMBER 2015			AVERAGE AGE OF ORDINARY EMPLOYEES	AVERAGE SENIORITY OF ORDINARY EMPLOYEES	% FEMALE
	Ordinary	**Other employees**	**Total**	**End 2015**	**End 2015**	**End 2015**
Norske Skog Albury	174	10	184	47.9	17.4	8.0
Norske Skog Boyer	259	39	298	47.6	21.3	5.3
Norske Skog Tasman (NZ)	161	22	183	49.0	20.5	11.0
Australia non mills	20	3	23	47.7	13.9	34.8
Australasia total	**614**	**74**	**688**	**48.1**	**19.7**	**8.5**
Norske Skog Saugbrugs	464	60	524	45.0	21.0	8.0
Norske Skog Skogn	346	27	373	48.0	22.0	5.2
Corporate headquarter	38	4	42	48.1	10.2	26.3
Norway total	**848**	**91**	**939**	**46.4**	**20.9**	**7.7**
Norske Skog Bruck	399	48	447	44.3	21.0	8.8
Norske Skog Papier Rcycling	26	-	26	45.8	15.4	11.5
Norske Skog Golbey	365	27	392	47.7	19.1	14.8
Sales offices in Europe	65	-	65	45.1	11.3	62.9
Europe total	**855**	**75**	**930**	**45.9**	**19.3**	**15.6**
Norske Skog group total	**2 317**	**240**	**2 557**	**46.6**	**20.0**	**10.8**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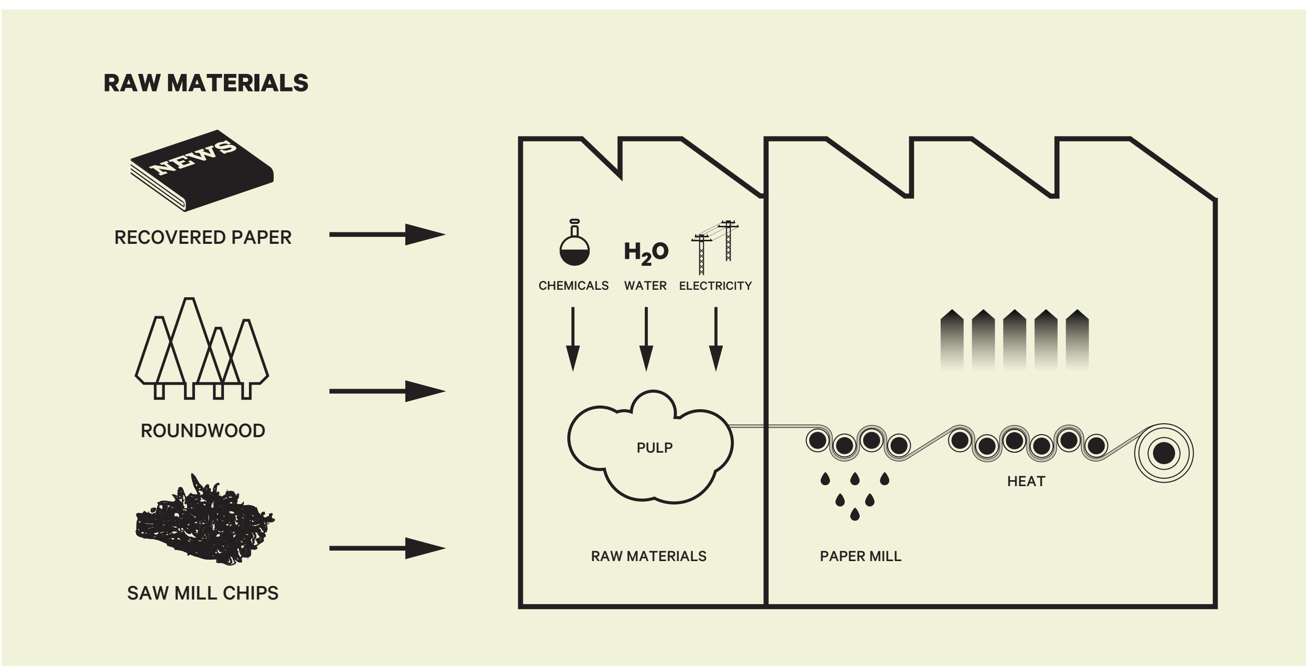
Paper production

Norske Skog has the capacity to produce 2.7 million tonnes of publication paper each year, consisting of 1.8 million tonnes of newsprint and 0.9 million tonnes of magazine paper.

The figures in this report contain the 100% owned mills at the end of December 2015 and figures compared to the same 100% owned mills in 2014.

The highly simplified diagram below illustrates the paper production process. In reality, the paper machines differ quite significantly. Main input materials are wood and/or recovered paper, as well as electricity and chemicals. Wood and recovered fibres are separated during pulp production in two different processes. Pulp production based on recovered paper consumes less energy than production from fresh fibre because the fibres in recovered paper are more easily separated than those within wood. In the paper machine, the pulp passes along a web, firstly through a wet section, then a press section and finally through a drying section. The paper is finally rolled up on reels and then cut to the sizes ordered by the customer. During this process, more than 90% of the wood fibres in trees are converted to paper products.



Production capacity

TONNES PER BUSINESS UNIT 31.12.2015

	NEWSPRINT (INCLUDING IMPROVED NP)	SC (MAGAZINE PAPER)	LWC (MAGAZINE PAPER)	TOTAL CAPACITY BUSINESS UNIT
Norske Skog Skogn	520 000	0	0	520 000
Norske Skog Saugbrugs	0	485 000	0	485 000
Norske Skog Golbey	595 000	0	0	595 000
Norske Skog Bruck	125 000	0	265 000	390 000
Total Europe	**1 240 000**	**485 000**	**265 000**	**1 990 000**
Norske Skog Tasman (NZ)	150 000	0	0	150 000
Norske Skog Albury	275 000	0	0	275 000
Norske Skog Boyer	150 000	0	130 000	280 000
Total Australasia	**575 000**	**0**	**130 000**	**705 000**
Total Norske Skog group	**1 815 000**	**485 000**	**395 000**	**2 695 000**

Evaluation of our environmental performance

It is important for us to identify our environmental challenges, continuously improve our environmental standards throughout the value chain and report openly on our performance.

Environmental topics that the pulp and paper industry focus on include fibre supply, energy sources and use, greenhouse gas emissions, the efficiency of mill production processes, and the fate of our products at the end of the life cycle. The importance of these topics varies at local, regional and national levels. Norske Skog uses a combination of fresh fibres and recovered paper as raw material, depending on local conditions. Both sources are necessary to exploit the global fibre resources in a sustainable manner.

For Norske Skog it is important that our suppliers are also aware of their impact on their society and employees. Existing and new suppliers are, through our general purchase conditions, obliged to follow the laws and jurisdictions of their operating country, both for labour practices and human rights.

All our mills have traceability certificates for the purchase of timber to ensure that they come from sustainably managed forests. We do not source raw materials from controversial areas. Our suppliers comply with local rules and regulations and, where possible, we source wood locally to minimise costs and transport emissions. Our goal is to have a 100% certified wood supply. In Europe, the growth of forests is increasing in all countries where we purchase wood. In Australasia, we source only fresh fibre from plantations.

We use "Paper Profile" as our standard for disclosing our products' environmental profile. For detailed information, see our web-page http://www.norskeskog.com/Products/Newsprint.aspx. And for general info on "Paper Profile" www. paperprofile.com.

In a world where increasing demands are being placed upon finite natural resources, and the ecosystems which supply them are more and more strained, it is important that our production processes are efficient and continuously improving. In addition to environmental management systems, Norske Skog has developed an internal environmental index to set targets and review our work to improve our resource use efficiency and reduce our emissions on a continuous basis. The goal is to use technology that meets the requirements of what the EU defines as the best available technology. The EU Commission finalized the BAT conclusions under the Industrial Emissions Directive 2010/75EU in September 2014. Norske Skog has since 2015 used revised BAT-levels in the environmental index. We have also implemented a water profile tool to compare, optimise, and reduce our water consumption. The EU Water Framework Directive establishes a legal framework to protect and restore clean water across Europe and ensure its long-term, sustainable use. Our European operations adhere to this directive and have established water management plans as required.

Climate change is the environmental issue receiving the greatest attention today. In 2007, Norske Skog established a greenhouse gas reduction target of 25% in total emissions by 2020. Greenhouse gas emissions differ considerably between our mills. The main reason for this lies in the different energy sources used both for externally purchased energy and for energy produced on-site. Purchased energy is mainly electrical energy used for fibre processing and to operate machinery. Energy produced on-site is mainly used to dry paper on the production line. In many cases, we use energy several times, through heat recovery systems. Reducing greenhouse gas emissions mainly involves reducing the consumption of energy and/or changing the source of the energy we use.

The forest-based industry has a unique environmental position. The raw material is renewable, the products are highly recyclable and both the raw materials and products store carbon. Sustainably managed forests will absorb the carbon dioxide from the combustion of forest-based material. At the end of their life cycle, the products can be used to produce bio-energy.

Norske Skog is committed to sustainable development of the environment and natural resources including taking care of different aspects related to bio-diversity. This is attained through close cooperation with local authorities and managing our operations within the framework of our operational permits.

Norske Skog does not have any IUCN Red List species and national conservation list species with habitats in areas affected by our operations.

At the Tasman mill in New Zealand there is an area of wetland (6 ha) that has a Ramsar Record from February 2001. This is a previous clarifier solids landfill area located adjacent to treatment ponds several km from the mill site that has been restored to wetland.

Sustainable raw materials

Forestry and use of forest products play an important role in the combat of climate change. For the forest value chain to be a part of the climate change solution, the forests must be managed sustainably. Norske Skog has several systems and processes to make sure that all wood used in Norske Skog's products comes from sustainably managed forests. All Norske Skog mills utilising fresh fibre have third-party verified Chain of Custody (CoC) certification systems in place. The average share of certified fresh fibre in 2015 was 86%, an improvement of 3 percentage points compared to 2014.

FRESH FIBRE

In 2015, Norske Skog consumed 1.37 million tonnes of fresh fibre. Our goal is to have 100% certified fibre in our products. Norske Skog is not a significant forest owner. A very small proportion of the wood we use comes from our own forests in Australia. The ability to increase the share of certified wood therefore depends largely on decisions taken by forest owners. Norske Skog encourages its suppliers to adopt forest certification. These certificates are the most credible way to demonstrate our responsible procurement of wood fibre. The most environmentally friendly purchases are delivered by local, certified forests. Today, only a relatively small portion of the global forest area is certified. The two main global certification systems are the Forest Stewardship Council (FSC), and the Programme for the Endorsement of Forest Certification (PEFC). Norske Skog regards the two systems as equally valuable tools to demonstrate responsible management and stewardship of the forest resources that our company and customers rely upon. Both systems are based on inspections and auditing by independent third parties. We recognise our responsibility as the purchaser of wood through our global procurement rules. These state that all wood used in our paper shall originate from sustainably managed forests. Such forests are defined as:

- Certified forests – we recognise the systems from FSC and PEFC.
- Forests declared to be managed according to national laws and regulations.

All Norske Skog business units that buy fresh fibre have traceability certificates. The choice of the mill certification system depends on the certification system used in the forests or plantations. Roundwood accounted for 72% of our consumption of fresh fibres in 2015. Sawmill chips, a byproduct from the sawmill industry, accounted for the remaining 28%. The roundwood component of our fresh fibre came from both forests (61%) and plantations (39%). In all countries where Norske Skog sources wood, forest areas are increasing.

The main global forest challenges are related to deforestation in developing countries and forest biodiversity degradation through the logging of high-conservation areas in many parts of the world. In order to meet these challenges, we need to ensure that more of the world's forest areas are managed on a sustainable basis. Forest certification is an important tool in this context.

CERTIFICATION OF FRESH FIBRE THROUGH THE VALUE CHAIN

Forest owners have systems for sustainable forest management (SFM). Forest product traders rely on chain of custody (CoC) certification. Traceability is important to ensure responsible purchasing, and to halt illegal logging. CoC tools make it possible to control and report the share of certified raw materials through the value chain from forest to finished product. CoC systems also require responsible purchasing of non-certified wood.

RECYCLED FIBRE

Recovered paper is an important fibre source for Norske Skog. In 2015, recycled fibre made up 33% of the raw materials used in our products. Mills utilising recovered paper consumed in total 0.844 million tonnes in 2015.

Some customers want paper based entirely on recovered paper. However, a value chain based only on recovered paper is not sustainable. About one third of the paper is lost in the recovered paper cycle. Factors such as consumer awareness, waste disposal and collection systems and alternative uses for used paper influence its collection rate. The structure and strength of the fibres of paper degrade with successive use. Recovered paper fibres that are no longer suitable for papermaking are rejected in our mill pulping processes and are generally used as a source of renewable energy.

To make the recovered paper value chain sustainable, fresh fibre from forests, plantations or sawmill by-products must be added.

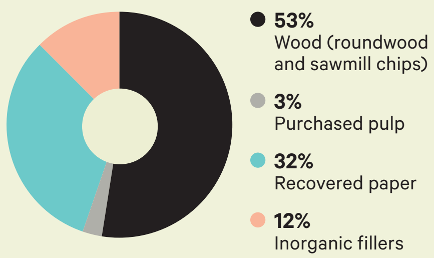
On a tonnage basis, our largest consumption of recovered paper takes place in continental Europe. The fibre source used at the different Norske Skog mills depends upon availability and economic considerations. The minimization of transport distances and costs is an increasingly important economic and environmental consideration.

FORESTS AND CLIMATE CHANGE

The main global challenges related to forest management and climate change are deforestation in developing countries. The use of forests, forest products and bio-energy can, however, be a sound climate change strategy, depending on where and how the forest biomass is harvested. It is important to distinguish between forest types and the existing use of the forest. In forest areas where biomass is accumulated (annual growth exceeds annual harvest), the use of forest resources for renewable products and energy will be possible while still keeping the forest stock stable. Forestland soil will release carbon dioxide after harvesting, but this is partly compensated for through increased radiation reflection from the same area (the Albedo effect). As long as only the net forest growth is harvested, the carbon stock will remain stable and bio-energy and forest products can substitute more carbon intensive products and fuels, thereby resulting in a positive climate effect.

There is a large potential in using forest resources more efficiently. Currently, forest residues - i.e. waste from the harvesting operation - are not utilised fully. As long as the removal of forest residues does not lead to loss of nutrients in the forest soil, these residues can be used for bio-energy purposes and to substitute fossil fuels. By-products from the forest value chain, such as sawmill chips, should be used for making products before being used as bio-energy at the end of their life cycle.

CONSUMPTION OF RAW MATERIAL

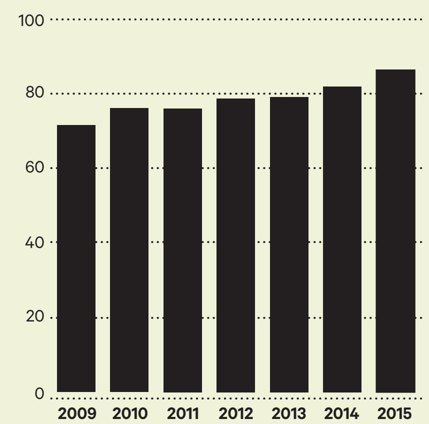


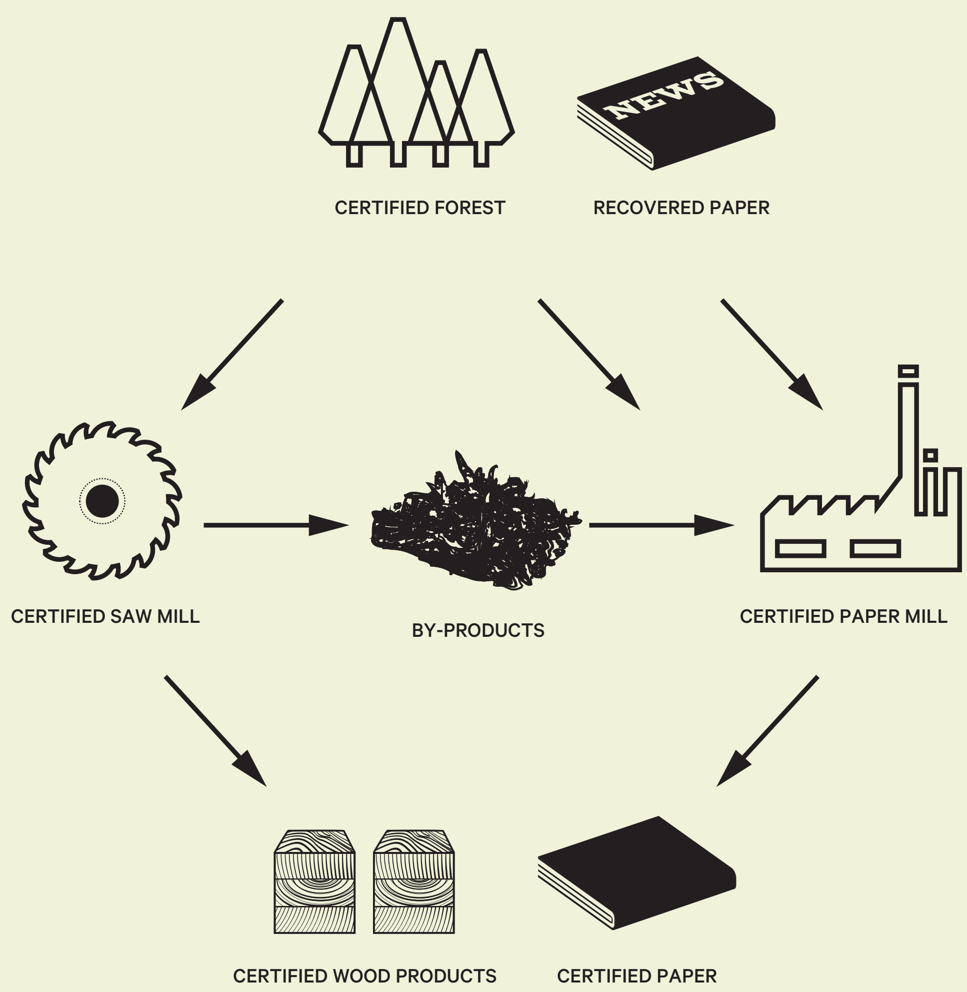
RECOVERED PAPER IN NEWSPRINT PRODUCTION

Norske Skog Albury, Australia	33 %
Norske Skog Bruck, Austria	85 %
Norske Skog Golbey, France	59 %
Norske Skog Skogn, Norway	24 %

CERTIFIED PROPORTION OF FRESH FIBRE (%)

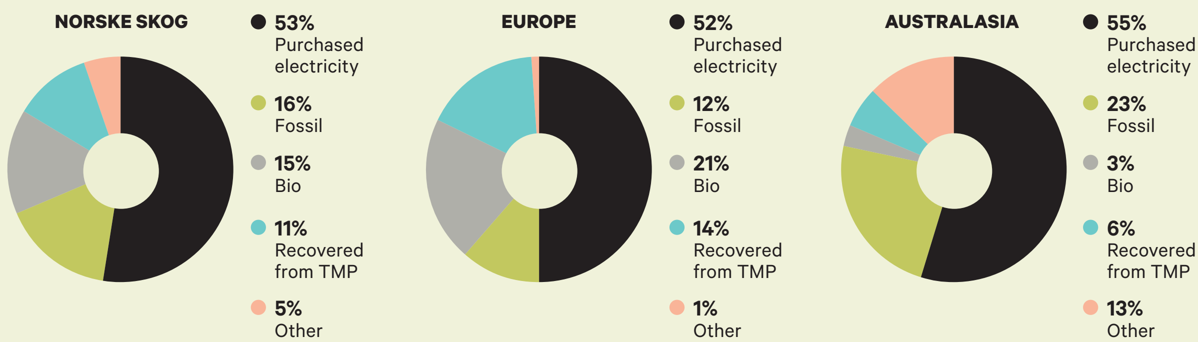
(Roundwood and chips)



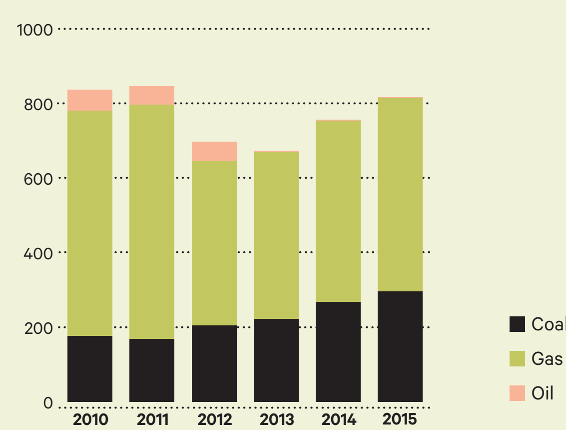


NORSKE SKOG ENERGY CONSUMPTION (TOTAL AND BY REGION)

Total 9121 GWh; 3.86 MWh/tonne of paper



CONSUMPTION OF FOSSIL FUEL (KWh/TONNE OF PAPER)



Energy consumption

Norske Skog has comprehensive programmes in place to continuously reduce energy consumption and to make it more environmentally friendly. We are already a large producer of bio-energy.

The production of paper is an energy-intensive process. Energy is consumed mainly for two purposes:

- To separate, process and transport fibre and water (electrical energy)
- To provide process heat and to dry the paper (thermal energy)

The major use of electrical energy in mills which process fresh fibre is the process which mechanically converts wood chips into fibres. This process is called the thermo mechanical pulping (TMP) process. Paper production based on recovered paper consumes less energy because the fibres from recovered paper are more easily separated than those within wood. The group's average energy consumption per tonne of paper produced in 2015 was a little higher than in 2014. Three mills had lower or similar energy consumption per tonne of paper in 2015 compared to 2014.

53% of the total energy consumed by the group is electricity. In 2015, the remaining energy sources were fossil fuel (16%), bio-fuel (15%), heat recovery from TMP (11%) and other sources such as geothermal energy and heat (steam) purchased from third parties (5%). In 2015, 93% of electricity was purchased from the grid. A number of mills can generate a proportion of the electricity requirement themselves, based on bio-fuel, natural gas or geothermal sources. Norske Skog is a large producer of bioenergy. Organic waste from the production processes is used as bio-fuel where possible. Some mills also purchase bio-fuel from external suppliers.

Natural gas is the most commonly used fossil fuel, with a share of 63%, same as in 2014. Coal constitutes 36% of fossil fuel consumption, down 0.1 percentage points from 2014. Oil makes up 0.4%, which is up 0.1 percentage points compared to 2014.

Thermal energy is used for the heating and drying of paper. In contrast with electrical energy, thermal energy is mostly generated within the mill. The sources of this energy include recovered heat from the thermo mechanical pulping or effluent treatment processes, combustion of mill residues, purchased bio-fuel, oil, gas or coal. In some cases, the thermal energy is supplied by third parties located externally to the mill or in the form of geothermal energy.

The share of purchased electricity makes up about half of the energy consumption in Europe and 55% in Australasia. There is, however, significant variation in thermal energy sources used between different geographic regions. The Australasian mills mainly use fossil and geothermal energy. In Europe, the mills use mainly bio-fuel, fossil fuel and heat recovered from the production of thermo-mechanical pulp from fresh fibre.

Norske Skog's greenhouse gas emissions

As a large industry player, Norske Skog recognises its responsibility to reduce greenhouse gas emissions. In 2007, we established our goal of achieving 25% lower greenhouse gas emissions within 2020, compared with emissions in 2006. As of 2015, our emissions were 26% lower than in 2006.

Norske Skog has integrated reduction of greenhouse gas emissions as a key part of our business strategy. The goal is to reduce energy consumption, change the sources of energy and to optimise the use of process chemicals and transport.

In the work to reduce greenhouse gas emissions, we report on a greenhouse gas reduction target and our carbon footprint. The reduction target is based on the WRI/WBCSD Greenhouse Gas Protocol, the Pulp and Paper Workbook. The carbon footprint is built on the Confederation of the European Paper Industries' (CEPI) tool developed in 2007. The CEPI carbon footprint is related to the products we make and covers the whole value chain, whilst the Norske Skog reduction target is focused on the paper production process and covers Scopes 1 and 2 as shown in the figure. Both the Norske Skog emission reduction target and the carbon footprint are based on greenhouse gas emission data from our 7 wholly-owned mills.

OUR REDUCTION TARGET

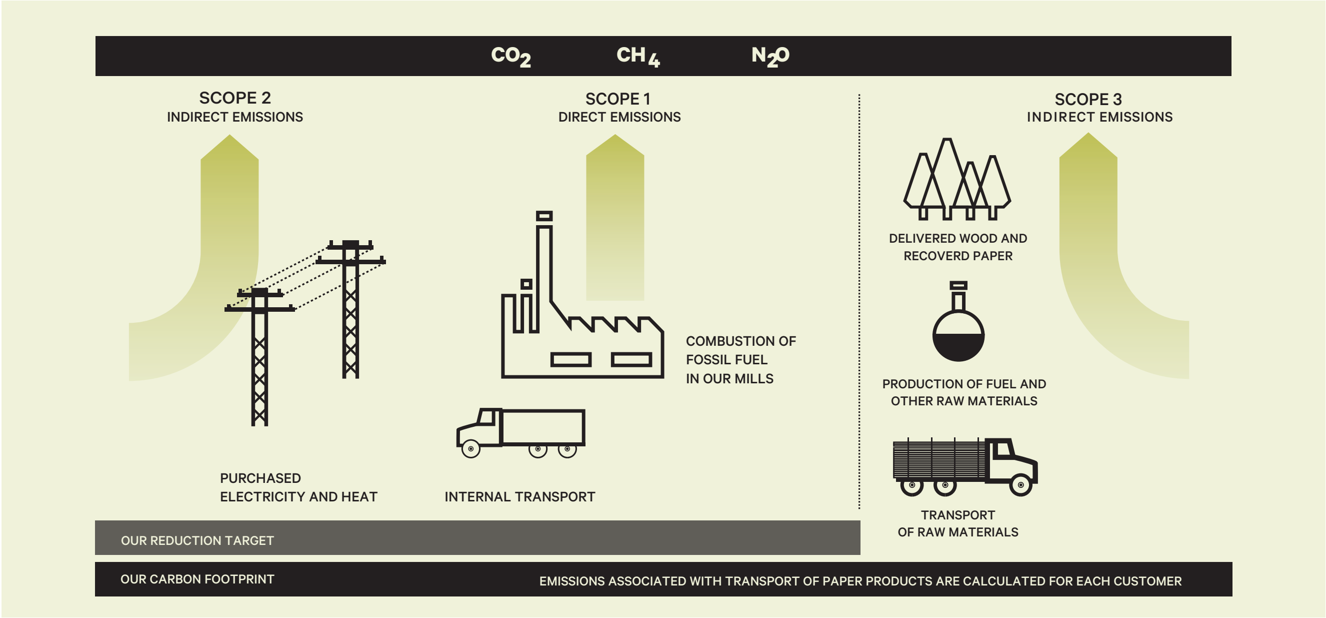
Norske Skog's target for reducing greenhouse gas emissions covers direct emissions (referred to as 'Scope 1' in the Greenhouse Gas Protocol) from the combustion of fossil fuels in boilers, combined heat and power plants, infrared drying equipment, mobile machinery and other mill site based equipment, and indirect emissions ('Scope 2') from the purchase of electricity and heat.

Based on the above scope and emission estimation processes, Norske Skog operations emitted 1.34 million tonnes of fossil fuel derived CO_2-equivalents (including CO_2, CH_4 and N_2O) in 2015. The total emissions from our mills were reduced by 0.4% in 2015 compared to emissions in 2014. The main reason is lower paper production. The total emission reduction achieved to date, compared to our base year 2006 is 26%.

The greenhouse gas emissions arising from the combustion of bio-fuels are deemed to be 'carbon neutral' as only the net forest growth is harvested from sustainably managed forests and plantations, leaving the carbon stock stable. Direct emissions of biologically sequestered CO_2 from the combustion of organic residues such as wood and bark are estimated to be approximately 0.530 million tonnes.

NORSKE SKOG GREENHOUSE GAS EMISSIONS	CO_2 1 000	CH_4	N_2O	CO_2-equiv 1 000
Direct (Scope 1) Emissions	**Tonnes**	**Tonnes**	**Tonnes**	**Tonnes**
Direct emissions from stationary fuel combustion	468	21	3	469
Direct emissions from transportation and mobile sources	5	0	1	6
Total direct emissions	473	21	4	475
Indirect (Scope 2) Emissions				
Indirect emissions from steam and power imports	865	0	0	865
Total Fossil Fuel Based Emissions (Direct & Indirect)				
Direct & Indirect	1 339	21	4	1 340
CO_2 emissions from combustion of biomass *	530	0	0	0

** Wood and bark residues only*



Our carbon footprint

Based on the CEPI carbon footprint tool, our carbon footprint covers emissions from the following elements of our value chain:

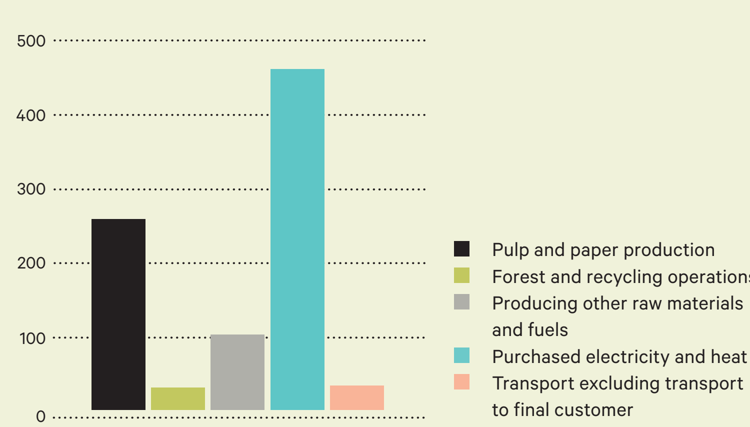
- Pulp and paper production
- Forest and recycling operations
- Producing other raw materials and fuels
- Purchased electricity and heat
- Transport – excluding transport to final customer which is calculated on a case by case basis
- Carbon stored in forest products (biogenic carbon) is reported separately.

The average global carbon footprint per tonne of paper produced by the Norske Skog mills in 2015 was 701 kg CO_2 equivalents/tonne paper. This represents an increase of 2.5% compared to 2014. 1 410 kg/tonne biogenic CO_2 is estimated to be contained in the product. As seen in the figure, the largest contributor to our carbon footprint is purchased electricity and heat, which make up 52% of the emissions per tonne of paper. Pulp and paper production makes up 29%, forest and recycling operations 3%, production of other raw materials 12% and transport to the mills 4% of the total emissions per tonne of paper.

The carbon footprint varies considerably between the mills and regions, depending on the source of electricity and the type of fuel used to produce process heat. The emissions per tonne of paper production ranged from 296 kg CO_2-equivalents/tonne of paper in Europe to 1 762 kg CO_2-equivalents/tonne in Australasia.

NORSKE SKOG CARBON FOOTPRINT

KG CO_2/TONNE OF PAPER



Continuously improving our production processes

Norske Skog's environmental policy commits us to continuous improvement in the environmental performance of our business units.

The wish to measure this continuous improvement in our mills and as a company over the short and long term led us to implement an environment index (E-index) several years ago. The E-index forms part of the regular reporting by the mills to corporate management and the board. In addition to being a performance reporting tool it allows us to:

- establish and review mill specific targets
- identify areas for additional investment
- demonstrate the environmental improvements following process changes or investments

Mill performance is measured in the index against a standard which should be attainable with the use of Best Available Technology (BAT) or best practice, as described in the European Union IPPC reference document. An index value of 1.0 or less indicates that the mill has an environmental standard which satisfies the ambitious levels which can be attained with BAT or best practice. The BAT level of performance is mill specific and is a function of age, technology, investment history and operational performance.

The environmental index for the whole group is calculated as an average of each mill's index score weighted by production volumes.

The table below shows the targets for 2015 and 2016 for the parameters included in the E-index, as well as the results achieved during the last four years. The EU Commission finalized the BAT conclusions under the Industrial Emissions Directive 2010/75EU in September 2014. Norske Skog has since 2015 used revised BAT-levels in the environmental index. These figures represent productionweighted averages for all mills. In 2015, four mills reached their E-index targets.

Increased amount of COD, suspended solids and waste to landfill are the main reason for not achieving the 2015 target. The increase is linked to periods with process stability challenges in the water effluent plants.

KEY FIGURES FOR NORSKE SKOG'S WHOLLY-OWNED MILLS		
Consumption of raw materials		
Roundwood	m^3	2 452 000
Sawmill chips	m^3	934 000
Recovered paper	tonnes	844 000
Purchased pulp	tonnes	70 000
Inorganic fillers	tonnes	320 000
Energy		
Electricity	GWh	5 138
Heat	GWh	4 000
Discharges to water		
Discharged process water	mill m^3	43
Organic material (COD)	tonnes	9 886
Suspended Solid (SS)	tonnes	1 212
Phosphorus (Tot-P)	tonnes	35
Emission to air		
CO_2-equivalents (direct)	tonnes	475 000
SO_2	tonnes	265
NO_X	tonnes	780
Production waste		
Sludge (dry)	tonnes	258 000
Bark	tonnes	104 000
Other	tonnes	18 000
Products		
Newsprint grades	tonnes	1 574 000
Magazine paper	tonnes	791 000
Total	tonnes	2 365 000

ENVIRONMENTAL INDEX	Achieved 2012	Achieved 2013	Achieved 2014	Achieved 2015	Target 2015	Target 2016
COD kg/tonne	3.7	3.9	4.3	4.2	3.6	3.6
Suspended solids kg/tonne	0.43	0.35	0.54	0.51	0.45	0.41
Nitrogen oxides g/GJ	89	95	95	90	97	97
Waste to landfill kg/tonne	16.8	14.8	14.4	19.4	16.8	16.8
Total energy consumption GJ/tonne	12.5	12.2	12.3	12.3	12.3	12.2
Environmental index	**1.03**	**0.96**	**1.06**	**1.13**	**1.04**	**1.02**

Water footprint: the total water consumption in the paper value chain

Mankind's increasing use of freshwater resources places a strain on global water resources. Policies and practices for sustainable use of this natural resource are a prerequisite for a sustainable global development. To help assess the impact of different products on water resources, different water footprint tools are under development. Water footprint accounting includes monitoring of both direct and indirect use of freshwater, measured over the full supply chain. For paper products, this includes water evaporated during tree growth (green water), water consumed during the production phase (blue water) and the water required to assimilate the discharged pollutants based on existing ambient water quality standards (grey water).

It is important to realise that the water footprint figure itself does not reveal much about the actual impact of operations at the local watershed level. A low water footprint could be less sustainable than a high water footprint. For instance, the water footprint for paper depends mainly on the time it takes for trees to grow. Trees use a lot of water to grow and paper will therefore have a large water footprint. Boreal forests are characterised by a humid climate, where precipitation is higher than evaporation. Forests sustain and slow down the surface runoff, preventing flooding, erosion and leaching of nutrients. A sustainability assessment using many indicators is needed to gain understanding of whether mill operation and forest management practices are within the boundaries of what a water catchment can sustainably support.

Norske Skog will implement water footprint reporting when an international standard has been agreed upon. In the meantime, we will report our water profile. Water scarcity is not an issue in any of the forest or plantation areas supplying Norske Skog or in any area where our mills are located. 98% of the water entering Norske Skog mills is returned to rivers and lakes after treatment.

The Norske Skog water profile

The figure presents the 2015 water profile for Norske Skog. The profile has been developed by examining the major inputs and outputs of water in the manufacturing process. The data presented is a combination of all eight wholly owned mills and represents a 'group average'.

The total water use per tonne of paper in 2015 decreased by 5% compared to 2014. 98% of the water entering our mills is returned to rivers and lakes after treatment. Approximately 2% is returned to the atmosphere as water vapour, retained in the products or used for irrigation of forest plantations or agricultural areas.

WATER SUPPLY

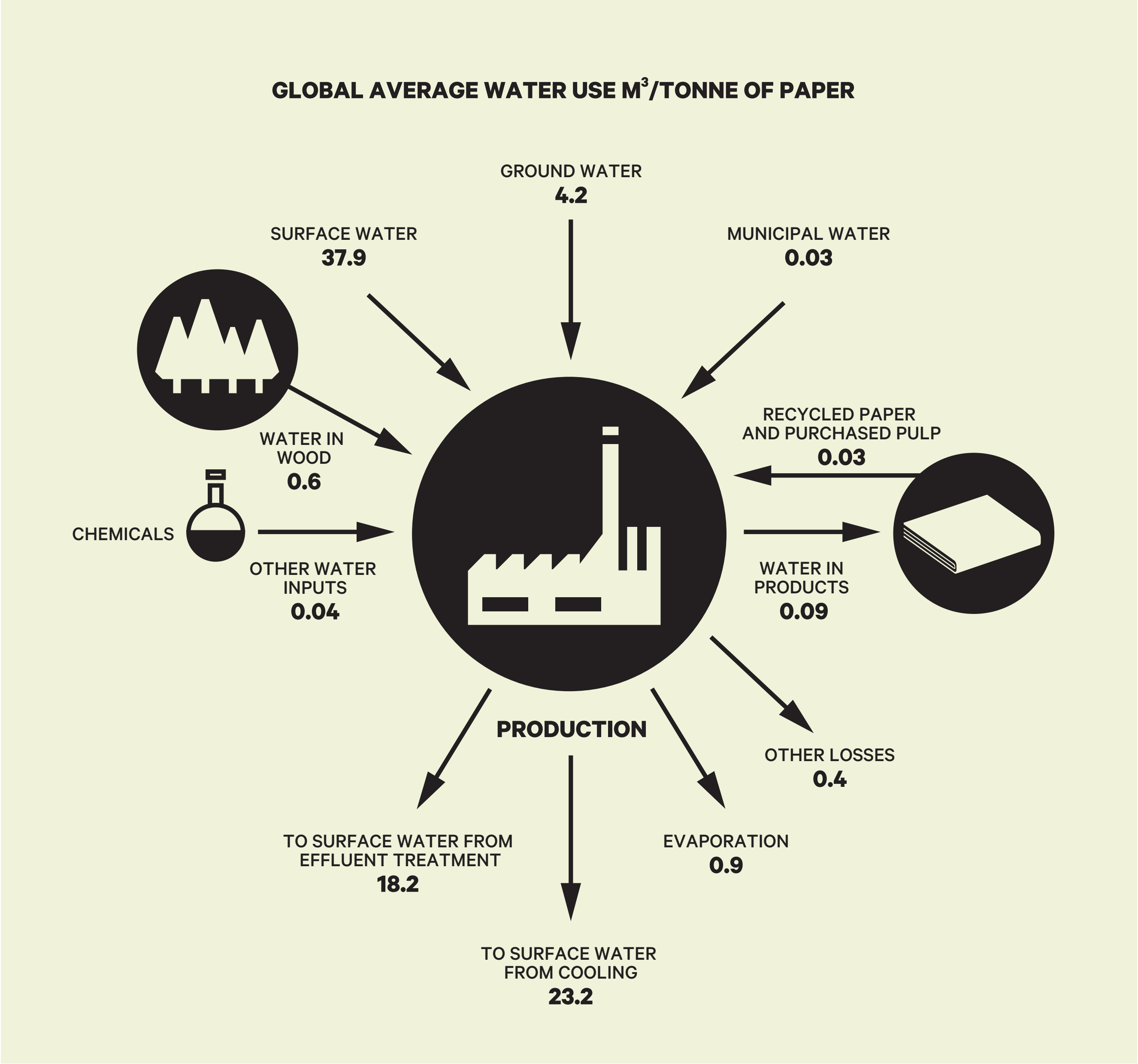
The majority of fresh water used by Norske Skog's mills (88%) originates from surface water sources. A further 10% is supplied from ground water supplies and a relatively small amount, 0.1%, comes from municipal water supplies.

Water also enters the manufacturing process through the raw materials which are purchased. Fibre based raw materials (wood, wood chips, recycled fibre and purchased pulp) constitute approximately 1.5% of water input. Non-fibre raw materials (such as chemicals and steam) make up the balance.

WATER USE

The majority of water which enters our mills (54%) is used to cool machinery and equipment performing electricity or steam generation and/or pulp and paper manufacturing activities. The rest of the water is used in the papermaking processes ("process" water).

Most mill effluents are discharged to river and lake systems after treatment. No effluent is discharged to groundwater aquifers.



Emissions to air and discharge to water

Manufacturing pulp and paper requires raw materials and energy. Norske Skog's environmental policy requires us to make efficient use of these resources and to work continuously to reduce our emissions and discharges.

SOLID RESIDUES AND EMISSIONS TO AIR

Emissions to air occur primarily from energy generation processes, and the majority of solid wastes occur from the processing of fibre inputs (wood or recovered paper) and from the treatment of effluent (fibre and biological solids). Most of our mills have their own boilers or incinerators for producing thermal energy from these solid residues. Fossil fuels in the form of natural gas, oil and coal may also be used. The main emissions associated with these activities include carbon dioxide, particulates, sulphur dioxide and nitrogen oxides. A number of technologies are used to reduce and control these discharges. Ash residues result from combustion processes involving solid fuels.

In 2015, the emission of sulphur dioxide per tonne of paper was up by 33% compared to 2014. The emissions of NOx per tonne of paper were down by 6% compared to last year.

The total quantity of production waste generated by the group in 2015 was 379 500 dry tonnes. This is a reduction of about 30 000 tonnes compared to 2014. In 2015, 142 000 tonnes of ash were generated from combustion, a decrease of 1 000 tonnes compared to 2014.

The residues from the production processes are reused or disposed of in a number of ways as shown in the figure. Where possible, process residues are used to generate energy for the pulp and paper manufacturing process. In 2015, 78% of the waste was used as bio-fuel, on the same level as in 2014. Other residues, for example ash, are used in concrete or brick making, or in road construction. Agricultural re-use is also an option for some ash and organic materials. Part of the production residues are deposited in landfills. Many of our mills participate in projects to find alternative or additional methods of reusing the by-products from the production processes. Hazardous waste amounted to 314 tonnes in 2015, down 30% from last year. Hazardous waste is disposed through authorized collection systems in accordance with national regulations.

WATER DISCHARGES

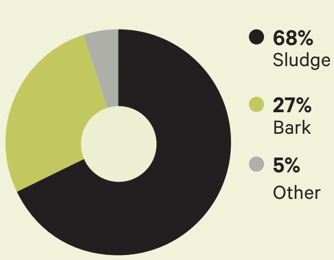
Water is generally used and recovered multiple times through the pulp and papermaking processes before finally being discharged to a number of treatment stages. These treatments remove solid particles as well as dissolved organic material, making the water suitable for safe return to the natural environment. In 2015, water discharge from the production process per tonne of paper was down 1% compared to 2014. The discharges of dissolved organic material and suspended matters per tonne of paper was down by 3% and 5% compared to 2014. The discharge of nitrogen and phosphorus increased by 9% and 1% compared to 2014. The difference in results from one year to the next is the result of many factors, including process improvements, utilization of equipment, production issues and product changes.

During 2015, the mills Norske Skog Saugbrugs, Norske Skog Albury and Norske Skog Tasman reported to the local authorities that they had incidents resulting in exceeding permit limits linked to the quality of discharged water. None of these overruns resulted in sanctions from the authorities.

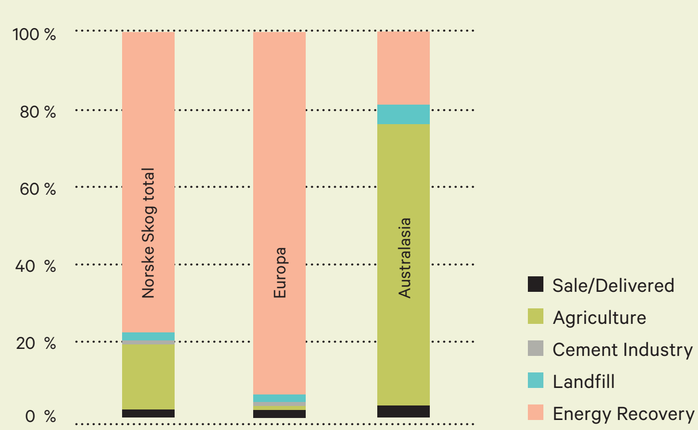
Norske Skog does not use bleaching chemicals containing chlorine in any mills. Chlorinated organic compounds are therefore not created and AOX is not included in our emission reporting.

PRODUCTION WASTE

Total 379 500 tonnes

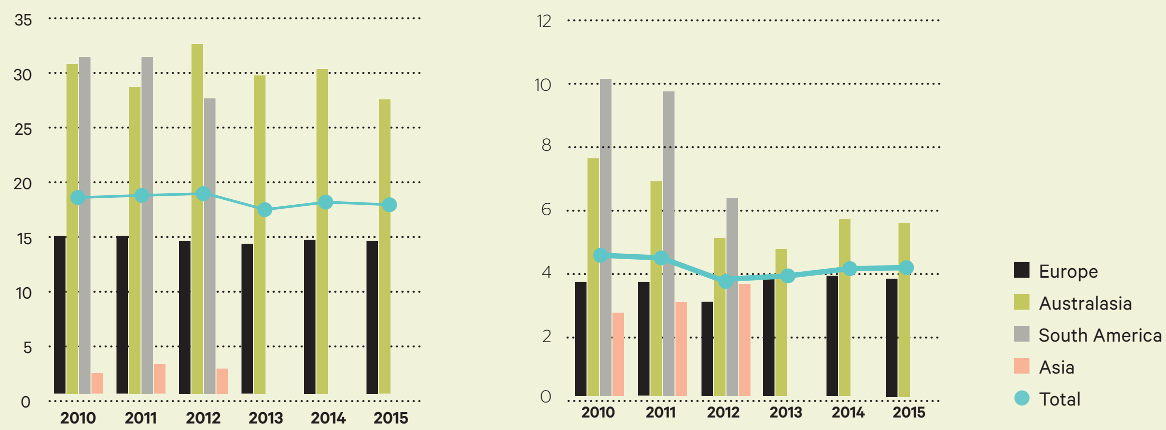


DISPOSAL OF MILL PRODUCTION WASTE



TRENDS IN DISCHARGES OF ORGANIC SUBSTANCES (COD)
per tonne of paper

TRENDS IN DISCHARGES OF WASTEWATER
per tonne of paper



Mill figures

		Bruck	Golbey	Saugbrugs
PRODUCTION				
Paper	1 000 tonnes	374	509	413
CONSUMPTION				
Roundwood	1 000 m^3	215	191	540
Sawmill chips	1 000 m^3	0	304	154
Recovered paper	1 000 tonnes	197	428	0
Purchased pulp	1 000 tonnes	29	0	30
Pigments and fillers	1 000 tonnes	101	18	114
Electric power	MWh/tonne	1.17	1.65	2.50
	GWh	438	838	1 031
Thermal energy[1)]	GJ/tonne	4.14	5.71	6.10
	TJ	1 548	2 905	2 517
DISCHARGE TO WATER				
Treated process water	m^3/tonne	13.2	10.6	18.1
	1000 m^3	4 921	5 411	7 470
Organic material (COD)	kg/tonne	3.0	1.7	6.5
	tonnes	1 136	870	2 665
Suspended solids (SS)	kg/tonne	0.3	0.1	0.8
	tonnes	104	52	322
Phosphorus (tot-P)	g/tonne	4.5	10.9	15.3
	tonnes	1.7	5.6	6.3
AIR EMISSIONS [2)]				
CO_2-e (fossil) (total direct)	tonne/tonne	0.481	0.050	0.004
CO_2-e (fossil) (indirect)	tonne/tonne	0.000	0.124	0.015
CO_2-e (fossil) (total)	1000 tonnes	181	88	8 177
WASTE [3)]				
Waste to landfill	kg/tonne	1.16	0.11	19.11
	tonnes	432	56	7 886
MANAGEMENT SYSTEMS				
Environmental MS [4)]	Certificate	ISO/EMAS	ISO	ISO
CoC-systems	Certificate	PEFC/FSC	PEFC/FSC	PEFC/FSC
FORESTRY CERTIFICATION [5)]				
Certified (PEFC or FSC)	%	93	65	89

[1)] Includes heat recovered from the production process
[2)] Emissions from production, internal transport and purchased energy (Scope 1&2 / CEPI toe 3&6)
[3)] Production waste (organic and inorganic)
[4)] ISO = ISO 14001, EMAS = EU Eco management and audit scheme
[5)] Of the quantity roundwood + sawmill chips + purchased pulp

Skogn	Albury	Boyer	Tasman
416	261	249	144
553	415	500	37
174	10	0	291
123	96	0	0
0	0	7	0
32	0	51	5
2.44	2.49	2.79	3.28
1 014	650	697	472
5.76	6.77	7.78	8.44
2 395	1 765	1 940	1 215
14.9	10.6	32.8	49.9
7 062	2 753	8 183	7 178
4.1	2.3	10.4	2.2
1 715	596	2 591	313
0.6	0.1	1.4	0.8
258	21	344	110
22.1	3.0	45.4	n.r.
9.0	0.8	11.3	n.r.
0.008	0.206	0.840	0.002
0.015	2.217	0.335	0.891
9	632	293	129
46.70	6.68	69.14	3.44
19 400	1 743	17 244	495
ISO	ISO	ISO	ISO
PEFC/FSC	PEFC	FSC	FSC
89	78	99	60

TO THE MANAGEMENT OF NORSKE SKOGINDUSTRIER ASA

Independent auditor's report

We have reviewed the environmental information presented in Norske Skog's 2015 Annual Report, pages 19 - 40 ("the Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters.

We believe that our work provides an appropriate basis for us to conclude with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

CONCLUSION

Based on our review, nothing has come to our attention causing us not to believe that:

- The environmental aspects presented in the Report comprise the most significant ones at corporate level.
- Norske Skog has applied procedures, as summarised on page 40, for the purpose of collecting, compiling and validating environmental data from its reporting units for inclusion in the Report.
- The aggregated information accumulated as a result of the procedures noted above is consistent with the data reported from reporting units and appropriately reflected in the Report.
- The environmental information for 2015 reported from a sample of two reporting units (Norske Skog Golbey and Norske Skog Albury) was reported according to the procedures noted above and was consistent with the source documentation presented to us.
- Norske Skog applies a reporting practice for its environmental reporting aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, version G4, reporting principles. The GRI Index referred to on page 40 in the Report appropriately reflects where relevant information on each of the elements and performance indicators of the GRI guidelines is to be found within the Norske Skog Annual Report 2015. The UN Global Compact table referred to on page 40, appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2015.

Oslo, 31 March 2016
Deloitte AS

Eivind Skaug
State Authorized Public Accountant

Frank Dahl
Deloitte Sustainability

Environment and corporate social responsibility reporting

The environment report contains information which Norske Skog believes covers the material environmental aspects of the value chain of the company's activities. Environmental data for 2015 includes the 100% owned mills at 31 December 2015 and figures compared to the same 100% owned mills in 2014.

Environmental data has been collected from the mills using established reporting routines. These include monthly standardised reporting for the key environmental data as well as a standardised collection of supplementary information on an annual basis. The monthly reporting includes production, consumption of raw materials, energy consumption, emissions and discharges and waste. Data from this reporting is collated by the environment manager on the group level in standardised monthly reports to the corporate management and to the board quarterly. The basis and methodology for the reporting on greenhouse gas emissions and the Environmental Index is described on pages 31 and 33. The figures in the environmental report are collated and processed to make the presentation of data as uniform and practical as possible.

Norske Skog also supports the work to develop a global standard for reporting of sustainable development. We therefore use the Global Reporting Initiative's (GRI) guidelines for reporting relating to sustainability as a tool in our work to report environmental and corporate responsibility. Our reporting practice is, in our view, for all practical purposes in line with the GRI reporting principles. On our website, (www.norskeskog.com/gri.aspx), there is a GRI table containing references to where in the annual report relevant information about the various aspects and indicators in GRI can be found. In our opinion, our reporting for 2015 is in accordance with level CORE of GRI-G4.

Norske Skog is committed to contribute to sustainable development. We have signed the UN Global Compact, are members of Global Compact Nordic Network (GCNN), where participants from Denmark, Finland, Norway and Sweden discuss common challenges and the implementation of the ten principles in the UN Global Compact. There is a UN Global Compact table, with reference to where in the annual report relevant information about the ten principles can be found, on our website (www.norskeskog.com/globalcompact.aspx).

REPORT OF THE BOARD OF DIRECTORS

Norske Skog is one of the leading producers of publication paper in the world, with an annual production capacity of 2.7 million tonnes. Publication paper is the most established medium for distribution of content and advertisements, typically in the form of newspapers and magazines. The group is geographical diverse with production sites in Europe and Australasia. In Europe, the group has four production sites, two in Norway and one in France and 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 1.2 million tonnes newsprint and 0.8 million tonnes magazine paper. Norske Skog acquired its Australasian assets in 2000 and only produced newsprint in the region for a number of years. However, through the conversion of one of its newsprint machines, the group has since 2014 also produced magazine paper in Australia. Today, the production capacity in the 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.

New technologies for distribution of content and advertisements have reduced the usage publication paper. The universality of the internet and penetration of handheld devices have made content available instantly and everywhere. As a result, world demand for publication paper peaked 10 years ago and has since experienced a secular decline. Demand for publication paper is however also cyclical, through ad spending and propensity to buy newspapers and magazines. Actual demand alternates around the secular trend pending on the business cycle.

The new electronic mediums have been successful in gaining market share through readership. On the revenue side however, paper has retained, surprisingly to many, a strong position. The vast majority of publishers, all with online editions of their publications, still see the lion's share of their revenue generation from the print edition. For newspapers, this figure is in excess of 90%.

Paper is old, but not old fashioned. Paper has unique characteristics in achieving attention for advertising and readability for knowledge transferral. The ubiquity advantage of the internet also brings challenges in the ability to stand out. Advertisers increasingly turn to paper to gain attention. Reading on paper brings no disturbances, it is you and the text and no temptations a click away. Turning pages engages you more than scrolling. Numerous research studies shows paper to be the better medium to deliver and obtain knowledge. A fact leading schools are taking to heart.

Everyone knows that paper is made from trees. Less known is that trees are abundant and that the environmental challenge is not to preserve trees, but to manage forests. There is today more forest land in the world than ever before. Wood is an underutilized resource. And to state the obvious, forest land management and rainforests preservation have nothing in common.

Paper is a renewable product, made from recycled paper and managed forest land. No material is more recycled than publication paper at in excess of 70%. The carbon footprint is very competitive to digital devices. It is energy intensive to produce paper from wood, much less so from recycled paper. Once produced, paper consumes no energy. A book will last generations in caring hands. An e-reader is energy intensive to produce, needs regular re-charging and no caring hands will ever make it last a generation.

The global economy has always experienced challenges, but particularly so since the financial crisis in 2008. Over the last decades, the supply shock from the entry of China to the world economy changed the economic order. Energy and raw material needs for the rising giant and its capacity for production of consumer goods disrupted producers, distributors and retailers in mature economies. The abundance of high quality, low price consumer goods made inflation targets difficult to reach. Ever lower interest rates to balance money with goods, encouraged investments and asset inflation. A build-up of excessive capacity resulted in numerous industries. Growth from excess is challenging. An outlook for modest growth seems likely.

As opposed to many industries, the publication paper industry has lived with declining demand for a decade. As such, the industry is adept at cost efficiencies and portfolio optimization. Reflecting recent capacity closures and announcement of conversion of capacity, the market balance is encouraging with price recovery in 2016. And benefitting from overcapacity in energy industries, production costs are easing.

NORSKE SKOG IN 2015

Norske Skog reached lower levels of gross operating earnings in 2015 compared to previous year, reflecting an industry fight for market share in Europe, declining demand in Australasia and historically low prices for newsprint in Asia. The group is the sole producer of publication paper in Australasia, with better domestic margins compared to exports reflecting a considerable competitive advantage. A smaller domestic market in Australasia results in more exports to lower margin Asian markets.

In February 2015, Norske Skog completed a refinancing of the group. The transactions involved the issuance of new secured debt, an extension of existing bond maturities and deleveraging. Upon completion, the group was fully funded with the newly issued secured debt trading above par. As part of refinancing, the structure of the debt in the group was also changed as two new holding companies were established, Norske Skog Holding AS and Norske Skog AS. Norske Skog Holding AS issued the EUR and USD exchange notes due in 2021 and 2023 respectively. Norske Skog AS issued the Senior Secured Notes (SSNs). The SSNs are secured by assets pledges in Australiasia and share pledges in the European operating companies. The exchange notes are guaranteed, but are structurally subordinated to the SSNs. The remaining debt in Norske Skogindustrier ASA remains unsecured.

However, the focus on market share in the European industry adversely affected publication paper prices beyond what anyone had foreseen as several producers preferred retaining volume to profitability. Reference prices in Germany, the largest market, declined by 15% in May 2015. Given the group's size and its exposure to the European market, the impact on revenue and cash flow was dramatic. As a reference, a 1% change in European pricing of publication paper across grades reduces the group's gross operating earnings by close to NOK 100 million. The resulting zero margin environment in Europe shifted more export volumes, exacerbating the price decline in Asia.

In June last year, Norske Skog ceased to provide financing to the cash negative Walsum operations in Germany. The Walsum operations are no longer part of the group.

In the midst of the significant shortfall in cash generation in 2015, the group prepared for new financing and refinancing through the autumn of last year. In March and April of this year, certain transactions were completed which included new liquidity facilities, an extension of debt maturities, deleveraging, reduced cash interest payments and issuance of new equity. Coupled with improved operations and outlook, Norske Skog is now on an improved financial footing.

Norske Skog launched several growth initiatives beyond publication paper last year. A biogas facility is currently under construction at the Saugbrugs site in Norway and the group is progressing on biogas projects at other sites. The group also acquired the pellets producer Nature's Flame in New Zealand, the domestic market leader, and has ramped up production for exports. Norske Skog will consider extending pellets production to the newsprint site in New Zealand. And lastly, but not least the group last summer entered a joint venture for the conversion of the Bruck newsprint machine in Austria to tissue paper production. Since then the project has progress well with all permits in place and ground work completed. Regrettably, however the partnership did not develop as intended and Norske Skog is currently in discussions with alternative partners. Upon completion of the conversion, the adjacent magazine paper machine at Bruck will continue to produce publication paper.

INCOME STATEMENT AND CASH FLOW

During 2015 a number of factors impacted the income statement and cash flows. Operating revenue decreased following lower production and sales volumes compared to previous years. Demand for newsprint and magazine paper in Europe decreased more than expected in the first half, but improved somewhat in the second half. In Australasia the decline in demand was in line with expectations. Reflecting weak publication paper markets in Europe and Australasia prices declined in the first part of the year, particularly in Germany impacting profitability for the European units but also in Asia prices declined considerably, impacting profitability of export sales from Australia and New Zealand. This also contributed to reduced revenue compared to previous years.

The mills reduced their capacity utilization to avoid low margin sales and to support the company's commercial policy which in turn led to lower utilization rates for the mills. In second half, prices stabilized and some price increases were implemented for certain paper grades as well as announcement of further increases. Capacity utilization increased in the second half due to the seasonal demand as well as the effects of the closures in the first half. Despite a slight improvement in the second half the lower sales volumes and prices more than outweighed positive foreign exchange rate effects on product prices, resulting in reduced gross operating earnings.

Norske Skog's operating revenue in 2015 was NOK 11.5 billion (NOK 12.2 billion in 2014). The reduction reflected lower prices and volumes and reduced production capacity, partly due to Walsum no longer being part of the group in the second half of the year. Delivery volumes were down 7% to 2.4 million tonnes, with challenging markets and reduced volumes from Walsum, compared to the previous year.

The weaker NOK in 2015 compared to 2014 had a positive effect on revenue generation, as close to all volumes are sold in foreign currencies. On the cost side however, the NOK depreciation had the opposite effect. Variable costs per tonne were higher, while fixed costs were lower despite the currency headwind.

The net positive currency effect was not able to offset the impact from lower prices and volumes. Gross operating earnings declined to NOK 753 million in 2015 (NOK 801 million). Gross operating margin was 6.5% in 2015 compared to 6.6% in 2014. The impact of reduced volumes and selling prices was approximately NOK 700 million. This negative effect was almost offset by reduced variable and fixed costs of approximately NOK 250 million and favourable movement of currencies and other smaller effects of approximately NOK 400 million.

Depreciation was NOK 767 million in 2015 (NOK 735 million). Restructuring expenses in 2015 amounted to NOK 53 million (NOK 4 million), mainly due to de-manning. Other gains and losses in 2015 were NOK -97 million (NOK 3 million), largely reflecting discontinued operations at Walsum.

Operating earnings were NOK -165 million in 2015 (NOK 65 million). The decline reflected the negative impact from restructuring expenses and other gains and losses.

Financial items in 2015 were NOK -801 million (NOK -1 357 million). Net interest expenses were NOK 918 million in 2015 (NOK 601 million). Net unrealised/realised loss on foreign mainly related to translation effects on debt denominated in foreign currencies were NOK -719 million in 2015 (NOK -690 million). The currency losses mirrored NOK depreciation. In the first quarter of 2015 a net gain of NOK 857 million was recognized following the completion of the refinancing in February and is included as part of financial income of NOK 893 million.

Income taxes recognized in the income statement for 2015 amounted to NOK -520 million (NOK -213 million). This included a non-cash write-off of deferred tax assets of NOK 482 million.

Loss for the period was NOK 1.5 billion in 2015 (NOK -1.5 billion). Earnings per share in 2015 were NOK -8.0 (NOK -7.9).

Net cash flow from operating activities was NOK -777 million in 2015 (NOK 200 million). Net cash generated from operations was NOK 116 million (NOK 989 million) reflecting the challenging operating environment in 2015. Cash from net financial items, primarily interest payments, was NOK -843 million (NOK -747 million), while taxes paid was NOK -50 million (NOK -42 million).

In 2015 Norske Skog impairment tested fixed assets as in previous years. The Board of Directors concluded that there was sufficient head-room to support the existing book values of the fixed assets, based on applicable accounting standards, valuation principles and industry outlook. The impairment model considers three distinct scenarios for the European publication paper industry and the impact of these scenarios are applied to the current portfolio of assets. One scenario is backward looking, assuming a return to 2015 prices levels and cash negative margins as observed in the industry in last year (15% weight). The middle scenario assumes a cyclical uptick with prices above cash cost (50% weight), while the third scenario considers the effects from a consolidation of the industry (35% weight). In calculating impairment values, the cash negative scenario is unsustainable for the industry and has therefore been assigned the lowest probability. The middle scenario has been assigned the highest probability as this is considered most rational for the current industry structure and its participants supported by the price improvements observed. The industry is fragmented with a number of producers and with a clear need for consolidation. A consolidated scenarios assumes cost synergies in the industry are harvested. This has been assigned a probability between the other scenarios. As a consequence of continuous focus on cost reductions and portfolio optimization over many years Norske Skog has according to industry costs curves better than average and more competitive business units. The current book value per tonne for the asset portfolio of the group has been compared and are in line with, European peers. The company believes that the price and margin seen in previous years will not be sustainable. This view is supported by several capacity closures and conversion projects in the industry reflecting cash negative production of publication paper. This reduced capacity is expected to provide a basis for continued higher operating rates and improved profitability.

BALANCE SHEET

In February 2015 Norske Skog completed the issuance of a new EUR 290 million Senior Secured Notes (SSNs). Proceeds from the SSNs were used in a subsequent exchange offer to notes with maturities in 2015, 2016, 2017 and 2033 and for general corporate purposes. In the exchange, notes holders were offered a mix of cash and new notes in 2021 and 2023. Following the exchange, maturities of approximately NOK 1.8 billion were extended and immediate deleveraging of close to NOK 500 million was achieved. Net interest bearing debt also was reduced by NOK 367 million as the new notes were recognised at fair value, which was lower than the nominal amount. The difference between fair value and nominal amount is amortised over the duration of the notes.

Total assets were NOK 12.7 billion at 31 December 2015 (NOK 14 billion). Total non-current assets were NOK 9.5 billion at 31 December 2015 (NOK 10.7 billion). The reduction of NOK 1.2 billion reflected depreciation, disposals and deconsolidation of Walsum. Investments in property, plant and equipment were NOK 180 million in 2015 (NOK 274 million). Investments in 2015 mainly relates to operational capital expenditure but included the acquisition of Nature's Flame in New Zealand and in 2014 the completion of development projects at Saugbrugs in Norway and Boyer in Australia.

Total current assets were NOK 3.2 billion at 31 December 2015 (NOK 3.3 billion). The decrease reflected lower inventories and cash balances.

Total non-current liabilities were NOK 9.0 billion at 31 December 2015 (NOK 8.5 billion). Net interest-bearing debt, the main portion of non-current liabilities, increased by NOK 1.1 billion through 2015 and amounted to NOK 8.5 billion at 31 December 2015. The increase primarily constituted a non-cash currency loss on foreign denominated debt from the depreciation of the Norwegian krone. In October 2015, the remaining outstanding amount on a USD bond was redeemed at maturity.

Current liabilities decreased by approximately NOK 300 due to the net effect of reclassification of NOK 502 million from non-current to current liabilities and reduced trade and other payables.

Equity was NOK -229 million at 31 December 2015 (NOK 1 285 million). The decrease reflected loss for the period. Equity per share was NOK -1.2 at 31 December 2015 (NOK 6.8).

DIVIDEND PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend is disbursed for the financial year 2015.

SEGMENT ACTIVITY AND MARKET DEVELOPMENT

Norske Skog's reporting structure in 2015 provided segment information for publication paper Europe and publication paper Australasia. Other activities largely comprise costs above the segment level.

Demand for newsprint and magazine paper declined in 2015. World demand for newsprint and magazine paper decreased by 9% and 6% respectively. The weak growth in the world economy amplified the structural decline in publication paper demand. Capacity closures in the industry have however led to high capacity utilization and price increases into 2016.

PUBLICATION PAPER EUROPE

The segment constitutes Norske Skog's European operations with sites in Norway, France and Austria. Annual production capacity is 2.0 million tonnes.

Operating revenue was NOK 8.1 billion in 2015 (NOK 9.0 billion). Gross operating earnings were NOK 413 million (NOK 582 million). The decline reflected lower prices and volumes as several producers in the industry were fighting for market share. Sales volumes for the group were down 11% to 1.8 million tonnes as production was reduced in the low pricing environment. Walsum, which is no longer are part of the group, contributed negatively to gross operating earnings in 2015. A weaker NOK is 2015 compared to 2014 was favourable to revenue generation, but had the opposite effect on reported costs. Fixed costs were however reduced despite the currency headwind reflecting ongoing cost initiatives and portfolio optimization. Demand for newsprint and magazine paper in Europe was 6% and 5% lower in 2015 respectively, compared to the year before. Capacity utilization in the segment Publication Paper Europe was 82% in 2015 (87%).

PUBLICATION PAPER AUSTRALASIA

The segment consists of Norske Skog's operations in Australasia with sites in Australia and New Zealand. Annual production capacity is 0.7 million tonnes.

Operating revenue in 2015 was NOK 3.4 billion (NOK 3.2 billion). Gross operating earnings were NOK 361 million (NOK 287 million). The increase reflected the first full year of magazine paper production at Boyer in Australia, following ramp up of the machine through 2014. The Improvement was mitigated by significantly lower export prices for newsprint in Asia and a smaller domestic market in Australasia with secular decline in demand. The group has a considerable competitive advantage in Australasia as the sole domestic producer and hence favourable margins. Sales volumes increased by 5% to 0.6 million tonnes. A weaker NOK in the year compared to previous year increased the revenue line, but had the opposite effect on costs. Demand for newsprint in Oceania decreased by 15% in 2015, while demand for magazine paper declined by 1%. Capacity utilization in the segment Publication Paper Australasia was 91% in 2015 (92%).

OTHER ACTIVITIES

Other activities mainly consist of unallocated group costs and purchase and resale activities to the business units and Green Energy.

PROFITABILITY IMPROVEMENTS, FINANCIAL POSITION AND THE GOING CONCERN ASSUMPTION

The market balance for publication paper in Europe is improved in 2016 compared to last year, following capacity closures in the industry, which has contributed to high operating rates and better pricing across all publication paper grades. Recent announcements of further capacity closures and conversion projects in Europe, North America and Asia, is expected to support continued high operating rates in the industry. In Australasia, the domestic prices are stable with a considerable element of long term contracts, while Asian newsprint prices are benefitting from less exports from European and North American markets.

NOK depreciated through 2015 with a correlation to lower oil prices. Norske Skog has one third of its total production capacity located in Norway and exports nearly all the volume in foreign currencies. Financially the group is thus net short NOK and benefits from a depreciation as an exporter. Lower oil prices influence energy markets in general, leading to reduced variable costs for the group. Fixed costs are expected to be at a lower level in 2016, reflecting cost initiatives through last year, which continue, and portfolio optimisation. The current portfolio of assets are among the best in Europe from an operational and cost perspective. This is expected to contribute to improved profitability for the group.

In the course of the challenging operating environment in 2015 and the impact this had on operating earnings and cash flow, the company has worked actively with financing solutions through the autumn of last year and the spring of 2016. The protection of value for all stakeholders, only possible with the group continuing as a going concern, was the overriding principle. To achieve this, the financing discussions focused on the needs of the company for deleveraging, maturity extension, a reduction in cash interest payments and improved operational liquidity.

Among the financing solutions reached to date included an exchange offer to 2017 noteholders, issuance of new equity, the replacement and enlargement of an existing accounts receivables (AR) facility and other liquidity measures.

At the end of March 2016 Norske Skog executed a New Securitization Facility (NSF) of EUR 100 million with GSO and Cyrus replacing previous NOK 250 million AR facility with Sparebank1. The NSF is secured by receivables and inventory of the mills of Norske Skog Saugbrugs AS and Norske Skog Skogn AS, the inventory of the mill of Norske Skog Golbey SAS and certain bank accounts. Beyond replacing the Sparebank1 facility, the proceeds from the NSF will exclusively be used to fund working capital and other operational liquidity needs for Norske Skog AS and the operating subsidiaries.

In a separate transaction at the end of March 2016, Norske Skogindustrier ASA issued 63 million new shares to GSO and Cyrus at a price of NOK 2.24 per share. Total proceeds in cash amounted to NOK 142 million. The equity issue enhanced the group's equity and liquidity position. On 21 April the the board of directors announced the details of the repair issue to repair for the dilutive effect of the private placement completed on 31 March 2016. The repair issue will be directed to the company's shareholders registered on 22 April 2016. Shareholders who have the right to subscribe for shares in the repair issue will have the right to be allocated 0.1925 shares for each share that the shareholder holds at the subscription price of NOK 2.24. If all shares are subscribed this will provide the company with approximately NOK 70 million in new equity. The repair offering subscription period is expected to be completed end of May 2016. Furthermore the board of directors will ask shareholders for a renewed 50% authority for share capital increase at the annual general meeting on 25 May.

In April 2016, the exchange offer to 2017 noteholders was successfully completed with more than three quarters of holders voting in favour. Given the large acceptance, the offer was binding for all 2017 noteholders. All the remaining 2017 notes, amounting to EUR 218 million, were thus exchanged into a combination of new 2026 notes, perpetual notes with maturity in 2115 and a right to subscribe in cash for ordinary shares of the company. The completion of the exchange offer resulted in an immediate deleveraging and reduced net interest bearing debt and improved group equity by more than NOK 1 billion and reduced annual cash interest payments by more than NOK 100 million.

The group has initiated a number of liquidity generating initiatives including the divestment of the group's Tasman geothermal power. The group has obtain commitments for interim financing of up to €20 million in connection with the sale of the geothermal plant. Other liquidity generating initiatives includes to free up trapped cash in the group of up to EUR 10 million and liquidity available from optimization of working capital and existing factoring facilities. The group has factoring facilities with a total frame of around EUR 70 million of which currently 2/3 is utilised.

The board of directors believes that the combination of improved profitability and hence cash flow from operations as well as reduced cash interest payments is expected to facilitate the ability to service the capital structure in years to come. The Board will decide on the group's ability to complete the redemption of the 2016 bond in June based on cash balances, various liquidity initiatives and improved cash flow from operations in first half of 2016. The present amount outstanding on the 2016 bond is EUR 74 million following buy-backs in April.

Following the redemption of 2016 notes, the group will have no bond maturities until December 2019. This enables Norske Skog to concentrate all efforts in developing and improving its business units and continue work to restructure and consolidate the European publication paper industry. The board of directors will have a continuous focus on operational performance through 2016 and onwards. To date in 2016, the operating environment has continued to improve compared to last year. The board of directors are however fully aware of the inherent uncertainties with respect to operating environments, challenges for the world economy and risks for global financial turmoil. The board of directors recognizes the challenging industry Norske Skog operates in and the remaining high financial leverage of the group, and the exposures to various risks that could impact the financial performance, liquidity and equity. The factors are an inherent uncertainty when the board makes its assessments. 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 as well as uncertainty with regards to working capital movements and increased restrictions on cash balances. 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. 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 2016. Nevertheless, the board of director's is confident that its assessment of the current and expected market conditions in 2016 is realistic given facts at hand.

Based on current knowledge with respect to the operational outlook, the improved liquidity of the group, both in the form of increased cash balances, reduced cash interest payments and extended bond maturities, and the improved group equity the board of directors is of the of the opinion that Norske Skog is in an improved financial position for 2016 and going forward. However, given the challenging industry and that the level of equity at year end 2015 is inadequate the board of directors will continue working to improve all of the mentioned elements further.

In accordance with the provisions in the Norwegian Accounting Acts the board has assessed the going concern assumption as basis for preparing and presenting the financial statements. The board of directors has assessed the completed transactions as of this date as well as the likelihood of the completion other subsequent transactions, the uncertainty described above and the potential impact both on liquidity and equity and its importance 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 2016. 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.

As a consequence of a write-off of tax assets in Norway and Australasia as part of the year-end consolidated financial statements, the equity of Norske Skog is negative and hence fell below 50% of the share capital at 31 December 2015. The Board of Directors does not believe that such a level is sufficient for the group. Following the completion of the exchange offer to 2017 noteholders and the issuance of new equity, the group equity level has been improved by more than NOK 1 billion. In accordance with the requirements of the Norwegian Public Limited Liability Companies Act section 3-5, the board of directors will account for Norske Skog's financial position at the upcoming annual general meeting (AGM) in May 2016.

ORGANISATION

BOARD OF DIRECTORS

Norske Skog's board of directors consists of Jon-Aksel Torgersen (chair), Eilif Due, Joanne Owen, Nils Ingemund Hoff and three employee-elected representatives Paul Kristiansen, Svein Erik Veie and Cecilie Jonassen. The board is elected by the general meeting. Following the resignation of Siri Hatlen, the Board of Directors does not comply with the requirement of 40% women in the Board. The election and remuneration committee is aware of the situation will take this into consideration when they address this and recommend a new board member so the Board fulfils the requirement following the annual general meeting.

CORPORATE MANAGEMENT

Norske Skog's corporate management consists of Sven Ombudstvedt (president and CEO), Rune Sollie (CFO), Roar Ødelien (COO) and Lars P. Sperre (SVP Corporate Strategy & Legal).

EMPLOYEES

Norske Skog had 2 557 employees at year end 2015 (2 942). The reduction reflected cease of operations as part of Norske Skog at Walsum in Germany

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 1.0 in 2015. Norske Skog had an absence rate due to sickness of 3,8% in 2015.

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, where the aim is to leverage synergies and best practices throughout the group. There is a continued focus on evolution of paper products to market expectations.

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

The paper industry has traditionally had few female employees. The proportion of women in Norske Skog has been stable at around 10% for many years. Norske Skog's board of directors consists of five members elected by the shareholders and three members elected by and among the employees. Following the resignation of one board member there are currently three men and one women among the shareholder elected members. There is one woman among the employee elected representatives. An exception from the gender balance requirement for employee elected board members is granted for companies with a total female percentage of less than 20%. Following the resignation of one board member in February, Norske Skog does currently not comply with the requirement for gender balance on boards of Norwegian public limited companies. The elections committee is working to identify a new member that will be nominated for election at the coming annual general meeting. The group is aware of the increased diversity in the society and the impact this has on recruitment and work environment.

COOPERATION PROJECTS

Norske Skog and environmental foundation Bellona have signed a partnership agreement to create a more environmentally friendly supply chain. The collaboration aims to reduce the environmental impact of production, utilizing logs in a better way and commercializing production of bio energy and bio waste.

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 of the group is amplified by its 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 great geographical diversification. The growth initiatives launched last year will gradually diversify the group 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, open credit lines linked to accounts receivables (AR) facilities at all times and the new financing agreement. Norske Skog carries out continuous efforts to ensure that it obtains the most competitive funding to the group, among other through obtaining the best possible current asset financing such as existing receivables financing.

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 24 in the consolidated financial statements. Corporate governance is described in a separate section of the annual report.

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 Norske Skog's website, 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. All Norske Skog business units have traceability certificates to document the origin of wood.

Norske Skog has determined 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 2016

The market balance for publication paper in Europe is better in 2016 compared to last year, reflecting effects from capacity closures in the industry during 2015. This has led to high operating rates and improved pricing across all publication paper grades. The market balance is continuing to improve with recent announcements of capacity closures adding to the benefits experienced from closures last year. Reflecting closures and planned conversion projects out of publication paper in the industry, European operating rates for newsprint and LWC are expected to remain above 90% in both 2016 and 2017, after taking into account an expected secular decline in demand. This gives momentum to the positive pricing environment. The European SC market is gaining support from closures in North America. The Asian export market for newsprint, of increasing importance to Norske Skog due to a smaller domestic market in Australasia, is encouraging with prices improving. There has also been announcements of capacity closures in Asia.

Favourable energy costs for our European mills and efficiency measures at all mills are expected to reduce variable costs by 2-3% per tonne in 2016. Fixed costs initiatives continue at all mills, towards a run rate level of NOK 600 million per quarter by year end 2016 for the group.

The growth initiatives announced last year will start to contribute to gross operating earnings this year, and is expected to reach full run-rate contribution within a timeframe of 3-4 years.

Following the completion of the exchange offer, equity and liquidity initiatives in spring 2016, debt has been reduced and extended, operational cash balances improved and cash interest payments reduced. This gives the company runway to benefit from a continued cyclical uptick and enable further work to restructure and consolidate the European publication paper industry.

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)

The activities of Norske Skogindustrier ASA consist mainly of corporate functions for other entities in the group. Income of NOK 119 million (NOK 121 million) is primarily intercompany revenue from the services provided. There has been significant downsizing at the corporate headquarters during recent years. This is reflected in the company's lower employee benefit expenses and other operating expenses of NOK -138 million (NOK -184 million).

Financial items amounted to NOK -122 million (-179 million). This item included a net gain of 489 million from the deleveraging following the refinancing completed in first quarter of 2015. The financial items also included net interest costs of NOK -299 million (NOK -578 million) and negative currency effects of NOK -573 million (NOK -903 million). Income taxes is related to deferred tax assets, which has been expensed during 2015.

Net cash flow from operating activities in the parent company was negative with NOK -811 million (NOK -486 million). This amount was very much impacted by financial payments of NOK 447 million (NOK 624 million). The amount was reduced following the refinancing of the group in February 2015 when debt was reduced following the exchange of notes at parent level. At the end of 2015, Norske Skogindustrier ASA had 52 employees, of which 12 were women.

As a consequence of the impairment write-downs made as part of the year-end consolidated financial statement closing process announced earlier and its impact on the financial statements of Norske Skogindustrier, the Company's book equity is negative and hence below 50% of the share capital. In accordance with the requirements of the Norwegian Public Limited Liability Companies Act section 3-5, the board of directors will account for Norske Skogindustrier ASA and the group's financial position in the upcoming annual general meeting in May 2016.

In a separate transaction at the end of March 2016, Norske Skogindustrier ASA issued 63 million new shares to GSO and Cyrus at a price of NOK 2.24 per share. Total proceeds amounted to NOK 142 million. The equity issue enhanced the group's equity and liquidity position. An equity repair offering will be offered to existing shareholders following the private placement.

In April 2016, the exchange offer to 2017 noteholders was successfully completed with more than three quarters of holders voting in favour. Given the large acceptance, the offer was binding for all 2017 noteholders. All the remaining 2017 notes, amounting to EUR 218 million, were thus exchanged into a combination of new 2026 notes, perpetual notes with maturity in 2115 and a right to subscribe in cash for ordinary shares of the company. The completion of the exchange offer resulted in an immediate deleveraging and reduced net interest bearing debt and improved group equity by more than NOK 1 billion and reduced annual cash interest payments by more than NOK 100 million. Various other liquidity initiatives includes divestments of certain assets and a reduction in cash tied up in energy arrangements.

As described above the board of directors recognizes the challenging industry Norske Skog operates in and the remaining high financial leverage in Norske Skogindustrier ASA 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, in its capacity as the ultimate parent company of the group, Norske Skogindustrier ASA is also exposed to the risks of funding from the cash generating operations being available for the parent company when required by way of intragroup loans or other capital transactions such as dividends. The business risk of the company is impact by its high financial leverage which is exposed too currency developments in EUR and USD against NOK.

LOSS ALLOCATION

The net loss for the year for Norske Skogindustrier ASA (the parent company) in 2015 was NOK -1 482 million (NOK -886 million) which has been allocated in its entirety to other paid-in equity. Distributable equity in Norske Skogindustrier ASA amounted to NOK 0 million at 31 December 2015.

SKØYEN 28 APRIL 2016 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Jon-Aksel Torgersen Chair	Eilif Due Board member	Nils Ingemund Hoff Board member
Cecilie Jonassen Board member	Joanne Owen Board member	Paul Kristiansen Board member
Svein Erik Veie Board member	Sven Ombudstvedt President and CEO	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Consolidated financial statements

NORSKE SKOGINDUSTRIER ASA

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CONSOLIDATED INCOME STATEMENT

NOK MILLION	NOTE	2015	2014
Operating revenue	3	**11 538**	**12 150**
Distribution costs		-1 242	-1 249
Cost of materials		-6 876	-7 228
Change in inventories		59	-30
Employee benefit expenses	12	-1 848	-1 908
Other operating expenses	14	-877	-935
Gross operating earnings		**753**	**801**
Depreciation	4	-767	-735
Restructuring expenses	20	-53	-4
Other gains and losses	16	-97	3
Impairments	4	0	0
Operating earnings		**-164**	**65**
Share of profit in associated companies	19	-41	1
Financial income	5	893	16
Financial expenses	5	-975	-684
Net unrealised/realised gains/losses on foreign currency	5	-719	-690
Profit/loss before income taxes		**-1 005**	**-1 291**
Income taxes	17	-520	-213
Profit/loss		**-1 526**	**-1 504**
Profit/loss attributable to:			
Owners of the parent		-1 526	-1 504
Non-controlling interests	21	0	0
Basic/diluted earnings per share (NOK)	22	-8.03	-7.92

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2015	2014
Profit/loss	**-1 526**	**-1 504**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	304	647
Tax expense on translation differences	-280	182
Hedge of net investment in foreign operations	-108	-151
Tax expense on net investment hedge	0	10
Reclassified translation differences upon divestment of foreign operations	0	1
Reclassified hedging gain/loss on net investment upon divestment of foreign operations	95	0
Other items	0	-7
Total	**11**	**681**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	5	-88
Tax effect on remeasurements of post employment benefit obligations	-4	20
Total	**1**	**-68**
Other comprehensive income	**12**	**614**
Comprehensive income	**-1 514**	**-890**
Comprehensive income attributable to:		
Owners of the parent	-1 514	-890
Non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

NOK MILLION	NOTE	31.12.2015	31.12.2014
Assets			
Deferred tax asset	17	0	598
Intangible assets	4	87	92
Property, plant and equipment	3, 4	8 585	9 180
Investments in associated companies	19	374	429
Other non-current assets	10	426	387
Total non-current assets		**9 473**	**10 686**
Inventories	3, 18	1 253	1 334
Trade and other receivables	10	1 357	1 209
Cash and cash equivalents	8	536	710
Other current assets	18	40	39
Total current assets		**3 187**	**3 291**
Total assets		**12 660**	**13 977**
Shareholders' equity and liabilities			
Paid-in equity		12 302	12 302
Retained earnings and other reserves	22	-12 532	-11 017
Non-controlling interests	21	0	0
Total equity		**-229**	**1 285**
Pension obligations	13	276	820
Deferred tax liability	17	610	415
Interest-bearing non-current liabilities	6, 11	7 453	6 592
Other non-current liabilities	18	631	692
Total non-current liabilities		**8 970**	**8 519**
Interest-bearing current liabilities	11	1 676	1 679
Trade and other payables	18	1 921	2 172
Tax payable	17	15	13
Other current liabilities	18	308	309
Total current liabilities		**3 920**	**4 173**
Total liabilities		**12 889**	**12 692**
Total equity and liabilities		**12 660**	**13 977**

SKØYEN 28 APRIL 2016 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Jon-Aksel Torgersen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Cecilie Jonassen
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

CONSOLIDATED STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2015	2014
Cash flow from operating activities			
Cash generated from operations		11 224	12 562
Cash used in operations		-11 108	-11 573
Cash flow from currency hedges and financial items		-22	-99
Interest payments received	5	10	13
Interest payments made	5	-831	-661
Taxes paid		-50	-42
Net cash flow from operating activities [1)]	3	**-777**	**200**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3, 4	-180	-274
Sales of property, plant and equipment and intangible assets		2	4
Dividend received	5	0	1
Purchase of shares in companies and other financial payments		-1	-8
Sales of shares in companies and other financial payments		-28	325
Net cash flow from investing activities		**-206**	**48**
Cash flow from financing activities			
New loans raised		2 614	569
Repayments of loans		-1 853	-1 209
Purchase/sale of treasury shares		0	0
Net cash flow from financing activities		**760**	**-640**
Foreign currency effects on cash and cash equivalents		50	86
Total change in cash and cash equivalents		**-173**	**-306**
Cash and cash equivalents 1 January		710	1 015
Cash and cash equivalents 31 December		536	710

[1)] Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		-1 005	-1 291
Depreciation and impairments	4	767	735
Share of profit in associated companies	19	41	-1
Gains and losses from divestment of business activities and property, plant and equipment	16	102	17
Taxes paid		-50	-42
Change in trade and other receivables		-313	412
Change in inventories		-54	21
Change in trade and other payables		-152	37
Change in restructuring provision		38	-149
Financial items with no cash impact		-42	610
Gains and losses on commodity contracts and embedded derivatives	16	-9	-42
Value change biological assets	16	6	9
Disposal and repurchasing of renewable energy certificates		-37	-37
Change in environmental provisions with no cash impact		-27	-9
Change in pension obligations and other long term employee benefits		-25	-41
Other		-16	-29
Net cash flow from operating activities		**-777**	**200**

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	PAID-IN EQUITY	RETAINED EARNINGS	HEDGE ACCOUNTING	OTHER EQUITY RESERVES	TOTAL BEFORE NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Equity 1 January 2014	**12 302**	**-10 205**	**-190**	**269**	**2 175**	**0**	**2 175**
Profit/loss	0	-1 504	0	0	-1 504	0	-1 504
Other comprehensive income	0	0	-141	755	614	0	614
Equity 31 December 2014	**12 302**	**-11 708**	**-331**	**1 023**	**1 285**	**0**	**1 285**
Profit/loss	0	-1 526	0	0	-1 526	0	-1 526
Other comprehensive income	0	0	-108	120	12	0	12
Equity 31 December 2015	**12 302**	**-13 234**	**-439**	**1 142**	**-229**	**0**	**-229**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Norske Skogindustrier ASA ("the company") and its subsidiaries (together "the group") manufacture, distribute and sell publication paper. This includes newsprint and magazine paper. The group has eight fully and partly owned mills in six countries.

Norske Skogindustrier ASA is incorporated in Norway and has its head office at Skøyen outside of Oslo. The company is listed on the Oslo Stock Exchange. The consolidated financial statements were authorised for issue by the board of directors in Norske Skogindustrier ASA on 28 April 2016.

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. With respect to the material uncertainties assessed in that connection, please refer to Note 8, subsection Going concern and liquidity. 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 (2015 and 2014) and the closing exchange rates (31 December 2015 and 31 December 2014) applied in the balance sheet for the most important currencies for the Norske Skog group.

	Income statement		Balance sheet	
	2015	2014	31.12.2015	31.12.2014
AUD	6.06	5.68	6.45	6.09
EUR	8.94	8.36	9.62	9.04
GBP	12.32	10.37	13.07	11.57
NZD	5.63	5.22	6.04	5.83
USD	8.06	6.30	8.81	7.43

Change in accounting classification of financed amount from securitisation arrangements
Norske Skog's has made a smaller change in accounting classification of the financed amounts from securitisation arrangements in Norway, France and Australia with effect from fourth quarter 2015. Comparative figures for 2014 have been updated. The change in accounting classification implementation effects is further described in Note 11.

2. ACCOUNTING POLICIES

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

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

CONSOLIDATION
a) Basis of consolidation
The consolidated financial statements comprise the financial statements of the Norske Skog group and its subsidiaries as at 31 December 2015. Control is achieved when the Norske Skog group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Norske Skog group controls an investee if, and only if, the Norske Skog group has:

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

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

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

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

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

b) Associates

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

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

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

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

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

SEGMENT REPORTING

Reportable segments

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

Activities that are not part of the operating segments are included in other activities. During 2015 green energy, including Nature's Flame, has been included in other activities. Nature's Flame is a New Zealand based wood pellets producer, acquired in June 2015.

Accounting policies applied in the segment reporting

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

Performance measurement

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

Intercompany transactions

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

FOREIGN CURRENCY TRANSLATION

a) Functional and presentational currency

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

b) Transactions and balances

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

Exchange differences arising from the settlement of accounts receivable/payable and unrealised gains/losses on the same positions are recognised in Operating revenue/Cost of materials respectively. Exchange differences arising from the settlement of other items are recognised within Financial income/Financial expenses.
Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Financial income/Financial expenses.

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.

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. 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.

Accounting for derivatives follows the intentions underlying the associated contract. At the time a contract is entered into, it is defined as either a hedging or a trading contract.

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 the first-in, first-out (FIFO) method, or average purchase price. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

TRADE RECEIVABLES

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

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.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between 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 in the income statement.

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) Share-based remuneration

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

c) Bonus arrangements

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

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.

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. Revenue is shown net of value added tax, returns, rebates and discounts 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.

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.

EMISSION RIGHTS

There is no accounting standard or interpretation in IFRS regarding the accounting treatment for emission allowances or renewable energy certificates. Received allowances are recognised in the balance sheet as intangible assets at the market value on the date the rights are granted. The difference between fair value and the nominal amount paid for the rights is recognised in the balance as a government grant (deferred income).

Emissions are recognised in the income statement as Cost of materials, and the government grant (deferred revenue) is recognised concurrently with emission costs at the carrying value of each certificate. Unused credits (deferred income) and used allowances are netted against the carrying amount of intangible asset recognised in the balance sheet, when the individual contracts for emission allowances fall due for settlement.

If the received allowances are sufficient to cover the company's emissions, there will be no net cost or net income in gross operating earnings. If it is necessary to acquire additional allowances on the open market, a provision is made based on actual emissions.

If the number of allowances received exceeds actual consumption, the surplus is sold in the market. The gain/loss from the sale is presented as Other gains and losses.

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 2015. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: *Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Norske Skog group, since none of the entities within the group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions that are vesting conditions. The clarifications are consistent with how the Norske Skog group has identified any performance and service conditions that are vesting conditions in previous periods.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Norske Skog group has applied the aggregation criteria in IFRS 8.12. See further information with respect to application of the aggregation criteria in Note 3. The group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 4 in this period's financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision-making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Norske Skog group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Norske Skog group, as it does not receive any management services from other entities.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Norske Skog group is not a joint arrangement, and thus this amendment is not relevant for the group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Norske Skog group does not apply the portfolio exception in IFRS 13.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016. None of these has been early adopted in 2015. New standards and amendments that are expected to have an impact on the consolidated financial statements are listed below:

IFRS 9 Financial instruments

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. IT also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. 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.

IFRS 15 Revenue from contracts with customers

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. A final analysis of the consequences of IFRS 15 has not yet been completed, but the initial assessment have not identified any material impacts.

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. 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 group has not yet assessed the implications on the consolidated financial statements.

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

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the use of accounting estimates and assumptions for the future. It also requires management to exercise its judgment in the process of applying the group's accounting policies. Estimates and assumptions, which represent a significant risk of a material adjustment in the carrying amount of assets and liabilities during the coming financial year, are discussed below.

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

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

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

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

The group performs impairment tests to assess whether there has been a decline in the value of intangible assets and PPE. See Note 4 for further information.

c) Annual assessment of the remaining economic life of PPE

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

d) Provision for future environmental obligations

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

e) Residual value and dismantling provision

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

f) Fair value of derivatives and other financial instruments

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

g) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that the tax assets will be realised. 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 relate primarily to tax losses carried forward in Norske Skog's Norwegian operations. When an entity has a history of recent losses, the deferred tax asset arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated. Estimated future taxable profit is not considered as convincing evidence unless the entity demonstrates the ability of generating significant taxable profit in the near future accounting periods or there are certain other events providing sufficient evidence of future taxable profit. The recognition of deferred tax assets is based on a number of assumptions based on management's best judgments. See Note 17 for further information.

h) Pensions

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

3. OPERATING SEGMENTS

REPORTABLE SEGMENTS

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

At the end of 2015, Norske Skog had eight fully or partly owned paper mills in six countries. One of the mills produce only magazine paper, two produces both magazine paper and newsprint and five mills produce newsprint only.

The activities of the Norske Skog group are focused on two business systems, namely Europe and 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. According to the operating model, all mills have a direct reporting line to corporate management. The mills have been aggregated into two operating segments, publication paper Europe and publication paper Australasia, based on geographical location. 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) and other holding company activities. During 2015 green energy, including Nature's Flame, has been included in other activities. Nature's Flame is a New Zealand based wood pellets producer, acquired in June 2015.

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 2 432 000 tonnes in 2015, of which sales to the group's largest customer constituted approximately 280 000 tonnes. Total sales volume in 2015 of newsprint and magazine paper to the five largest customers in Europe and Australasia amounted to approximately 310 000 and 500 000 tonnes respectively.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

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

2014	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**9 001**	**3 158**	**120**	**-128**	**12 150**
Distribution costs	-864	-385	0	0	-1 249
Cost of materials	-5 452	-1 760	-15	-1	-7 228
Change in inventories	-57	27	0	0	-30
Employee benefit expenses	-1 339	-480	-90	0	-1 908
Other operating expenses	-708	-274	-82	129	-935
Gross operating earnings	**582**	**287**	**-67**	**0**	**801**
Depreciation	-398	-328	-9	0	-735
Restructuring expenses	-2	-2	0	0	-4
Other gains and losses	-5	-33	41	0	3
Impairments	0	0	0	0	0
Operating earnings	**177**	**-77**	**-36**	**0**	**65**
Share of operating revenue from external parties (%)	99	100	1		100

OPERATING REVENUE PER MARKET

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

	2015	2014
Norway	258	289
Rest of Europe	6 625	7 328
North America	603	610
South America	154	143
Australasia	2 988	2 847
Asia	673	610
Africa	236	323
Total	**11 538**	**12 150**

NET CASH FLOW FROM OPERATING ACTIVITIES

	2015	2014
Publication paper Europe	320	426
Publication paper Australasia	172	356
Other activities	-375	208
Total cash flow allocated to segments	**116**	**990**
Cash from net financial items	-843	-747
Taxes paid	-50	-42
Net cash flow from operating activities	**-777**	**200**

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2015	2014
Publication paper Europe	85	147
Publication paper Australasia	70	114
Other activities	25	13
Total	**180**	**274**

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.

	31.12.2015	31.12.2014
Norway	2 513	2 713
Rest of Europe	2 170	2 522
Australasia	3 545	3 642
Activities not allocated to regions	358	303
Total	**8 585**	**9 180**

INVENTORIES

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

	31.12.2015	31.12.2014
Publication paper Europe	810	950
Publication paper Australasia	431	384
Other activities	13	0
Total	**1 253**	**1 334**

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	GOODWILL	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2014	4 753	110	301	5 164
Additions	0	0	81	81
Disposals	0	-9	-158	-167
Reclassified from plant under construction	0	14	0	14
Currency translation differences	0	7	17	24
Acquisition cost 31 December 2014	**4 753**	**122**	**241**	**5 116**
Accumulated depreciation and impairments 1 January 2014	4 695	100	217	5 012
Depreciation	0	2	6	8
Disposals	0	-9	-2	-11
Currency translation differences	0	6	9	15
Accumulated depreciation and impairments 31 December 2014	**4 695**	**99**	**230**	**5 024**
Carrying value 31 December 2014	**58**	**23**	**11**	**92**
Acquisition cost 1 January 2015	4 753	122	241	5 116
Additions	0	0	25	25
Disposals	-1 378	-4	-34	-1 416
Reclassified from plant under construction	0	4	0	4
Currency translation differences	0	5	6	11
Acquisition cost 31 December 2015	**3 375**	**127**	**238**	**3 740**
Accumulated depreciation and impairments 1 January 2015	**4 695**	**99**	**230**	**5 024**
Depreciation	0	2	2	4
Disposals	-1 378	-2	-4	-1 384
Currency translation differences	0	5	4	9
Accumulated depreciation and impairments 31 December 2015	**3 317**	**104**	**232**	**3 653**
Carrying value 31 December 2015	**58**	**23**	**6**	**87**

Goodwill is not depreciated. Licenses, patents and other intangible assets are depreciated over a period from five to 20 years.

Other intangible assets consist mainly of capitalised development costs related to customising of software.

GOODWILL SPECIFIED PER ACQUISITION	ACQUISITION YEAR	31.12.2015	31.12.2014
Norske Skog Golbey	1995	58	58

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2014	271	33 823	7 041	729	514	42 378
Additions	0	14	9	1	253	277
Disposals	0	-3 008	-19	-22	0	-3 049
Change in dismantling provision	0	0	0	0	0	0
Reclassification	0	-148	148	0	0	0
Reclassified from plant under construction	0	183	9	21	-227	-14
Currency translation differences	35	2 669	336	44	51	3 135
Acquisition cost 31 December 2014	**306**	**33 533**	**7 524**	**773**	**591**	**42 727**
Accumulated depreciation and impairments 1 January 2014	115	27 765	4 747	681	45	33 353
Depreciation	0	570	146	11	0	727
Value changes	9	0	0	0	0	9
Disposals	0	-3 000	-19	-21	0	-3 040
Reclassifications	0	-148	148	0	0	0
Currency translation differences	16	2 184	257	40	1	2 498
Accumulated depreciation and impairments 31 December 2014	**140**	**27 371**	**5 279**	**711**	**46**	**33 547**
Carrying value 31 December 2014	**166**	**6 162**	**2 245**	**62**	**545**	**9 180**
Acquisition cost 1 January 2015	306	33 533	7 524	773	591	42 727
Additions	0	27	14	1	144	186
Disposals	0	-4 190	-1 087	-137	-3	-5 417
Change in dismantling provision	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
Reclassified from plant under construction	14	500	13	7	-538	-4
Currency translation differences	19	1 351	263	34	27	1 694
Acquisition cost 31 December 2015	**339**	**31 221**	**6 727**	**678**	**221**	**39 186**
Accumulated depreciation and impairments 1 January 2015	140	27 371	5 279	711	46	33 547
Depreciation	0	600	150	13	0	763
Value changes	6	0	0	0	0	6
Disposals	0	-4 127	-797	-136	0	-5 060
Reclassification	0	0	0	0	0	0
Currency translation differences	9	1 114	191	31	0	1 345
Accumulated depreciation and impairments 31 December 2015	**155**	**24 958**	**4 823**	**619**	**46**	**30 601**
Carrying value 31 December 2015	**184**	**6 263**	**1 904**	**59**	**175**	**8 585**

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. There was none capitalised borrowing cost capitalised during 2015. The capitalised borrowing costs in 2014 amounted to NOK 2 million, and the interest rate used was 8%.

Disposals in 2015 were primarily related to the divestments of Walsum Papier Gmbh in Germany as well as scrapping of fully depreciated assets that no longer have any technical values. Disposals in 2014 consists mainly of scrapping of fully depreciated assets at Norske Skog Tasman in New Zealand.

NON-CURRENT ASSETS HELD FOR SALE

Norske Skog did not have any non-current assets held for sale at 31 December 2015.

ASSUMPTIONS APPLIED WHEN CALCULATING THE RECOVERABLE AMOUNT

PPE and intangible non-current assets 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 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 connection with the revision of its segment structure in 2014. The composition of cash-generating units is aligned with the structure in the internal management reporting system in the Norske Skog group. Publication paper Europe and publication paper Australasia represent the two business systems and the products (Newsprint and Magazine paper) that the group is focusing on in its communication with customers, suppliers, employees and the financial market. The basis for the chosen composition of cash-generating units reflects both market and industrial fundamentals for publication paper, and the way Norske Skog follows up the mills operationally and financially. The different mills within the two business systems works together to generate cash inflows. Reflecting customer substitution between different Newsprint and Magazine paper grades it is not operationally meaningful to distinguish at the product level.

The cash-generating unit publication paper Europe consists of Norske Skog Golbey (France), Norske Skog Bruck (Austria), Norske Skog Skogn (Norway) and Norske Skog Saugbrugs (Norway). The cash-generating unit publication paper Australasia consists of Norske Skog Albury (Australia), Norske Skog Boyer (Australia) and Norske Skog Tasman (New Zealand). Each of the two cash-generating units consists of several mills that together are creating a business system. Production can be moved between the mills, based on what gives best profitability for the group as a whole.

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 19 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 or the individual asset. The required rate of return 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 or individual asset is also included in the required rate of return on capital.

When calculating value in use at the end of 2015, the discount rate after tax (WACC) was 7.3% for Norway, 7.2% for France, 6.5% for Austria, 8.1% for Australia, 8.6% for New Zealand and 11.4% for Malaysia. The reason for differences in discount rates are different interest rate levels and country specific risks.

Three explicit scenarios for the group's current asset portfolio are considered in detail “Reactive”, “Proactive” and “Consolidated”. One scenario is backward looking, assuming a return to 2015 prices levels and cash negative margins as observed in the industry in last year (15% weight). The middle scenario assumes a cyclical uptick with prices above cash cost (50% weight), while the third scenario considers the effects from a consolidation of the industry (35% weight). Through interpolation between the three scenarios, all possible future scenarios are implicitly taken into account. The probability weighting of the three scenarios is in Norske Skog's view approached logically based on rational economic behaviour. The clearly most rational for the industry is to consolidate, while the reactive scenario is unsustainable given prices below cash cost of production, as observed last year. It follows the least rational scenario is less probable than the most rational scenario. The current market environment, proactive scenario, is given the highest probability weight reflecting the reality of the scenario, supported from announced closures of less competitive assets in the industry and the fact the scenario is sustainable, albeit with margins remaining below competitive returns on invested capital due to sunk cost investments. The probabilities applied are, “Reactive” 15%, “Proactive” 50% and “Consolidated” 35%. The impairment model is based on budget figures for 2016, which are different from reported figures for 2015. The budget for 2016 assumes better margins, compared to 2015, for the Norske Skog group reflecting contracted higher prices and lower costs in addition to favourable currency levels.

The key drivers of profitability in the industry and thus asset values for Norske Skog are product prices relative production costs. The starting point in all scenarios are the 2016 budget prices and costs. The 2016 budget prices are on average below 2016 RISI price estimates. Contracted prices/costs are reflect when applicable. For 2017 “Reactive” assumes prices decline back to 2015 trough levels, “Proactive” assumes a modest continuation of the cyclical uptick experienced in 2016 with higher contract price and lower costs. “Consolidated” considers cost synergies and sales mix optimization from 2018. Beyond that, all model drivers are nominally extrapolated for all mills in all scenarios.

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 flowing impairment indications. The sensitivities are applied in all scenarios throughout the forecasting period. Prices -5% impairment indication NOK 800 million, volume -5% impairment indication NOK 100 million, WACC +1% impairment indication NOK 100 million, NOK appreciation 5% no impairment indication.

PROPERTY, PLANT AND EQUIPMENT ALLOCATED TO CASH-GENERATING UNITS

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

	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS
Publication paper Europe	3 039	1 526
Publication paper Australasia	3 210	368
Other activities	14	10
Carrying value 31 December 2015	**6 263**	**1 904**

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 60 million.

In connection with the year-end closing process for 2015, Norske Skog performed a review of the expected remaining useful lives of PPE. Reflecting a tissue conversion project of the newsprint site at Norske Skog Bruck, the expected useful life for the light weight coated (LWC) machine (PM4) was extended and the expected useful life of the newsprint (PM3) reduced. The carrying value 31 December 2015 of PM3 is significantly lower than the carrying value of PM4. The useful life of all other machines were reduced by one year, one year on. The reduction in useful life has a negative impact on the estimated recoverable amount of the mills. As the level of depreciation in 2015 by far exceeded purchases of PPE and the mentioned extension in useful life for the LWC machine at Bruck, the future annual depreciation amount is expected to decrease.

5. FINANCIAL ITEMS

FINANCIAL INCOME	2015	2014
Dividends received	0	1
Interest income	11	16
Gains from exchange of bonds	767	0
Gains from fair value hedge	90	0
Other financial income [1]	25	0
Total	**893**	**16**

FINANCIAL EXPENSES	2015	2014
Interest costs	-929	-617
Other financial expenses [2]	-46	-67
Total	**-975**	**-684**
Net unrealised/realised gains/losses on foreign currency	**-719**	**-690**
Financial items	**-801**	**-1 357**

[1] *Other financial income in 2015 includes gains on the buy-back of bonds*
[2] *Other financial expenses in 2014 includes losses on the buy-back of bonds*

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

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

More than 75% of the existing bond holders consented to the transactions, and approximately 45% of the existing bonds participated in the exchange offer. Norske Skog recognised a net gain in connection with the refinancing of NOK 767 million 2015, included in Gains from exchange of bonds.

6. MORTGAGES

LOANS SECURED BY MORTGAGES ON PROPERTY	31.12.2015	31.12.2014
EUR 290 million Senior Secured Bond Facility	2 790	0
Innovasjon Norge	95	0
Other mortgage debt	148	168

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, Norske Skog Walsum GmbH 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. For further information on the applicable terms, please see www.norskeskog.com /investors where the SSNs information memorandum is available with the detailed terms of the notes.

The Innovasjon Norge facility is secured by a first priority pledge on property, plant and equipment at our mills in Norske Skog Saugbrugs AS and Norske Skog Skogn AS. The book value of the pledged assets is NOK 2 462 million. The remaining other mortgage debt is two facilities secured by land and forest areas taken up at Norske Skog Boyer in Australia.

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	NOTE	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	NON-FINANCIAL LIABILITIES	TOTAL
Interest-bearing non-current liabilities	11	0	7 453	0	7 453
Interest-bearing current liabilities	11	0	1 676	0	1 676
Other non-current liabilities	18	307	0	324	631
Trade and other payables	18	0	1 921	0	1 921
Other current liabilities	18	74	55	178	308
Total		**382**	**11 105**	**502**	

31.12.2014	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	21	227	139	0	387
Trade and other receivables	10	1 150	0	0	59	1 209
Cash and cash equivalents		710	0	0	0	710
Other current assets	18	16	23	0	0	39
Total		**1 896**	**250**	**139**	**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	0	6 592	0	6 592
Interest-bearing current liabilities	11	0	1 679	0	1 679
Other non-current liabilities	18	266	0	426	692
Trade and other payables	18	0	2 172	0	2 172
Other current liabilities	18	90	17	202	309
Total		**356**	**10 460**	**627**	

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).

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

31.12.2014	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives	23	23	0	0	23
Commodity contracts	204	204	0	0	204
Miscellaneous other non-current assets	160	160	0	0	160
Other non-current assets	**387**	**387**	**0**	**0**	**387**
Accounts receivable	1 058	1 058	0	0	1 058
Other receivables	92	92	0	0	92
Prepaid VAT	59	59	0	0	59
Trade and other receivables	**1 209**	**1 209**	**0**	**0**	**1 209**
Cash and cash equivalents	710	710	0	0	710
Derivatives	6	6	0	0	6
Commodity contracts	17	17	0	0	17
Current investments	16	16	0	0	16
Other current assets	**39**	**39**	**0**	**0**	**39**
Interest-bearing non-current liabilities [1)]	6 592	3 960	0	3 584	376
Interest-bearing current liabilities [1)]	1 679	1 562	0	1 058	504
Total interest-bearing liabilities	**8 271**	**5 522**	**0**	**4 642**	**880**
Derivatives	242	242	0	0	242
Commodity contracts	24	24	0	6	18
Non-financial non-current liabilities	426	426	0	0	426
Other non-current liabilities	**692**	**692**	**0**	**6**	**692**
Accounts payable	1 272	1 272	0	0	1 272
Other payables	900	900	0	0	900
Trade and other payables	**2 172**	**2 172**	**0**	**0**	**2 172**
Derivatives	90	90	0	0	90
Commodity contracts	10	10	0	9	1
Non-financial current liabilities	219	219	0	0	219
Other current liabilities	**309**	**309**	**0**	**9**	**309**

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

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

8. FINANCIAL RISK AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

Norske Skog is exposed to various financial risk factors through the group's operating activities, including market risk (interest rate risk, currency risk and commodity risk), liquidity risk and credit risk. Norske Skog seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog monitors and manages financial risk based on internal policies and standards set forth by corporate management and approved by the board of directors. These written policies provide principles for the overall risk management as well as standards for managing currency risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored. There were no breaches of these policies during 2015 or 2014.

MARKET RISK

a) Interest rate risk

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

INTEREST-BEARING ASSETS AND LIABILITIES	FLOATING	31.12.2015 FIXED	TOTAL	FLOATING	31.12.2014 FIXED	TOTAL
Interest-bearing liabilities	804	8 325	9 129	651	7 620	8 271
Interest-bearing assets	-536	0	-536	-710	0	-710
Net exposure	**268**	**8 325**	**8 593**	**-59**	**7 620**	**7 561**

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 27%.

The interest rate sensitivity analysis is based on a parallel shift in the yield curve for each relevant currency to which Norske Skog is exposed. Following a 50 basis point downward/upward parallel shift in the yield curve in all interest rate markets to which Norske Skog is exposed, net earnings would have been NOK 2 million higher/lower at 31 December 2015 (NOK 1 million lower/higher at 31 December 2014). 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 calculates a 12-month future cash flow exposure in each currency on a rolling basis. The rolling cash flow hedge program was closed during 2014. Norske Skog is currently only doing short term hedging activities. The result of the hedging is included in financial items in the income statement. Norske Skog did not use hedge accounting for the rolling cash flow hedge. The cash flow hedge from short term FX swaps generated a gain of NOK 2 million in 2015 (gain of NOK 2 million in 2014).

Translation risk - net investment hedge

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

Norske Skog's net investment hedging is carried out in accordance with IAS 39. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and offset by translation differences from assets in subsidiaries. The gain or loss related to the ineffective portion is immediately recognised in the income statement. There was no ineffectiveness related to net investment hedge in 2015 or 2014. The effective portion recognised in equity was a loss of NOK 108 million in 2015 (loss of NOK 151 million in 2014). The portion of the debt portfolio to which hedge accounting does not apply, was somewhat smaller in 2015 than in 2014. The debt portfolio in 2014 and 2015 consist of EUR 2016 and EUR 2017 bonds that are issued by Norske Skogindustrier ASA. The Foreign exchange gains and losses from such liabilities are recognised in the income statement under financial items.

Cumulative currency translation differences of NOK 95 million were reclassified from equity to the income statement in 2015 as a result of the divestments of Walsum Papier Gmbh. Cumulative currency translation differences of NOK 1 million were reclassified from equity to the income statement in 2014 as a result of the divestments of Norske Skog Polska Sp. z.o.o. and Norske Skog Czech & Slovak Republic spol. s.r.o.

CHANGE IN FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS DESIGNATED AS NET INVESTMENT HEDGE	2015	2014
Changes in fair value of EUR bonds designated as net investment hedge	-187	-354
The effective portion recognised in equity	108	151
Portion without hedge accounting recognised in the income statement	-79	-203

Foreign exchange - sensitivity analysis on financial instruments

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

- Norske Skog as a group comprises entities with different functional currencies. Derivative and non-derivative financial instruments of a monetary nature, denominated in currencies different from the functional currency of the entity, create foreign exchange rate exposure on the consolidated income statement. Moreover, foreign currency risk will also affect equity.
- Financial instruments denominated in the functional currency of the entity have no currency risk and will therefore not be applicable to this analysis. Furthermore, the foreign currency exposure of translating financial accounts of subsidiaries into the group's presentational currency is not part of this analysis.
- 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 2015, 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 532 million higher/lower (NOK 369 million higher/lower at 31 December 2014). The effect of the sensitivity analysis on the income statement is mainly caused by foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting. Because the portion of debt has increased in relation to the portion of cash, the effect on the income statement is higher in 2015 compared to 2014.

Given a 10% appreciation/depreciation of NOK, equity would have been NOK 118 million higher/lower (NOK 133 million higher/lower at 31 December 2014) as a result of foreign exchange gains/losses on financial instruments designated as net investment hedges. The sensitivity analysis on equity excludes the effects from the sensitivity analysis on the income statement, calculated above.

c) Commodity risk

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

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

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

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 31.12.2015	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Energy price change 10%	197	-169	185
Currency change 10%	197	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 31.12.2015	RESULT NET OF TAX CHANGE DOWN	RESULT NET OF TAX CHANGE UP
Currency change 10%	-292	175	-175
Price index change 2.5%	-292	3	-3

LIQUIDITY RISK

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

In order to uncover future liquidity risk, Norske Skog forecasts both short- and long-term cash flows. Cash flow forecasts include cash flows from operations, investments, financing activities and financial instruments. The group had current investments, cash and cash equivalents of NOK 536 million at 31 December 2015 (NOK 710 million at 31 December 2014. Restricted bank deposits amounted to NOK 236 million at 31 December 2015 (NOK 322 million at 31 December 2014).

The board of directors recognises the challenging markets that Norske Skog operates in with price and currency uncertainty. The board of directors will thus have a continuous focus on cash generation through 2016 to ensure sufficient liquidity for both debt maturities and the operations of Norske Skog. The ongoing initiatives to improve cash flow from operations and the significantly enhanced liquidity position of the group following the refinancing, should in the opinion of the board of directors provide prudent cash balances during 2016. Despite this leverage remains high and requires improved profitability, but the refinancing enables the group to focus on improving operations, cost initiatives and capital efficiency.

The new financing and refinancing announced 18 March 2016 will result in additional liquidity, extended bond maturities, reduced debt, lower cash interest payments and new equity. See Note 27 for further information.

The following table shows the contractual maturities of non-derivative financial liabilities and other derivative financial instruments. All amounts disclosed in the table are undiscounted cash flows. Furthermore, amounts denominated in foreign currency are translated to NOK using closing rates at 31 December. These amounts consist of trade payables, interest payments and principal payments on derivative and non-derivative financial instruments. Variable rate interest cash flows are calculated using the forward yield curve. Projected interest payments are based on the maturity schedule at 31 December without accounting for forecasted refinancing and/or other changes in the liability portfolio. All other cash flows are based on the group's positions held at 31 December 2015.

MATURITY OF FINANCIAL LIABILITIES AND FINANCIAL INSTRUMENTS

31.12.2015	0 - 6 MONTHS	6 - 12 MONTHS	2017-2018	2019-2020	> 2021
Non-derivative financial instruments					
Principal payment on interest-bearing debt	-1 064	-20	-2 088	-2 800	-2 900
Projected interest payment on interest-bearing debt	-483	-278	-1 252	-777	-942
Trade payables	-1 087	0	0	0	0
Total	**-2 634**	**-298**	**-3 340**	**-3 577**	**-3 842**
Net settled derivative financial instruments					
Commodity contracts	-5	-2	-5	-3	0
Total	**-5**	**-2**	**-5**	**-3**	**0**
Total 2015	**-2 639**	**-300**	**-3 345**	**-3 580**	**-3 842**

In addition, the embedded derivatives in energy contracts will reverse over the contracts' period from 2016 to 2024.

31.12.2014	0 - 6 MONTHS	6 - 12 MONTHS	2016-2017	2018-2019	> 2020
Non-derivative financial instruments					
Principal payment on interest-bearing debt	-20	-1 196	-4 748	-30	-1 507
Projected interest payment on interest-bearing debt	-408	-161	-781	-216	-1 484
Trade payables	-1 272	0	0	0	0
Total	**-1 700**	**-1 357**	**-5 529**	**-246**	**-2 991**
Net settled derivative financial instruments					
Interest rate swaps - net cash flows [1)]	0	0	0	0	0
Commodity contracts	-10	1	-6	0	0
Total	**-10**	**1**	**-6**	**0**	**0**
Gross settled derivative financial instruments[1)]					
Foreign exchange contracts - outflows	0	0	0	0	0
Foreign exchange contracts - inflows	0	0	0	0	0
Cross-currency swaps - outflows	0	0	0	0	0
Cross-currency swaps - inflows	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**
Total 2014	**1 710**	**-1 356**	**-5 535**	**-246**	**-2 991**

[1)] *All active management contracts have been close during 2014. None derivatives contracts at year end 2014.*

CREDIT RISK

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

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

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

GOING CONCERN AND LIQUIDITY

In addition to the various refinancing initiatives described in note 27, the group has initiated a number of liquidity generating initiatives including the divestment of the group's Tasman geothermal power. The group has obtained commitments for interim financing of up to €20 million in connection with the sale of the geothermal plant. Other liquidity generating initiatives includes freeing up trapped cash in the group of up to EUR 10 million and liquidity available from optimization of working capital and existing factoring facilities. The group has factoring facilities with a total frame of around EUR 70 million of which currently, 2/3 is utilised.

The combination of improved profitability and hence cash flow from operations as well as reduced cash interest payments is expected to facilitate the ability to service the capital structure in years to come. The group's ability to complete the redemption of the 2016 bond in June based on cash balances, various liquidity initiatives and improved cash flow from operations will be decided upon in first half of 2016. The present amount outstanding on the 2016 bond is EUR 74 million following buy-backs in April.

Following a successful redemption of 2016 notes, the group will have no bond maturities until December 2019. To date in 2016, the operating environment has continued to improve compared to last year. However, there are inherent uncertainties with respect to operating environments, challenges for the world economy and risks for global financial turmoil.

Norske Skog operates with a high financial leverage, and is exposed to various risks that could impact the financial performance, liquidity and equity. The factors are an inherent uncertainty with respect to the going concern assumption. 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 as well as uncertainty with regards to working capital movements and increased restrictions on cash balances. 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. 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 2016. Nevertheless, the board of directors and management is confident that its assessment of the current and expected market conditions in 2016 is realistic given facts at hand.

Based on current knowledge with respect to the operational outlook, the improved liquidity of the group, both in the form of increased cash balances, reduced cash interest payments and extended bond maturities, and the improved group equity the board of directors and management is of the of the opinion that Norske Skog is in an improved financial position for 2016 and going forward. However, given the challenging industry and that the level of equity at year-end 2015 is inadequate the company will continue working to improve all of the mentioned elements further.

In accordance with the provisions in the Norwegian Accounting Acts, the board has assessed the going concern assumption as basis for preparing and presenting the financial statements. The board of directors has assessed the completed transactions as of this date as well as the likelihood of the completion other subsequent transactions, the uncertainty described above and the potential impact both on liquidity and equity and its importance 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 2016. 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 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.

See Note 24 for information regarding capital management.

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).

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

31.12.2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss				
Trading derivatives	0	0	0	0
Commodity contracts and embedded derivatives	0	0	250	250
Total	**0**	**0**	**250**	**250**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-15	0	-15
Commodity contracts and embedded derivatives	0	0	-341	-341
Total	**0**	**-15**	**-341**	**-356**

The following table shows the changes in level 3 instruments at 31 December 2015.

	ASSETS	LIABILITIES
Opening balance	250	-341
Gains and losses recognised in profit or loss	35	-6
Currency translation differences	1	0
Closing balance	**286**	**-346**

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 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 (from 2015) applied to liability positions, based on Norske Skog's own credit risk.

In addition, Norske Skog has reassessed and concluded that general inflation indexes in long-term physical energy purchase contracts may be considered closely related, and accordingly not required to be accounted for separately, when the purpose and effect of including them is to ensure that the prices in the contracts are adjusted to the general price level where the transaction takes place.

The comparable figures for 2014 and 1 January 2014 in the consolidated balance sheet have been restated. The 2015 column below show the impact that would have been recognised in the income statement in 2015 if the change in accounting practice was not carried out. The following line items have been impacted in the consolidated balance sheet and income statement: Other gains and losses, Income tax, Deferred tax asset, Retained earnings and other reserves, Other non-current liabilities and Other current liabilities.

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		31.12.2015	31.12.2014
Assets			
Commodity contracts	Energy price -2%	257	219
Liabilities			
Commodity contracts	Energy price -2%	-343	-338

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 2015 would be a downwards parallel shift of the long end of the forward curve of 2% (downwards shift of 2% in 2014).

	31.12.2015		31.12.2014	
DERIVATIVES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commodity contracts	255	-58	221	-34
Embedded derivatives	31	-22	29	-31
Total	**286**	**-80**	**250**	**-65**

The table above includes only derivatives, and the total amount may differ compared to other tables showing financial assets and liabilities. All active management contracts (forward rate contracts, currency options and forward contracts) were closed during 2014.

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	NOTE	31.12.2015	31.12.2014
Trade and other receivables			
Accounts receivable		1 112	1 058
Provision for bad debt		-105	-103
Other receivables		185	124
VAT receivables		80	59
Prepaid expenses		85	71
Total		**1 357**	**1 209**
Other non-current assets			
Loans to employees		1	1
Long-term shareholdings	23	145	139
Miscellaneous non-current receivables		21	20
Derivatives	7	28	23
Commodity contracts	7	231	204
Pension plan assets	13	0	0
Total		**426**	**387**

Norske Skog Bruck entered into a factoring facility agreement in October 2014. The facility has a limit of EUR 25 million and is not bearing financial covenants. Accounts receivable that have been sold are deducted from accounts receivable in the balance sheet. The utilisation at 31 December 2015 was NOK 125 million (31 December 2014 was NOK 75 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	31.12.2015	31.12.2014
Not due	913	1 134
0 to 3 months	104	86
3 to 6 months	2	0
Over 6 months	93	92
Total [1]	**1 112**	**1 312**

[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

	31.12.2015	31.12.2014
Bonds	8 777	7 344
Debt to financial institutions	302	394
Securitisation/Factoring Facilities	502	413
Total	**9 581**	**8 151**

INTEREST-BEARING DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2015	NOK 31.12.2015	NOK 31.12.2014
USD	156	1 370	2 663
EUR	801	7 707	4 908
AUD	27	175	183
NZD	1	6	11
Total interest-bearing debt in foreign currencies		**9 259**	**7 765**
Interest-bearing debt in NOK	322	322	386
Total interest-bearing debt		**9 581**	**8 151**

The average interest rate on pair value of debt at 31 December 2015 was 8.9% (7.4% at 31 December 2014). The average effective interest rate in 2015 was 10.8% (7.9% in 2014).

DEBT REPAYMENT

MATURITY OF THE GROUP'S TOTAL DEBT AT 31 DECEMBER 2015	DEBT BANKS	BONDS	TOTAL
2016	632	1 044	1 675
2017	47	2 044	2 091
2018	17	0	17
2019	18	2 790	2 807
2020	18	0	18
2021	20	1 530	1 550
2022	16	0	16
2023	18	534	552
2024-2033	18	836	854
Total	**804**	**8 777**	**9 581**

MATURITY OF THE GROUP'S TOTAL DEBT AT 31 DECEMBER 2014	DEBT BANKS	BONDS	TOTAL
2015	503	1 176	1 679
2016	97	1 171	1 268
2017	49	3 510	3 559
2018	29	0	29
2019	29	0	29
2020	30	0	30
2021	21	0	21
2022	15	0	15
2023-2033	34	1 487	1 521
Total	**807**	**7 344**	**8 151**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds, hedge reserves and fair value of hedging. At 31 December 2015, the financial statements included a discount of NOK 522 million (discount of NOK 53 million at 31 December 2014). 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.

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.

The comparable figures for 2014 in the consolidated balance sheet have been updated. The following line items have been impacted in the consolidated balance sheet: Interest-bearing non-current liabilities and Interest-bearing current liabilities. The amount reclassified from Interest bearing non-current liabilities to Interest-bearing current liabilities was NOK 502 million at 31 December 2015 (NOK 412 million at 31 December 2014). The securitisation arrangements in question were entered into during 2014 and 2015. Except for the mentioned changes in classification in the balance sheet, no other changes in accounting treatment occurred from the updated assessment.

The Innovasjon Norge facility due 2019 holds a minimum equity covenant, and as consequence of breaching this clause in two consecutive quarters, the facility has been classified as short term in accordance with accounting practice with NOK 95 million falling due in first quarter 2016. A waiver of the minimum equity clause has been approved by Innovasjon Norge in 2016, and hence the original repayment plan with maturity in 2019 has been restored.

NET INTEREST-BEARING DEBT

As a result of the termination of a large part of the fair value hedge portfolio in the beginning of 2009, an amount was reclassified in the balance sheet. A hedge reserve (deferred income) amounting to NOK 70 million is included in interest-bearing debt as at 31 December 2015 (NOK 174 million at 31 December 2014). The hedge reserve does not constitute any payment obligation for the group, but will be amortised in the income statement over the term of the debt that has been hedged (i.e. until 2033).

The group’s holding of own bonds in foreign currency amounted to EUR 19 million at 31 December 2015 (USD 42 million and EUR 132 million at 31 December 2014). These holdings are deducted from interest-bearing debt in NOK.

	31.12.2015
Interest-bearing non-current liabilities	7 453
Interest-bearing current liabilities	1 676
- Hedge reserve	70
- Cash and cash equivalents	536
Net interest-bearing debt	**8 523**

12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2015	2014
Salaries including holiday pay		1 440	1 466
Social security contributions		314	326
Pension costs	13	36	37
Other employee benefit expenses		59	79
Total		**1 848**	**1 908**

NUMBER OF EMPLOYEES BY REGION	31.12.2015	31.12.2014
Europe	1 827	2 228
Australasia	688	690
Corporate functions (head office)	42	58
Total	**2 557**	**2 976**

The base salary for the president and chief executive officer (CEO) Sven Ombudstvedt at 31 December 2015 was NOK 4 440 000. Total salary and other benefits received by Ombudstvedt in 2015 amounted to NOK 8 017 016 (NOK 6 554 313 in 2014).

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

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

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

The total remuneration for the board of directors in 2015 was NOK 3 306 079 (NOK 3 583 698 in 2014). For the election and remuneration committee, the total remuneration was NOK 469 000 (NOK 454 400 in 2014).

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

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

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

2014	SALARY FOR 2014	PAYMENTS IN KIND ETC. FOR 2014 [1]	BONUS 2014 [3]	CONTRIBUTION TO DEFINED CONTRIBUTION SCHEMES 2014	GRANTED STOCK OPTIONS 2014 (NUMBER OF OPTIONS)
Sven Ombudstvedt (CEO)	4 696	276	872	710	420 000
Roar Ødelien (COO)	1 860	223	322	211	210 000
Rune Sollie (CFO) [4]	1 500	193	356	195	210 000
Lars P. Sperre (SVP) [4]	1 743	208	308	101	210 000

[1] *Includes car allowance, salary compensation for the transition to defined contribution pension, free telephone, etc.*
[2] *Based on results achieved in the financial year, partly paid in 2015 and in 2016.*
[3] *Based on results achieved in the financial year, paid in 2015.*
[4] *Lars P. Sperre was appointed senior vice president (SVP) corporate strategy & legal from April 2014. Rune Sollie was appointed CFO in January 2014.*

LONG-TERM INCENTIVE PROGRAMME

The purpose of the company's long-term incentive programme is to secure a continued strong focus on the development of shareholder value. The current long-term incentive programme was launched in 2014, and is based on rolling scheme with awards of synthetic options targeting a positive share price development over a three-year period from the date of award of the relevant synthetic options. Within the frames of the programme, the board may grant synthetic options to the corporate management and other key employees, including managing directors of the Norwegian business units. The synthetic options are settled three years following the date they are awarded, but up to one third of the options may at the board's discretion be settled through a bonus payment each year after the relevant award. In 2014, 3 780 000 synthetic options were issued under the programme, and were awarded with 2 430 000 options on 16 July 2014 and 1 345 000 options on 2 June 2015. In 2016, 9 450 000 new synthetic options were issued under the programme. Of these 70% has been allocated for award in 2016 and 30% has been allocated for award in 2017. As of the date hereof, none of the synthetic options issued in 2016 have been awarded yet. Each option carries the right to be paid an amount in cash equal to (a) the fair market value less (b) the exercise price, including any hurdle rate added to the exercise price as of the exercise date. Fair market value is the volume weighted average trading price of the shares on Oslo Stock Exchange over a period of five trading days starting on the exercise date. The initial exercise price (strike price) for the synthetic options awarded in 2014 and 2015 were NOK 4.80 and NOK 3.85, respectively. The synthetic options issued in 2016 have a strike price of NOK 2.24, reflecting the subscription price applied in the private placement completed on 31 March 2015 and in the repair offering contemplated to be commenced at the end of May 2016. The exercise price for the synthetic options granted in 2014 and 2015 shall be increased by 10 per cent pro anno (the hurdle rate). The hurdle rate shall be added to the exercise price annually in arrears as of each anniversary of the award date, and shall from then be included in the basis for the calculation of further hurdle rate. The synthetic options issued in 2016 are not subject to a hurdle rate.

The long-term incentive falls within the scope of IFRS 2 Share-based payments. A share-based payment transaction is a transaction in which the company receives services from the employee of those services in a share-based payment arrangement. A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires services by incurring a liability to transfer cash to the employee of those services for amounts that are based on the price of the shares in the company. IFRS 2 applies not only to awards of shares but also to awards of cash of a value equivalent to the value, or a movement in the value, of a particular number of shares, which is the case for the long-term incentive plan. The ultimate cost of a cash-settled share-based transaction is the actual cash paid to the counterparty, which will be the fair value at settlement date. The periodic determination of this liability is at each reporting date between grant and settlement the fair value of the award. The fair value of the award is determined in accordance with the specific requirements in IFRS 2. During the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period. All changes in the liability are recognised in profit or loss for the period. The fair value of the liability is determined by applying an option pricing model, taking into account the terms and conditions on which the cash-settled transaction was granted, and the extent to which the employees have rendered services to date. Norske Skog has made a fair value measurement of the liability using a Black & Scholes model for European call options with no dividends.

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

	SALARY	DIRECTORS FEE	REMUNERATION FOR COMMITTEE WORK
Jon-Aksel Torgersen	0	449	7
Jarle Roth [1)]	0	174	7
Kjetil Bakkan [1)]	536	97	0
Eilif Due	0	328	7
Siri Beate Hatlen [2)]	0	328	116
Paul Kristiansen	566	328	122
Karin Bing Orgland [2)]	0	328	153
Svein Erik Veie	517	328	0
Ole Enger [2)]	0	231	0
Cecilie Jonassen	706	231	72

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

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	1 650	413	2 077	748	4 888
Audit-related assistance [1)]	1 670	35	47	0	1 752
Tax assistance	0	0	32	0	32
Other fees	105	149	0	0	254
Total	**3 425**	**597**	**2 156**	**748**	**6 926**

[1)] *Audit-related assistance includes services, which only auditors can provide, such as review of interim financial statements, agreed upon control procedures etc.*


HITACHI
RISK ZONE 70 M

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 2 042 current and former employees are covered by such schemes. Of these, 375 people are covered by defined benefit plans and 1 667 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS

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

	BENEFIT IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skogindustrier ASA	65	30	67	62	71
Norske Skog Saugbrugs AS	65	30	67	62	149
Norske Skog Skogn AS	65	30	67	62	140
Norske Skog Deutschland GmbH	45	35	65	65	10

The defined benefit schemes in Norway cover people between 57 and 67 years of age, who were employed before 1 January 2011. The defined benefit obligations in Norway only encompass active members (a small number of people in early retirement until the end of 2015), since they leave the defined benefit scheme (having a paid-up policy) when they retire.

The defined benefit plan in Germany was closed and cover 10 previous employees.

Plan assets of the pension schemes in Norske Skogindustrier ASA, Norske Skog Saugbrugs AS and Norske Skog Skogn AS are managed by a life insurance company and invested in accordance with the general guidelines governing investments by life insurance companies in Norway. With effect from the beginning of 2011, a new defined contribution scheme was introduced in Norway, with a contribution of 4% for earnings between 1 and 6 G and 8% between 6 and 12 G. The defined benefit plan 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	2015	2014
Discount rate/expected return on plan assets	2.4%	2.2%
Salary adjustment	2.2%	2.4%
Social security increase/inflation rate	2.8%	3.0%
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	2015	2014
Current service cost	10	10
Pension cost defined contribution schemes	28	24
Accrued national insurance contributions	0	1
Recognised curtailment and settlement	-2	0
Net periodic pension cost	**36**	**35**
Net periodic interest cost	**11**	**23**

Estimated payments to the group's defined benefit pension schemes in 2016 amounts to NOK 20 million (NOK 40 million in 2015).

PENSION PLANS IN THE BALANCE SHEET

PARTLY OR FULLY FUNDED PENSION PLANS	31.12.2015	31.12.2014
Projected benefit obligations including national insurance contributions	-226	-310
Plan assets at fair value	222	281
Net plan assets/pension obligations (-) in the balance sheet	**-4**	**-29**

UNFUNDED PENSION PLANS	31.12.2015	31.12.2014
Projected benefit obligations including national insurance contributions	-272	-790
Net plan assets/pension obligations (-) in the balance sheet	**-276**	**-820**

The defined benefit pension plans relates to Europe. During the year a minor defined benefit pension plan in Australia was locked and the pension obligation is reduced with NOK 4 million. The major decrease of unfunded pension obligation relates to the deconsolidation of Walsum Papier GmbH amounting to NOK 535 million.

SPECIFICATION OF PENSION PLANS IN THE BALANCE SHEET	31.12.2015	31.12.2014
Pension liabilities in the balance sheet	-276	-820
Net pension obligations	**-276**	**-820**
Net unfunded pension plans	-272	-790
Net partly or fully funded pension plans	-4	-29

CHANGES IN PENSION OBLIGATIONS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2015	2014
Balance 1 January	310	378
Deconsolidated company	0	0
Current years' service cost	8	17
Current years' interest cost	6	13
Pension paid	-2	-26
Curtailments/settlements	-59	-1
Other changes	-2	9
Currency translation differences	4	-8
Remeasurements	-39	-72
Balance 31 December	**226**	**310**

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2015	2014
Balance 1 January	281	400
Divested companies	0	0
Return on plan assets	5	14
Curtailments/settlements	-48	-21
Other changes	0	-6
Employer contribution	18	17
Remeasurements	-32	-133
Currency translation differences	-2	10
Balance 31 December	**222**	**281**

CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS	2015	2014
Balance 1 January	-790	-714
Deconsolidation of Walsum	535	0
Current years' service cost	-5	-4
Current year's interest cost	0	-18
Pension paid	6	21
Contributions to the plan assets	0	0
Curtailments/settlements	0	0
Other changes	1	0
Currency translation differences	-9	-44
Remeasurements	-8	-31
Balance 31 December	**-272**	**-790**

Remeasurements is mainly related to changes in financial assumptions.

SPESIFICATION OF REMEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2015	2014
Return on plan assets	0	-1
Actuarial changes arising from changes in demographic assumptions	1	-56
Actuarial changes arising from changes in financial assumptions	0	-3
Experience adjustments + investment management costs	0	-3
Asset ceiling	0	-5
Total	**1**	**-68**

	2015		2014	
INVESTMENT PROFILE FOR PENSION FUNDS	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	23	10%	36	13%
Bonds	170	76%	177	63%
Properties and real estate	26	12%	22	8%
Money market	4	2%	47	17%
Other	0	0%	0	0%
Total	**222**		**281**	

SENSITIVITY ANALYSIS

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

SENSITIVITY	INCREASE	DECREASE
Discount rate - 0.5%	-23	27
Salary adjustment - 0.5%	-8	8
Future national security - 1.0%	-3	1
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 and correlated figures for the German scheme.

14. OTHER OPERATING EXPENSES

	NOTE	2015	2014
Maintenance materials and services		460	496
Marketing expenses		11	13
Administration, insurance, travel expenses etc.		218	211
Losses on accounts receivable		7	9
Operating leases	15	52	55
Research and development		1	2
Changes in environmental provisions		-26	-10
Miscellaneous expenses		153	158
Total		**877**	**935**
Specification of losses on accounts receivable			
Receivables written off during the period		4	6
Payments received on items previously written off		0	0
Change in provision for bad debt		3	3
Total		**7**	**9**

15. LEASES

OPERATING LEASES

The group recognised expenses of NOK 52 million in relation to operating leases in 2015. The equivalent expense in 2014 was NOK 55 million.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2015	31.12.2014
Not later than one year	24	20
Later than one year and not later than five years	60	39
Later than five years	12	3
Total	**96**	**62**

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	31.12.2015	31.12.2014
Not later than one year	26	24
Later than one year and not later than five years	96	89
Later than five years	84	100
Total	**206**	**213**
Future finance charges on finance leases	-74	-83
Present value of minimum lease payments	**132**	**130**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2015	31.12.2014
Not later than one year	24	23
Later than one year and not later than five years	71	65
Later than five years	37	42
Total	**132**	**130**
Capitalised value of leased machinery and equipment	**101**	**103**

16. OTHER GAINS AND LOSSES

	2015	2014
Gains and losses from divestments and deconsolidating of business activities, property, plant and equipment	-101	-17
Changes in value – commodity contracts [1)]	8	64
Changes in value – embedded derivatives	1	-22
Changes in value – biological assets	-6	-9
Other realised gains and losses	2	-13
Total	**-97**	**3**

[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 2015 of NOK 101 million was primarily related to deconsolidating of Walsum Papier GmbH and scrapping of equipment no longer in use.

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

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

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

The net loss on divestments of business activities, property, plant and equipment in 2014 of NOK 17 million was primarily related 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 gain on commodity contracts in 2015 and 2014 were due to negative change in producer price index in New Zealand.

Other realised gains and losses of NOK 13 million in 2014 were primarily related financial hedging of energy and sale of emission rights.

17. INCOME TAXES

TAX EXPENSE	2015	2014
Current tax expense	-41	-58
Change in deferred tax	-479	-155
Total	**-520**	**-213**

RECONCILIATION OF THE GROUP TAX EXPENSE	2015	2014
Profit/loss before income taxes	-1 005	-1 291
Computed tax at nominal tax rate of 27%	272	348
Differences due to different tax rates	82	5
Result from associated companies	-6	1
Exempted income/non-deductible expenses	-74	-28
Reversal tax provision	20	67
Adjustment previous years	0	0
Deferred tax asset not recognised	-822	-618
Other items	8	12
Total tax expense (-) income (+)	**-520**	**-213**
Effective tax rate	**-52%**	**-16%**

CURRENT TAX LIABILITY	31.12.2015	31.12.2014
Norway	18	6
Rest of Europe	-3	7
Outside Europe	0	0
Total	**15**	**13**

DEFERRED TAX - MOVEMENTS	2015	2014
Net deferred tax asset 1 January	183	149
Change in deferred tax in the income statement	-479	-155
Deconsolidation of subsidiaries	0	0
Tax on other comprehensive income	-284	212
Tax effect FX net investment hedge	0	0
Group tax allocation balance sheet	5	19
Currency translation differences	-35	-42
Net deferred tax asset/liability (-) 31 December	**-610**	**183**

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY	31.12.2015	31.12.2014
Norway	0	578
Rest of Europe	0	0
Outside Europe	0	20
Deferred tax asset	**0**	**598**
Norway	0	-24
Rest of Europe	-376	-392
Outside Europe	-234	0
Deferred tax liability	**-610**	**-415**
Net deferred tax asset/liability (-)	**-610**	**183**

DEFERRED TAX DETAILS	31.12.2015	31.12.2014
Fixed assets, excess values and depreciation	-865	-665
Pensions	14	108
Provisions and other liabilities	164	136
Currency translation differences and financial instruments	390	337
Deferred tax current items	16	25
Tax losses and tax credit to carry forward	3 286	4 335
Deferred tax asset not recognised [1)]	-3 615	-4 093
Net deferred tax asset/liability (-)	**-610**	**183**

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	9 956	412	2 124	12 492
Tax losses to carry forward	**9 956**	**766**	**2 124**	**12 846**
Tax losses not recognised	-11 694	-669	-2 062	-14 425
Tax credits and other adjustments	1 738	-97	-62	1 579
Total tax losses and tax credits to carry forward (recognised)	**0**	**0**	**0**	**0**
Deferred tax asset	**0**	**0**	**0**	**0**
Tax rate	**25%**	**0**	**28%**	**25%**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2014	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL Restated
2015	0	11	0	11
2016	0	0	0	0
2017	0	117	0	117
2018	0	104	0	104
2019	0	43	0	43
2020	0	34	0	34
2021 and later	0	34	0	34
Indefinite expiry	**9 232**	**3 747**	**1 877**	**14 856**
Tax losses to carry forward	9 232	4 090	1 877	15 199
Tax losses not recognised [1)]	-8 397	-4 104	-2 008	-14 509
Tax credits and other adjustments	1 307	14	202	1 523
Total tax losses and tax credits to carry forward (recognised)	**2 142**	**0**	**71**	**2 213**
Deferred tax asset	**578**	**0**	**20**	**598**
Tax rate	**27%**	**0**	**28%**	**27%**

[1)] *Basis for deferred tax asset not recognised amounted to NOK 14 425 million at 31 December 2015. NOK 12 846 million was related to tax losses to carry forward and NOK 1 579 million was related to other deductible temporary differences. Deferred tax asset not recognised amounted to NOK 3 615 million at 31 December 2015. NOK 3 232 million was related to tax losses to carry forward and NOK 383 million was related to other deductible temporary differences.*

Deferred tax asset arising from the carry forward of unused tax losses is tested against expected future taxable profit on entity level. NOK 256 million is written down in 2015 as there was no tax profit in 2015 to offset tax losses to carry forward from prior year.

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	31.12.2015	31.12.2014
Inventories			
Raw materials and other production input		703	801
Semi-manufactured materials		12	17
Finished goods		538	516
Total	3	**1 253**	**1 334**
Other current assets			
Derivatives	7	3	6
Commodity contracts	7	24	17
Current investments	7	13	16
Total	7	**40**	**39**
Trade and other payables			
Accounts payable	7	1 087	1 272
Accrued labour costs and taxes		479	504
Accrued expenses		328	379
Other interest-free liabilities		27	16
Total		**1 921**	**2 172**
Other current liabilities			
Derivatives	7	54	80
Commodity contracts	7	20	10
Accrued emission rights		13	29
Accrued financial costs		166	172
Restructuring provision	20	55	17
Total		**308**	**309**
Other non-current liabilities			
Derivatives	7	269	242
Commodity contracts	7	38	24
Dismantling provision	20	71	65
Environmental provision	20	200	211
Deferred recognition of emission rights		0	18
Deferred recognition of government grants		43	53
Other non interest-bearing debt		11	79
Total		**631**	**692**

19. INVESTMENTS IN ASSOCIATED COMPANIES

COMPANY	SHARE 31.12.2015	CARRYING VALUE 31.12.2015	SHARE OF PROFIT/LOSS 2015	CURRENCY TRANSLATION DIFFERENCES	ADDITIONS/ DISPOSALS	CARRYING VALUE 31.12.2014
Malaysian Newsprint Industries Sdn. Bhd.	33.7%	373	-23	-14	0	410
Other associated companies		1	0	0	-18	19
Total		**374**	**-23**	**-14**	**-18**	**429**

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 2014, the recognised share of profit/loss in associated companies amounted to NOK 1 million, currency translation differences amounted to NOK 51 million and additions/disposals amounted to NOK -218 million.

MALAYSIAN NEWSPRINT INDUSTRIES SDN. BHD. (MNI)

The company is incorporated in Kuala Lumpur, Malaysia, and is a producer of newsprint. The carrying value of Norske Skog's investment in MNI was NOK 373 million at 31 December 2015, which corresponds to Norske Skog's share (33.7%) of the equity in MNI's company financial statements. No impairment charges were recognised in the last audited annual accounts of MNI. Norske Skog has performed an impairment test for the investment in MNI at 31 December 2015. 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 did not conclude with any impairment needs. For a more thorough description of Norske Skog's impairment testing model, see Note 4. Based on the company's financial statements, operating revenue in 2015 was NOK 883 million (NOK 837 million in 2014) and net loss was NOK 70 million (net profit of NOK 43 million in 2014). Total assets amounted to NOK 1 668 million at 31 December 2015 (NOK 1 725 million at 31 December 2014) and total liabilities were NOK 519 million at 31 December 2015 (NOK 463 million at 31 December 2014).

20. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2014	**166**	**56**	**193**
Changes and new provisions	4	6	-8
Utilised during the year	-153	-8	-4
Periodic unwinding of discount	0	3	8
Currency translation differences	0	8	22
Balance 31 December 2014	**17**	**65**	**211**
Changes and new provisions	53	0	0
Utilised during the year	-15	0	-26
Periodic unwinding of discount	0	2	6
Currency translation differences	0	3	8
Balance 31 December 2015	**55**	**71**	**200**

RESTRUCTURING PROVISION

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

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

The restructuring provision on NOK 17 million at 31 December 2014 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 Bruck (NOK 5 million), Norske Skog Walsum (NOK 2 million) and Norske Skog Skogn (NOK 8 million).

The amount expensed in 2014 in relation to restructuring activities amounted to NOK 4 million. This relates mainly to the restructuring activities listed above. Total payments relating to restructuring activities in 2014 amounted to NOK 153 million. This relates mainly to the closure of PM4 at Norske Skog Walsum (NOK 127 million) and head office (NOK 12 million),

DISMANTLING PROVISION

Provisions related to future dismantling costs arising from a future closing down of production facilities amounted to NOK 71 million at 31 December 2015, compared to NOK 65 million at 31 December 2014. 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 10 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 200 million at 31 December 2015 compared to NOK 211 million at 31 December 2014. The decrease is mainly due to decrease in environmental provision at Norske Skog Tasman. Resources spent on environmental activities during 2015 amounted to NOK 26 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 24 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. NON-CONTROLLING INTERESTS

Norske Skog does not have any non-controlling interests.

22. EARNINGS AND DIVIDEND PER SHARE

	2015	2014
Profit/loss for the year in NOK million attributable to owners of the parent	-1 526	-1 504
Weighted average number of shares in 1 000	189 912	189 933
Basic and diluted earnings/loss per share in NOK [1]	-8.03	-7.92

[1] *There were no dilution effects in 2015 or 2014.*

No dividends were paid for the financial year 2015. The board of directors recommends that no dividend should be disbursed for the financial year 2015. The dividend decision will be made by the annual general meeting on 25 May 2016.


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23. SHARES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Shares in subsidiaries owned by the parent company			
Lysaker Invest AS, Oslo	NOK	109 371	100
Norske Skog Eiendom AS, Oslo	NOK	1 500	100
Norske Treindustrier AS, Oslo	NOK	834 680	100
Shares in subsidiaries owned by consolidated companies			
Advanced Hygiene Solution GmbH, Bruck, Austria	EUR	40	100
Bruck Fibre GmbH, Bruck, Austria	EUR	35	100
Nornews AS, Oslo, Norway	NOK	100	100
Norske Skog AS, Oslo, Norway	NOK	300 000	100
Norske Skog Adria d.o.o, Trzin,Slovenia	EUR	21	100
Norske Skog (Australasia) Pty Ltd., Sydney, Australia	AUD	21 000	100
Norske Skog (Australia) No. 2 Pty Ltd., Sydney, Australia	AUD	0	100
Norske Skog Belgium N.V, Antwerp, Belgium	EUR	62	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	137 388	100
Norske Skog Holding AS, Oslo, Norway	NOK	300 000	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	5 011	100
Norske Skog Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Saugbrugs AS Halden, Norway	NOK	1 052 100	100
Norske Skog Skogn, Levanger, Norway	NOK	1 052 100	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

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Shares owned by the parent company				
Miscellaneous shares	NOK			**20**
Shares owned by other group companies				
Exeltium SAS, Paris, France	EUR	174 504	5	80 232
Exeltium 2 SAS, Paris, France	EUR	3 440	5	1 578
Ignite Energy Resources Ltd., Sydney, Australia	AUD	229 014	1	12 894
Pavatex Holding AG, Cham, Switzerland	CHF	92 698	5	43 180
SEM, Golbey, France	EUR	358	10	3 444
Other shares, each with book value below NOK 1 million				3 663
Total				**144 991**
Total shares included as financial assets				**145 011**

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

24. CAPITAL MANAGEMENT

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

The main focus for the group is to reduce the overall debt burden. In order to improve the capital structure, the group pay no dividends to shareholders at present time and we have implemented continuous cost-improvement initiatives, including headcount reductions and working capital management measures, to improve our cash flow. The new financing and refinancing announced 18 March 2016 will result in additional liquidity, extended bond maturities, reduced debt, lower cash interest payments and new equity. See Note 27 for further information.

As part of refinancing, the structure of the debt in the group was also changed as two new holding companies were established, Norske Skog Holding AS and Norske Skog AS. Norske Skog Holding AS issued the EUR and USD exchange notes due in 2021 and 2023 respectively. Norske Skog AS issued the Senior Secured Notes (SSNs). The SSNs are secured by assets pledges in Australiasia and share pledges in the European operating companies. The exchange notes are guaranteed, but are structurally subordinated to the SSNs. The remaining debt in Norske Skogindustrier ASA remains unsecured. The group has one cash pool for the European entities. The cash pool is legally placed in the parent company Norske Skogindustrier ASA.

As a consequence of a write-off of tax assets in Norway and Australasia as part of the year-end consolidated financial statements, the equity of Norske Skog is negative and hence fell below 50% of the share capital at 31 December 2015. The Board of Directors does not believe that such a level is sufficient for the group. Following the completion of the exchange offer to 2017 noteholders and the issuance of new equity, the group equity level has been improved by more than NOK 1 billion. In accordance with the requirements of the Norwegian Public Limited Liability Companies Act section 3-5, the board of directors will account for Norske Skog's financial position at the upcoming annual general meeting (AGM) in May 2016.

25. CONTINGENT LIABILITIES

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

Norske Skog has continued the process related to simplification of the group's corporate structure in 2015. 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.

Norske Skog announced an Exchange offer to the 2016 bonds and the 2017 bonds 5 January 2016 (the "January Exchange Offers»). On 2 February 2016, the New York State Supreme Court issued a temporary restraining order preventing the closing of the January Exchange Offers. The temporary restraining order had been requested by Citibank, N.A., London Branch in its capacity as trustee under the indenture for the 2019 Senior Secured Notes (the "Plaintiff"). After Norske Skog removed the case to federal court, the United States District Court for the Southern District Court of New York issued an Order 8 March 2016 (the "Order") denying the motion of the Plaintiff for a preliminary injunction to prevent the closing of the January Exchange Offers, on the basis that the Plaintiff had not demonstrated that it would suffer irreparable harm in the absence of the requested injunction. The Order also lifted the temporary restraining order in respect of the January Exchange Offers that had been imposed by the New York State Supreme Court on February 2, 2016.

Nevertheless, due to the uncertainty with respect to the court case and the compelling need of Norske Skog to undertake transactions to resolve uncertainties regarding upcoming maturities, and equity and liquidity situation as expeditiously as possible and before any trials on the merits, Norske Skog decided to amend the terms of the January Exchange Offers. An amended exchange offer was announced 18 March 2016 for the 2017 bonds and the 2016 bond exchange offer was terminated.

26. RELATED PARTIES

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

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

In 2013, Norske Skog entered into a contract with Fram Eiendom (Fram Realinvest AS, Sjølyststranda Næring AS, Fram Eiendomsdrift AS and Skøyen Næringsbygg AS) for the lease of its head office at Skøyen. Torstein I. Tvenge, together with close family members, controls 100% of Fram Eiendom. Tvenge is also a shareholder of Norske Skogindustrier ASA. The lease contract for the head office has been entered into on normal commercial terms. Lease payments to Fram Eiendom recognised as an expense in 2015 amounted to NOK 4.2 million (NOK 4.1 million in 2014).

Chair of the board Jon-Aksel Torgersen in Norske Skogindustrier ASA is CEO of Astrup Fearnley AS. Astrup Fearnley AS owns shares in Norske Skogindustrier ASA. Mr. Torgersen also owns shares in Norske Skogindustrier ASA through his privately owned company Fiducia AS. See note 14 Equity in the parent company financial statements.

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

27. EVENTS AFTER THE BALANCE SHEET DATE

Norske Skog has executed a new securitization facility ("NSF") with GSO and Cyrus under which they provide up to EUR 100 million of funding commitments secured by receivables and inventory of the mills of Norske Skog Saugbrugs AS and Norske Skog Skogn AS, the inventory of the mill of Norske Skog Golbey SAS and certain collection bank accounts. The proceeds from the NSF will exclusively be used to replace the SpareBank1 Gruppen Finans AS Factoring Agreements and to fund working capital and other operational liquidity needs for the group's mills. The SpareBank1 Gruppen Finans AS Factoring Agreements were secured by the receivables of the mills of Norske Skog Saugbrugs AS and Norske Skog Skogn AS and certain collection bank accounts.

On 31 March 2016, Norske Skog issued 63,460,714 new shares at a subscription price of NOK 2.24 in a private placement directed to GSO and Cyrus. The total proceeds of the private placement amounts to NOK 142,151,999.36. The share capital increase pertaining to the private placement has been duly registered in the Norwegian Register of Business Enterprises. Following the share capital increase, Norske Skog's registered share capital is NOK 253,406,340 divided into 253,406,340 ordinary shares each having a par value of NOK 1.00. The newly issued shares cannot be traded on the Oslo Stock Exchange before a listing prospectus has been completed and published, and have accordingly been issued with an ISIN separate from the ISIN of Norske Skog's listed shares pending completion of the prospectus.

The exchange offer to 2017 noteholders to exchange into new notes due in 2026, perpetual notes and the right to subscribe for equity expired on 6 April 2016. Approximately 76% of the aggregate principal amount of the 2017 notes accepted to participate in the exchange offer. This was above the 75% required threshold to bind all of the outstanding 2017 notes to the terms of the exchange offer. The noteholder meeting was held on 11 April 2016. The board of directors made a formal resolution about the execution of the exchange offer transactions on 12 April 2016. The exchange offer realized immediate de-leveraging and improved the book equity by more than NOK 1 billion, reduced the annual cash interest level by more than NOK 100 million and extended debt maturities from 2017 to 2026 and beyond.

The board has determined details for a repair issue to repair for the dilutive effect of the private placement completed on 31 March 2016 to funds under management by GSO Capital Partners LP and Cyrus Capital Partners, L.P. The repair issue is directed to the company's shareholders, with the exception of funds under management by GSO Capital Partners LP and Cyrus Capital Partners, L.P, and shareholders who are resident in jurisdictions in which the repair issue cannot legally be offered. The maximum number of shares to be issued in connection with the repair issue is 31 512 247 and the subscription price is NOK 2.24. Shareholders who have the right to subscribe for shares in the repair issue will have the right to be allocated 0.1925 shares for each share that the shareholder is registered with on the record date (22 April 2016). The subscription rights will not be transferrable. Over-subscription will be permitted, and shares that are not subscribed based on subscription rights will be allocated to shareholders who over-subscribe. Further information will be included in the prospectus, which will be prepared in connection with the repair issue.

In the period from quarter end to reporting first quarter 2016 on 21 April 2016, Norske Skog bought back in the market 2016 notes for a nominal amount of EUR 34.4 million. The remaining outstanding 2016 notes were thus reduced from EUR 108 million at quarter end to EUR 73.6 million as of the reporting date.

There have been no other events after the balance sheet date with significant impact on the financial statements for 2015.

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Financial statements

NORSKE SKOGINDUSTRIER ASA

CONTENTS

INCOME STATEMENT

NOK MILLION	NOTE	2015	2014
Operating revenue	3	**119**	**121**
Employee benefit expenses	8	-88	-90
Other operating expenses		-50	-94
Gross operating earnings		**-20**	**-63**
Depreciation	4	-9	-9
Restructuring expenses		-4	0
Other gains and losses	10	0	0
Operating earnings		**-33**	**-72**
Financial income	6	1 418	1 608
Financial expenses	6	-2 267	-884
Net unrealised/realised gains/losses on foreign currency	6	-573	-903
Profit/loss before income taxes		**-1 456**	**-252**
Income taxes	11	-26	-634
Profit/loss		**-1 482**	**-886**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	2015	2014
Profit/loss	**-1 482**	**-886**
Remeasurements of post employment benefit obligations	-1	-16
Tax effect on remeasurements of post employment benefit obligations	0	4
Other comprehensive income	**-1**	**-12**
Comprehensive income	**-1 483**	**-898**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2015	31.12.2014
Assets			
Deferred tax asset	11	10	33
Intangible assets	4	12	15
Property, plant and equipment	4	16	22
Investments in subsidiaries	5	7 016	12 511
Other non-current assets	12	484	2 177
Total non-current assets		**7 538**	**14 758**
Trade and other receivables	12	129	206
Cash and cash equivalents		261	397
Other current assets	13	5	5
Total current assets		**395**	**608**
Total assets		**7 933**	**15 366**
Shareholders' equity and liabilities			
Paid-in equity		0	1 252
Retained earnings and other reserves		-232	0
Total equity	14	**-232**	**1 252**
Pension obligations	8	44	49
Deferred tax liability	11	0	0
Interest-bearing non-current liabilities	7, 12	5 736	9 665
Other non-current liabilities		0	1
Total non-current liabilities		**5 780**	**9 716**
Interest-bearing current liabilities	7, 12	1 197	1 277
Trade and other payables	12	1 086	2 946
Tax payable	11	5	3
Other current liabilities		97	172
Total current liabilities		**2 385**	**4 399**
Total liabilities		**8 165**	**14 114**
Total equity and liabilities		**7 933**	**15 366**

SKØYEN 28 APRIL 2016– THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Jon-Aksel Torgersen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Cecilie Jonassen
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2015	2014
Cash flow from operating activities			
Cash generated from operations		89	81
Cash used in operations		-447	124
Cash flow from currency hedges and financial items		-2	-75
Interest payments received		5	8
Interest payments made		-447	-624
Taxes paid		-8	1
Net cash flow from operating activities [1)]		**-811**	**-486**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	4	0	-14
Change in intercompany balance with subsidiaries		2 233	668
Sales of shares in companies and other investments		-31	258
Net cash flow from investing activities		**2 202**	**913**
Cash flow from financing activities			
New loans raised		0	0
Repayments of loans		-1 544	-913
Purchase/sale of treasury shares		0	0
Net cash flow from financing activities		**-1 544**	**-913**
Foreign currency effects on cash and cash equivalents		18	81
Total change in cash and cash equivalents		**-135**	**-405**
Cash and cash equivalents 1 January		397	802
Cash and cash equivalents 31 December		261	397
[1)] Reconciliation of net cash flow from operating activities			
Profit/loss before income taxes		-1 456	-252
Depreciation	4	9	9
Taxes paid		-8	1
Change in trade and other receivables		-17	-34
Change in trade and other payables		-312	322
Change in restructuring provision		4	-12
Financial items with no cash impact		978	-513
Change in environmental provisions with no cash impact		0	-1
Change in pension obligations and other long term employee benefits		-9	-6
Net cash flow from operating activities		**-811**	**-486**

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	SHARE CAPITAL	TREASURY SHARES	SHARE PREMIUM	OTHER PAID-IN EQUITY	TOTAL PAID-IN EQUITY	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2014	14	**190**	**0**	**1 355**	**604**	**2 149**	**0**	**2 149**
Comprehensive income		0	0	0	0	0	-898	-898
Uncovered loss allocated other paid-in equity		0	0	-294	-604	-898	898	0
Equity 31 December 2014	14	**190**	**0**	**1 061**	**0**	**1 252**	**0**	**1 252**
Comprehensive income		0	0	0	0	0	-1 483	-1 483
Uncovered loss allocated other paid-in equity		-190	0	-1 061	0	-1 252	1 252	0
Equity 31 December 2015	14	**0**	**0**	**0**	**0**	**0**	**-232**	**-232**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The financial statements were authorised for issue by the board of directors on 28 April 2016.

2. ACCOUNTING POLICIES

The company financial statements of Norske Skogindustrier ASA are prepared in accordance with the Norwegian Accounting Act § 3-9 and International Financial Reporting Standards (IFRS) with respect to recognition and measurement. Disclosures to the financial statements are prepared in accordance with Norwegian Generally Accepted Accounting Principles (N GAAP) and the Norwegian Accounting Act (IFRS light and the related IFRS light 2014 regulation).

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

3. OPERATING REVENUE BY GEOGRAPHICAL MARKET

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

OPERATING REVENUE BY GEOGRAPHICAL MARKET	2015	2014
Norway	46	48
Europe excluding Norway	58	61
Australasia	15	12
Total	**119**	**121**

Operating revenue arising from sales of internal services to other entities in the group amounted to NOK 115 million in 2015. The corresponding figure for 2014 was NOK 120 million. All transactions with other entities in the group are conducted in accordance with the arm's length principle.

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	LICENSES AND PATENTS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost 1 January 2014	29	148	177
Reclassified from plant under construction	14	0	14
Acquisition cost 31 December 2014	**43**	**148**	**191**
Accumulated depreciation and impairments 1 January 2014	28	141	169
Depreciation	2	5	7
Accumulated depreciation and impairments 31 December 2014	**30**	**146**	**176**
Carrying value 31 December 2014	**13**	**2**	**15**
Acquisition cost 1 January 2015	43	148	191
Additions	0	0	0
Disposals	0	0	0
Reclassified from plant under construction	2	0	2
Acquisition cost 31 December 2015	**45**	**148**	**193**
Accumulated depreciation and impairments 1 January 2015	30	146	176
Depreciation	4	1	5
Accumulated depreciation and impairments 31 December 2015	**34**	**147**	**181**
Carrying value 31 December 2015	**11**	**1**	**12**

Licenses, patents and other intangible assets are depreciated on a straight-line basis over a period from three to 20 years.

Other intangible assets consist mainly of capitalised development costs relating to customising of software.

PROPERTY, PLANT AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2014	155	23	178
Additions	0	13	13
Reclassified from plant under construction	20	-34	-14
Acquisition cost 31 December 2014	**175**	**2**	**177**
Accumulated depreciation and impairments 1 January 2014	153	0	153
Disposals	2	0	2
Accumulated depreciation and impairments 31 December 2014	**155**	**0**	**155**
Carrying value 31 December 2014	**20**	**2**	**22**
Acquisition cost 1 January 2015	175	2	177
Additions	0	0	0
Disposals	0	0	0
Reclassified from plant under construction	0	-2	-2
Acquisition cost 31 December 2015	**175**	**0**	**175**
Accumulated depreciation and impairments 1 January 2015	155	0	155
Depreciation	4	0	4
Accumulated depreciation and impairments 31 December 2015	**159**	**0**	**159**
Carrying value 31 December 2015	**16**	**0**	**16**

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

5. SHARES IN SUBSIDIARIES

SHARES IN SUBSIDIARIES	CURRENCY	SHARECAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE (IN NOK 1 000)
Lysaker Invest AS, Oslo	NOK	109 371	100	309 371
Norske Skog Eiendom AS, Oslo	NOK	1 500	100	16 548
Norske Treindustrier AS, Oslo	NOK	834 680	100	6 690 196
Total				**7 016 115**

The investment in subsidiaries have decreased from NOK 12 511 million to NOK 7 016 million during 2015. This in mainly due to impairment of investments in subsidiaries and that the group company structure was changed. Several of the subsidiaries were sold to Norske Treindustrier AS in January 2015 with a net gain of NOK 420 million.

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES	NOTE	2015	2014
Norske Treindustrier AS		-1 468	1 160
Norske Skog Eiendom AS		-27	0
Norske Skog Saugbrugs AS		0	39
Norske Skog Walsum GmbH		0	-123
Norske Skog Walsum GmbH (intercompany loan)		-248	-573
Norske Skog Papers (Malaysia) Sdn. Bhd.		0	55
Total	6	**-1 743**	**558**

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

6. FINANCIAL ITEMS

FINANCIAL ITEMS	NOTE	2015	2014
Financial income			
Dividends received from group companies		300	765
External interest income		6	10
Interest income from group companies [1]		179	271
Reversal impairment losses of investments in subsidiaries	5	0	558
Gain from intragroup sales of shares [5]		420	0
Gain from Exchange of Bonds [4]		399	0
Gain from fair value hedge [4]		90	0
Other financial income [3]		25	4
Total		**1 418**	**1 608**
Financial expenses			
External interest expense		-389	-581
Interest expense from group companies [1]		-95	-278
Impairment of investments in subsidiaries	5	-1 743	0
Other financial expenses [2]		-40	-25
Total		**-2 267**	**-884**
Realised/unrealised gains on foreign currency		-573	-903
Financial items		**-1 423**	**-179**

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

2) Other financial expenses include losses from the divestment of subsidiaries.

3) Other financial income in 2015 NOK 25 million was primarily related to gain from buy-back bonds.

4) In February 2015 Norske Skog completed refinancing a portion of its bond maturities though the issuance of an EUR 290 million Senior Secured Notes (SSN) and exchange of existing bonds into new bonds with longer maturities. Gain from exchange and fair value hedge was respectively NOK 399 million and NOK 90 million. The new SSN was issued by the subsidiary Norske Skog AS and new exchanges bond was issued by the subsidiary Norske Skog Holding AS.

5) In connection with refinancing the group company structure was changed. Several of the subsidiaries were sold to Norske Treindustrier AS with a gain of NOK 420 million.

7. MATURITY OF INTEREST-BEARING LIABILITIES

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

MATURITY OF THE COMPANY'S DEBT AT 31.12.2014	DEBT BANKS	BONDS	TOTAL
2015	40	1 176	1 216
2016	40	1 171	1 211
2017	27	3 510	3 537
2018	14	0	14
2019	14	0	14
2020	14	0	14
2021	7	0	7
2022-2033	0	1 487	1 487
Total	**155**	**7 344**	**7 500**

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

The Innovasjon Norge facility due 2019 holds a minimum equity covenant, and as consequence of breaching this clause in two consecutive quarters, the facility has been classified as short term in accordance with accounting practice with NOK 95 million falling due in first quarter 2016. A waiver of the minimum equity clause has been approved by Innovasjon Norge in 2016, and hence the original repayment plan with maturity in 2019 has been restored.

8. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	2015	2014
Salaries including holiday pay	62	55
Social security contributions	16	22
Pension costs	5	7
Other employee benefit expenses	5	6
Total	**88**	**90**

The company is required by law to have a pension scheme for all employees. The company's pension plan is compliant with the requirements in the Norwegian Act relating to mandatory occupational pension. Detailed information on salary and other compensation for senior employees, as well as information regarding audit fees, can be found in Note 12 Employee benefit expenses in the consolidated financial statements.

	31.12.2015	31.12.2014
Man-labour years	42	58

NET PERIODIC PENSION COST	2015	2014
Current service cost	1	2
Pension cost defined contribution schemes	3	3
Accrued national insurance contributions	0	0
Recognised curtailment and settlement	0	0
Net periodic pension cost	**4**	**5**
Net periodic interest cost	**1**	**1**

PENSION ASSET IN THE BALANCE SHEET	31.12.2015	31.12.2014
Projected benefit obligations	-43	-40
Plan assets at fair value	43	40
Net pension asset in the balance sheet	**0**	**0**

PENSION OBLIGATION IN THE BALANCE SHEET	31.12.2015	31.12.2014
Projected benefit obligations	-44	-49
Plan assets at fair value	0	0
Net pension obligation in the balance sheet	**-44**	**-49**

SPECIFICATION OF RE-MEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2015	2014
Actuarial changes arising from changes in demographic assumptions	2	-7
Actuarial changes arising from changes in financial assumptions	0	0
Experience adjustments + investment management costs	-9	-5
Asset ceiling – asset adjustment	6	0
Total	**-1**	**-12**

SENSITIVITY ANALYSIS	Increase	Decrease
Discount rate – 0.5%	-5	5
Salary adjustment – 0.5%	1	-1

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

9. SALARY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

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

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

FIXED SALARY

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

VARIABLE ELEMENTS

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

Annual incentive plans

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

Long-term incentive programme

The purpose of the company's long-term incentive programme is to secure a continued strong focus on the development of shareholder value. The current long-term incentive programme was launched in 2014, and is based on rolling scheme with awards of synthetic options targeting a positive share price development over a three-year period from the date of award of the relevant synthetic options. Within the frames of the programme, the board may grant synthetic options to the corporate management and other key employees, including managing directors of the Norwegian business units. The synthetic options are settled three years following the date they are awarded, but up to one third of the options may at the board's discretion be settled through a bonus payment each year after the relevant award. In 2014, 3 780 000 synthetic options were issued under the programme, and were awarded with 2 430 000 options on 16 July 2014 and 1 345 000 options on 2 June 2015. In 2016, 9 450 000 new synthetic options were issued under the programme. Of these 70% has been allocated for award in 2016 and 30% has been allocated for award in 2017. As of the date hereof, none of the synthetic options issued in 2016 have been awarded yet. Each option carries the right to be paid an amount in cash equal to (a) the fair market value less (b) the exercise price, including any hurdle rate added to the exercise price as of the exercise date. Fair market value is the volume weighted average trading price of the shares on Oslo Stock Exchange over a period of five trading days starting on the exercise date. The initial exercise price (strike price) for the synthetic options awarded in 2014 and 2015 were NOK 4.80 and NOK 3.85, respectively. The synthetic options issued in 2016 have a strike price of NOK 2.24, reflecting the subscription price applied in the private placement completed on 31 March 2015 and in the repair offering contemplated to be commenced at the end of May 2016. The exercise price for the synthetic options granted in 2014 and 2015 shall be increased by 10 per cent pro anno (the hurdle rate). The hurdle rate shall be added to the exercise price annually in arrears as of each anniversary of the award date, and shall from then be included in the basis for the calculation of further hurdle rate. The synthetic options issued in 2016 are not subject to a hurdle rate.

The long-term incentive falls within the scope of IFRS 2 Share-based payments. A share-based payment transaction is a transaction in which the company receives services from the employee of those services in a share-based payment arrangement. A cash-settled share-based payment transaction is a share-based payment transaction in which the entity acquires services by incurring a liability to transfer cash to the employee of those services for amounts that are based on the price of the shares in the company. IFRS 2 applies not only to awards of shares but also to awards of cash of a value equivalent to the value, or a movement in the value, of a particular number of shares, which is the case for the long-term incentive plan. The ultimate cost of a cash-settled share-based transaction is the actual cash paid to the counterparty, which will be the fair value at settlement date. The periodic determination of this liability is at each reporting date between grant and settlement the fair value of the award. The fair value of the award is determined in accordance with the specific requirements in IFRS 2. During the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period. All changes in the liability are recognised in profit or loss for the period. The fair value of the liability is determined by applying an option pricing model, taking into account the terms and conditions on which the cash-settled transaction was granted, and the extent to which the employees have rendered services to date. Norske Skog has made a fair value measurement of the liability using a Black & Scholes model for European call options with no dividends.

Further variable elements

Further variable elements include a fixed mileage allowance, newspapers, mobile phone and coverage of the costs of broadband communication in accordance with established standards.

PENSION PLANS

Norske Skogindustrier ASA introduced the current defined contribution plan with effect from 1 January 2011, with a contribution of 4% for earnings between 1 and 12 G (base amount in the Norwegian national insurance scheme) and additional 4% between 6 G and 12 G. The previous scheme with pensionable age of 67 and providing a pension of approximately 65% of ordinary salary at retirement, and 60% from the age of 77 including national insurance, was closed from 31 December 2010, and now only covers employees who were born prior to 1 January 1959 and who were employed in the company before the closure. The company also has a supplementary scheme for the part of salary exceeding 12 G, and there is a separate early retirement pension scheme from 64 to 67 years for corporate management, previously referred to as insured supplementary plans. It was decided to terminate these insured supplementary plans with effect from 1 January 2007 and they were replaced by a book reserve arrangement for the pension part, a disability insurance and a group life insurance (annual base salary) replacing dependents' pensions. Corporate management is covered by a special group life insurance policy with payments limited to three times the annual salary and a maximum of 80 G. Old age pension for the part of salary exceeding 12 G was also changed to a defined contribution plan from 1 January 2011. At the time of the change, employees who were born before 1 January 1959 were given the opportunity to continue with the defined benefit plan. Norske Skog provided salary compensation for employees who were at a financial disadvantage because of the change from a defined benefit to a defined contribution plan, both in the main plan and in the plan for salary above 12 G. This salary compensation was based on certain assumptions about the future at the time of the change, including return on assets, salary adjustment, change in the base amount (G) and inflation. The compensation will not be changed even if these factors should turn out to be different from the assumptions.

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

TERMINATION PAYMENT AGREEMENTS

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

10. OTHER GAINS AND LOSSES

OTHER GAINS AND LOSSES	2015	2014
Gains and losses on disposal of property, plant and equipment	0	0
Total	**0**	**0**

11. INCOME TAXES

TAX EXPENSE	2015	2014
Current tax expense	-3	-9
Change in deferred tax	-23	-625
Total	**-26**	**-634**

INCOME TAX RECONCILIATION	2015	2014
Profit/loss before income taxes	-1 456	-252
Computed tax at nominal tax rate of 27%	393	68
Exempted income/non-deductible expenses	962	266
Impairment of investments in subsidiaries	-1 246	-3
Adjustment previous years	4	-1
Change in tax rate	-42	4
Other items	-49	13
Change tax loss not recognised	-48	-981
Total tax expense (-)/income	**-26**	**-634**

DEFERRED TAX	2015	2014
Net deferred tax asset /liability (-) 1 January	33	695
Net deferred tax asset/liability (-) 1 January (restated)	0	0
Deferred tax charged in the income statement	-23	-625
Tax expense in other comprehensive income	0	4
Reclassification of group tax items	0	-41
Net deferred tax asset/liability (-) 31 December	**10**	**33**

DEFERRED TAX – DETAILS	31.12.2015	31.12.2014
Property, plant and equipment, excess values and depreciation	-95	-129
Pensions	11	13
Provisions and other liabilities	6	9
Currency translation differences and financial instruments	265	246
Current items	1	33
Tax losses and tax credit to carry forward	-179	-139
Net deferred tax asset/liability (-)	**10**	**33**

TAX LOSSES AND TAX CREDIT TO CARRY FORWARD - DETAILS	31.12.2015	31.12.2014
Tax losses to carry forward	6 888	6 636
Tax losses and other tax credits not recognised [1]	-7 831	-7 354
Tax credits	217	202
Total losses to carry forward and tax credits	**-726**	**-516**
Tax losses and tax credit to carry forward	**-179**	**-139**
Tax rate	**25%**	**27%**

[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.*

12. INTERCOMPANY RECEIVABLES/LIABILITIES

NON-CURRENT INTERCOMPANY RECEIVABLES	31.12.2015	31.12.2014
Lysaker Invest AS	80	0
Norske Skog AS	78	0
Norske Skog Skogn AS	1	490
Norske Skog Saugbrugs AS	22	555
Norske Skog Industries Australia Ltd.	287	609
Norske Skog Walsum GmbH	0	123
Norske Skog France SARL	0	12
Norske Treindustrier AS	11	365
Other intercompany receivables	1	2
Total	**480**	**2 156**

CURRENT INTERCOMPANY RECEIVABLES	31.12.2015	31.12.2014
Lysaker Invest AS	29	68
Nornews AS	6	22
Norske Skog Skogn AS	1	0
Norske Skog Saugbrugs AS	0	1
Norske Skog Industries Australia Ltd.	26	0
Norske Skog Golbey SA	0	42
Norske Skog Danmark Aps	2	2
Norske Skog Nordic & Export Sales AS	0	1
Norske Skog Property AS	0	41
Other current intercompany receivables	1	2
Total	**65**	**179**

NON-CURRENT INTERCOMPANY LIABILITIES	31.12.2015	31.12.2014
Lysaker Invest AS	0	63
Nornews AS	0	65
Norske Skog Bruck GmbH	43	87
Norske Skog Golbey SA	237	176
Norske Skog Holding AS	1 963	0
Norske Skog Property AS	0	48
Norske Treindustrier AS	560	2 822
Total	**2 803**	**3 261**

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

CURRENT INTERCOMPANY LIABILITIES	31.12.2015	31.12.2014
Norske Skog Skogn AS	54	117
Norske Skog Saugbrugs AS	34	222
Norske Skog Deutschland GmbH	37	37
Norske Skog Eiendom AS	30	263
Norske Skog Bruck GmbH	79	52
Norske Skog Golbey SA	58	134
Norske Skog Holding AS	585	0
Norske Skog Holland B.V.	22	19
Norske Skog Industries Australia Ltd.	0	200
Norske Skog France SARL	14	27
Norske Skog Tasman Ltd.	59	61
Norske Skog UK Ltd.	64	36
Norske Skog Walsum GmbH	0	7
Norske Treindustrier AS	18	1 440
Norske Skog Österreich GmbH	5	4
Wood and Logistics AS	0	14
Other current intercompany liabilities	2	6
Total	**1 061**	**2 639**

13. OTHER CURRENT ASSETS

OTHER CURRENT ASSETS	31.12.2015	31.12.2014
Current investments	5	5
Total	**5**	**5**

14. EQUITY

The share capital of the company at 31 December 2015 was NOK 189 945 626 and consisted of 189 945 626 shares, each with a nominal value of NOK 1. The number of treasury shares at 31 December 2015 was 19 667. The company purchased 300 000 and sold 280 643 treasury shares during the year.

As a consequence of the impairment write-downs made as part of the year-end consolidated financial statement closing process announced earlier and its impact on the financial statements of Norske Skogindustrier, the company's booked equity is below 50% of the share capital. In accordance with the requirements of the Norwegian Public Limited Liability Companies Act section 3-5, the board of directors will account for Norske Skogindustrier ASA and the group's financial position in the upcoming annual general meeting in May 2016.

In a separate transaction at the end of March 2016, Norske Skogindustrier ASA issued 63 million new shares to GSO and Cyrus at a price of NOK 2.24 per share. Total proceeds amounted to NOK 142 million. The equity issue enhanced the group's equity and liquidity position. An equity repair offering will be offered to existing shareholders following the private placement.

In April 2016, the exchange offer to 2017 noteholders was successfully completed with more than three quarters of holders voting in favour. Given the large acceptance, the offer was binding for all 2017 noteholders. All the remaining 2017 notes, amounting to EUR 218 million, were thus exchanged into a combination of new 2026 notes, perpetual notes with maturity in 2115 and a right to subscribe in cash for ordinary shares of the company. The completion of the exchange offer resulted in an immediate deleveraging and reduced net interest bearing debt and improved group equity by more than NOK 1 billion and reduced annual cash interest payments by more than NOK 100 million. Various other liquidity initiatives includes divestments of certain assets and a reduction in cash tied up in energy arrangements.

As described above the board of directors recognizes the challenging industry Norske Skog operates in and the remaining high financial leverage in Norske Skogindustrier ASA 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, in its capacity as the ultimate parent company of the group, Norske Skogindustrier ASA is also exposed to the risks of funding from the cash generating operations being available for the parent 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.

On 25 April 2012, the general assembly resolved to reduce the nominal value of the company's shares from NOK 10 to NOK 1, and to transfer NOK 2 000 million from share premium reserve to other paid-in equity. Total value transferred to other paid in equity amounted to NOK 3 708 million. This resolution came in addition to the resolution on 12 April 2007 to transfer NOK 7 000 million from share premium reserve to other paid-in equity.

Norske Skogindustrier ASA has at 31 December 2015 no distributable equity.

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
GSO Capital Partners	10.59
Dimensional Fund Advisors	4.37
Cyrus Capital	3.26
Nobelsystem Scandinavia AS	3.03
Allskog BA	2.79
Astrup Fearnley AS (see Note 26 Related parties in the consolidated financial statement)	2.73
Uthalden A/S	2.34
Fiducia AS (see Note 26 Related parties in the consolidated financial statement)	1.84
Barokk Invest AS	1.67
Ses AS	1.58
Swedbank Norge Marketmaking account	1.58
Danske Bank A/S (Nominee)	1.22
Skandinaviska Enskilda Banken	1.08
Sven Ombudstvedt (Elle Holding AS)	1.06
Torstein I. Tvenge	1.05
Alfaplan AS	1.04

The shareholder list is provided by RD:IR and VPS, through the Nominee ID service. The information is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Norske Skogindustrier ASA share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis.

SHAREHOLDERS ON THE BOARD OF DIRECTORS AS OF 28 APRIL 2016	NUMBER OF SHARES
Elected by the shareholders	
Jon-Aksel Torgersen, Oslo (0), Fiducia AS (3 486 644) (chair) (see Note 26 Related parties in the consolidated financial statement)	3 486 644
Eilif Due, Levanger (see Note 26 Related parties in the consolidated financial statement)	3 256
Nils Hoff, Bønes	0
Joanne Owen, London	0
Elected by the employees	
Cecilie Jonassen, Norske Skog Saugbrugs AS	1 943
Paul Kristiansen, Norske Skog Saugbrugs AS	22 491
Svein Erik Veie, Norske Skog Skogn AS	16 792
Shareholders among corporate management	
Sven Ombudstvedt (1 012 149), Elle Holding AS (1 000 000)	2 012 149
Rune Sollie (19 588), Tia Ynwa AS (134 295)	153 883
Lars P. Sperre	34 991
Roar Ødelien	0

15. GUARANTEES

The company has guaranteed the EUR 290 million Senior Secured Note issued by Norske Skog AS with a total of NOK 2 790 million as at 31 December 2015 (no guaranteed debt as at 31 December 2014). Parent company guarantees on behalf of subsidiaries amounted to NOK 691 million at 31 December 2015 (NOK 672 million at 31 December 2014). The guarantees are mainly issued to electricity and transportation services in addition to the NOK 250 million facility to Sparebank 1 Gruppen Finans AS. Parent company bank guarantees on behalf of subsidiaries amounted to NOK 157 million at 31 December 2015 (NOK 162 million at 31 December 2014). The guarantees are mainly issued to electricity providers, customs- and VAT authorities.

16. RELATED PARTIES

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

17. EVENTS AFTER THE BALANCE SHEET DATE

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

Statsautoriserte revisorer
Ernst & Young AS

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To the Annual Shareholders' Meeting of
Norske Skogindustrier ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Norske Skogindustrier ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the balance sheet as at 31 December 2015, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the financial statements for the Parent Company and the Group.

Basis for adverse opinion

In the Group financial statements the company's investment in associates and the carrying value of property, plant and equipment are significantly overstated based on our analysis of recoverable amounts. These matters constitute in our view significant departures from International Financial Reporting Standards as adopted by the EU. In our opinion an impairment of at least NOK 2.000 million should have been recognized applying the going concern assumption. If such impairment had been recognized book value of assets and equity would have been reduced by at least NOK 2.000 million respectively, which would lead to a significant negative equity for the group.

In the parent company financial statements investments in subsidiaries are significantly overstated based on our analysis of recoverable amounts. These matters constitute in our view a departure from the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway. In our opinion an impairment of at least NOK 2.000 million should have been recognized. If such impairment had been recognized book value of assets and equity would have been reduced by at least NOK 2.000 million respectively, which would lead to a significant negative equity for the parent company.

Adverse opinion on the financial statements of the Parent Company

In our opinion, because of the significance of the matters described in the Basis for adverse opinion paragraph, the financial statements do not present fairly the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Adverse opinion on the financial statements of the Group

In our opinion, because of the significance of the matters described in the Basis for adverse opinion paragraph, the consolidated financial statements do not present fairly the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Accordingly, the accounts as presented should in our opinion not be adopted as the Company's financial statements for 2015.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the Board of Directors' report and Note 8 to the financial statements and the matters described in the section "basis for adverse opinion" above, which indicates the existence of material uncertainties that may cast significant doubt on the Company's and the Group's ability to continue as a going concern and, therefore, that the entity and the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements and the going concern assumption 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 the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway, except for the violation of the accounting act regarding valuation of investments in subsidiaries.

Other matters
The Company's and the Group's financial situation is distressed. In our opinion, the equity is negative and the liquidity situation challenging. In our view it is a possibility that the Board of Directors may be held liable for continuing the operations without adequate equity or financing.

Oslo, 29 April 2016
ERNST & YOUNG AS

Eirik Tandrevold
State Authorised Public Accountant (Norway)

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

We declare that to the best of our knowledge, the financial statements for the period 1 January to 31 December 2015 have been prepared in accordance with prevailing accounting practices, and that the information in the financial statements provides a correct impression of the company's and the group's assets, liabilities, financial position and result as a whole. We also declare that the annual report provides a correct overview of the development, result and position of the company and the group, along with a description of the key risk and uncertainty factors which the company and the group face.

SKØYEN 28 APRIL 2016 – THE BOARD OF DIRECTORS OF NORSKE SKOGINDUSTRIER ASA

Jon-Aksel Torgersen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Cecilie Jonassen
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Svein Erik Veie
Board member

Sven Ombudstvedt
President and CEO

CORPORATE GOVERNANCE IN NORSKE SKOG

Norske Skogindustrier ASA is a Norwegian based paper manufacturer with global production and sales operations. Norske Skog's goal is to increase shareholder value, through profitable and sustainable production of publication paper. Norske Skog is listed on the Oslo Stock Exchange and is subject to Norwegian law, including Norwegian securities legislation and stock exchange regulations, as well as international bond market regulations.

The board of directors of Norske Skog has a strong focus on ensuring compliance with applicable corporate governance standards. Norske Skog is subject to reporting requirements for corporate governance pursuant to Section 3-3b the Norwegian Accounting Act, and complies with the Norwegian Code of Practice for Corporate Governance (the "Code", see www.nues.no, English pages). This corporate governance statement follows the structure of the Code published on 30 October 2014.

Corporate governance principles as referred to in this statement define roles and responsibilities, powers and processes, between and within governing bodies, such as the general meeting, the board and the corporate management. For further information about corporate bodies and corporate governance matters, please visit Norske Skog's website www.norskeskog.com.

Corporate Governance is a continuously addressed by the board, and the board has approved this corporate governance statement.

1. IMPLEMENTATION AND REPORTING

Deviations from the Code are explained where relevant in this statement. Norske Skog's Steering Documents and corporate governance principles are fundamental for the company's corporate governance and value creation. Compliance with the Steering Documents is mandatory for employees and others acting on the company's behalf, and similar conduct and ethical standards are expected in partnerships, joint ventures and partially owned subsidiaries. The Steering Documents, which can be found on the company's website, include Norske Skog's values, and define ethical fundaments for the company's operations.

The Steering Documents confirm that the company's aim is to maximize shareholder value through operations within the publication paper industry. The company values are openness, honesty and cooperation and guide our behaviour across regions. These values, together with the leadership principles, are the fundament to ensure ethical and competitive business conduct within and on behalf of Norske Skog.

Furthermore, the Steering Documents constitute the company's social responsibility policy through providing the basic requirements for sustainable operations with regards to health and safety, environment, people (fairness, equality and merit based opportunities), corporate conduct (anti-corruption, legal compliance and business ethics), as well as financial management and reporting. Key international standards and agreements create a basis for the Steering Documents, hereunder the UN Global Compact and the ICEM agreement.

2. BUSINESS

Norske Skog's business purpose is set out in the Articles of Association, article 2: "The objective of the company is to operate wood processing activities and associated activities. The company may participate in other commercial activity by subscribing to shares or in other ways". The overall strategic guidelines involve producing at the lowest possible cost, seeking out growth that strengthens profit and focusing on core activities. The Articles of Association are available on the company's website.

3. EQUITY AND DIVIDENDS

Equity

The board closely monitors the developments of the equity and liquidity, and considers and implements on a continuous basis various measures to ensure that the group and companies improve the level of equity and liquidity.

As a consequence of among other things a write-off of tax assets in Norway and Australasia made as part of the process with preparing the year-end consolidated financial statements for 2015, Norske Skog's consolidated total equity as at 31 December 2015 was NOK -229 million, which is equivalent to -1.8% of total assets. Norske Skog is continuously working on a number of equity and liquidity enhancing initiatives to improve the aforementioned equity level. In March and April of 2016, Norske Skog has among other things completed an issue of new equity and an exchange offer for the senior unsecured notes previously due in 2017, which improved the group's equity level with than NOK 1 billion.

The issue of new equity was made through a private placement to funds managed by GSO Capital Partners LP and Cyrus Capital Partners, L.P. and was completed on 31 March 2016. The private placement comprised approximately 63 million new shares at a subscription price of NOK 2.24 per share, and provided total gross proceeds in the amount of approximately NOK 142 million.

The exchange offer for the senior unsecured notes previously due in 2017 was completed on 11 April 2016, and comprised an exchange of all of the notes previously due in 2017 to a combination of new senior unsecured notes due in 2026 and perpetual notes due in 2115. Following completion of the exchange offer, there are no notes due in 2017. The completion of the exchange offer resulted in an immediate deleveraging and reduced net interest bearing debt and improved group equity by more than NOK 1 billion. Furthermore, the completion of the exchange offer has reduced annual cash interest payments by more than NOK 100 million.

On 21 April 2016, Norske Skog announced the terms of a repair offering to repair for the dilutive effect of the abovementioned private placement. The repair offering comprises an issue of up to 31 512 247 new shares at a subscription price of NOK 2.24 per share, providing total gross proceeds in the amount of up to NOK 71 million.

The work on ongoing and future equity and liquidity enhancing initiatives remains and will continue to remain a high priority of Norske Skog.

At the extraordinary general meeting held on 6 January 2016, the board of directors accounted for Norske Skog's financial position in accordance with the provision of Section 3-5 of the Norwegian Public Limited Liability Companies Act, and the board of directors will similarly account for the financial position in the annual general meeting scheduled for 25 May 2015.

Dividends

It follows from Norske Skog's shareholder policy that the dividend policy shall be competitive and responsible. Due to the financial results of the company, no dividends have been disbursed in the last years. The board and corporate management strive towards getting the company into a dividend position again.

Purchase of treasury shares

The annual general meeting in 2015 authorised the board to purchase treasury shares, for the sole purpose of offering employees the opportunity to purchase shares at rebated prices in a limited employee share purchase programme, and up to a nominal value of NOK 3 800 000, however at no time exceeding 2% of outstanding shares. The shares should be acquired at the stock exchange quoted share price. The authorisation was granted for the period up to the next annual general meeting. On 31 December 2015, Norske Skog owned a total of 19 667 treasury shares. During 2015, a total of 180 643 shares were sold to Norwegian employees at a discount of up to 20% and with a maximum discount of NOK 1 500 per employee as a part of the employee share purchase programme. The shares are subject to a one year lock-up period from the date of acquisition by the relevant employee.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Norske Skogindustrier ASA has one class of shares. Shareholders shall be treated equally, and voting rights are based on the principle one share – one vote. Pursuant to the Steering Documents and the board's manual, the members of the board and the corporate management shall notify the board if they have any material interest in any transaction entered into by the company.

All transactions with related parties shall be entered into in accordance with the arm's length principle. For information on transactions with related parties, please see Note 26 in the consolidated financial statements.

5. FREELY NEGOTIABLE SHARES

The Articles of Association do not impose any restriction on the negotiability of Norske Skog's shares, and pursuant to the Steering Documents for Financial Management and Reporting, the Norske Skog share shall be freely negotiable.

6. GENERAL MEETINGS

The general meeting is the shareholders' forum and the supreme governing body of the company. The Articles of Association do not impede the shareholders' rights as provided by the Public Limited Liability Companies Act. The board sets the agenda for the general meeting. In accordance with applicable laws and deadlines, the minutes from the general meeting are published externally and on the company's website.

At the general meeting in April 2015, 42 shareholders and shareholder proxies were present, representing 67 177 545 shares out of a total of 189 945 316 voting shares, corresponding to 35.37% of the total number of voting shares. The company strives to promote the shareholders' rights and opportunities to carry out their rights in the general meetings:

- The summons and documentation for the general meeting, including the proposal by the election and remuneration committee, are made available on the company's website and distributed to the shareholders.
- Any shareholder may, by written notification to the board no later than seven days before the due date for submitting of the summons, require items to be included in the agenda for the general meeting.
- Participation at the general meeting is made possible by registering voting in advance, electronically or in writing, also on individual agenda items.
- The summons and documentation for the general meeting are sufficiently detailed and comprehensive for the shareholders to assess, discuss and vote on the matters presented to the general meeting.
- The deadline for giving notice of attendance to the general meeting is set as close to the date of the meeting as possible. In 2015, the deadline was two days before the annual general meeting.
- The company's external auditor will attend the general meeting and present conclusions in the auditor's report.
- The summons for the general meeting will be given, and the general meeting will be chaired by the chair of the board. The company's Articles of Association include a provision on election of another chairperson for the general meeting.

An extraordinary general meeting was held on 6 January 2016, with 98 shareholders and shareholder proxies present, representing 93 988 214 shares out of a total of 189 925 929 voting shares. This corresponds to 49.49% of the total number of voting shares. Based on the recommendation from the election and remuneration committee, the extraordinary general meeting elected Joanne Owen and Nils Ingemund Hoff as new shareholder-elected members of Norske Skog's board of directors.

The Code recommends that the general meeting elects board members individually. Traditionally, Norske Skog's general meeting is invited to elect the board members collectively to promote the board as a qualified team and in accordance with legal requirements for gender representation. Norske Skog does not require the entire board's presence at the general meeting. However, the chair of the board will be present, and employee representatives and a number of shareholder elected members will regularly be present. Furthermore, the corporate management will at least be represented by the CEO and the CFO. In line with the above, Norske Skog does not require the entire election and remuneration committee's presence at the general meeting. However, the chair of the committee will be present to explain the committee's proposal.

7. ELECTION AND REMUNERATION COMMITTEE

Pursuant to the Articles of Association, Norske Skog has an election and remuneration committee with four shareholder representatives and one employee representative.

The shareholder representatives, including the chair of the committee, are elected by the general meeting. The election and remuneration committee proposes shareholder candidates for election to the board, and shall ensure that the board has a sound composition of competencies and capacity to perform the responsibilities of the board, including with respect to the company's strategic development, financial matters and supervision of the operations and continuous improvement initiatives.

Furthermore, representation of shareholders as well as providing a good working climate in the board, are important elements in evaluating and proposing candidates. Upon its own discretion, the election and remuneration committee may engage company resources and external consultants to assist in search for candidates. As a basis for its work, the committee also invites shareholders' input, interviews board members and the CEO, and reviews the board's self-evaluation.

The election and remuneration committee also proposes its own succession candidates. Members of the committee should be independent from the board and the corporate management. With today's shareholder structure, the Norwegian forest owners are the only shareholder group directly represented in the committee.

The committee also proposes remuneration of the governing bodies, including for the committee itself. Whereas the employee representative on the committee does not have voting rights regarding shareholder candidate proposals, he or she has voting rights with regard to remuneration of all members of governing bodies.

The election and remuneration committee's proposals for election and remuneration of members of the governing bodies are submitted to the shareholders, together with the other documentation for the general meeting.

Norske Skog provides information on its website about members of the election and remuneration committee.

8. THE BOARD'S COMPOSITION AND INDEPENDENCE

According to the Articles of Association, the board of Norske Skog shall have between seven and ten board members. Following the resignation of the board member Siri Hatlen in February 2016, the current number of board members is seven, including three employee representatives. For the employee representatives, personal alternate members have been elected. In the extraordinary general meeting on 6 January 2016, Joanne Owen and Nils Ingemund Hoff were elected as new shareholder-elected members of Norske Skog's board of directors, and replaced Karin Bing Orgland and Ole Enger. Of the four shareholder elected board members, one is a woman and three are men. The requirement of gender representation in the Public Limited Liability Companies Act sets out that if the number of shareholder elected board members is 4 or 5, at least two of the members shall be women. The requirement is therefore not fulfilled at present. However, at the annual general meeting scheduled for 25 May 2016, a new female board member will be elected, and the composition of shareholder elected board members will then be two women and three men, which will be in compliance with the requirement of gender representation. Two employee representatives are men and one is a woman. Their representation fulfils the legal requirements for gender representation.

All shareholder elected directors are elected for one year at a time. All current directors have a statistical attendance at board and committee meetings of nearly 100%. Neither the company's external auditor, nor any member of the corporate management, is a member of the board. The CEO and the CFO attend all board meetings, and the auditor attends board meetings in connection with the annual financial statements and on other audit related matters.

Except for GSO Capital Partners LP and funds it manages, which on 31 March 2016 flagged a combined shareholding of 24.47%, no shareholder or shareholder group holds more than 10% of the shares in the company. All Norske Skog directors are independent and act autonomously of the company's main business partners, corporate management and shareholders. However, the board member Eilif Due has relations to the Norwegian forest owners. Allskog BA, of which Eilif Due is the chairman, holds approximately 1.38% of the shares in the company. The other large forest owner entity holding shares in the company is AT Skog SA, which holds approximately 0.74% of the shares. Jon-Aksel Torgersen is CEO of Astrup Fearnley AS. Astrup Fearnley AS owns approximately 2,05% of the shares in the company on a consolidated basis.

The chairman of the board Jon-Aksel Torgersen is among the larger personal shareholders of the company. As at 31 December 2015, the chairman Jon-Aksel Torgersen held 3 486 664 shares through his wholly-owned company Fiducia AS. Eilif Due personally held 3 256 shares, Paul Kristiansen personally held 22 491 shares, Svein Erik Veie personally held 16 792 shares and Cecilie Jonassen personally held 1 943 shares.

As at 31 December 2015, the CEO Sven Ombudstvedt held in total 2 012 149 shares, partly personally and partly through his wholly-owned company Elle Holding AS, the CFO Rune Sollie held in total 153 883 shares, partly personally and partly through his wholly-owned company Tia Ynwa AS and the SVP Corporate Strategy & Legal Lars P. Sperre personally held 34 991 shares.

9. THE WORK OF THE BOARD

The board's main tasks comprise the overall responsibility for the management of the company, and overseeing the daily administration and operations of the company. Throughout 2015 and into 2016, the board has concentrated a significant amount of time on strategic and financial matters. Efforts and results within the areas of health, environment and safety are annually reported comprehensively to the board, and the CEO reports on health, environment and safety, operations and market developments in every board meeting.

The board prepares an annual plan for its work, clearly setting out strategic, financial, operational and organisational matters for discussion and resolution. In addition to addressing the matters on such plan, the board continuously addresses matters and processes which require the board's involvement from time to time.

The board has two sub-committees: An audit committee, as required by the Public Limited Liability Companies Act, and a compensation committee. The members of the audit committee are Paul Kristiansen (chair), Jon-Aksel Torgersen and Eilif Due. The members of the compensation committee are Jon-Aksel Torgersen (chair), Joanne Owen and Eilif Due. The board manual sets out clear mandates on defined areas of responsibility for both committees. The committees undertake preparatory discussions and submit their recommendations to the full board, but do not adopt any resolutions.

The audit committee focused on the company's financial reporting and internal control function in 2015. The compensation committee focused on the company's long term incentive program in 2015, in accordance with the resolution made at the annual general meeting in April 2015. The external auditor and the CFO attend the meetings of the audit committee. The CEO attends the meetings of the compensation committee, except when the CEO's remuneration is being discussed.

The full board held 16 physical meetings in 2015, which was 8 more than its annual plan. 3 matters were resolved by written resolutions and 1 meeting was held as a phone meeting. The audit committee held 8 meetings in 2015. The compensation committee held 2 meetings in 2015.

The board has carried out a self-assessment with a statistical survey and a follow-up board discussion. The outcome of the self-assessment has been presented to the election and remuneration committee.

THE BOARD MANUAL

The board has adopted a board manual. Minor updates were made to the manual in December 2013 and no amendments were made in 2015. The mandate for the compensation committee was revised in December 2010 and the mandate for the audit committee was revised in December 2012.

The board manual sets out the directors' duties. Employee representatives have the same rights and obligations as shareholder elected board members. Furthermore, the manual sets out general loyalty obligations of the board members towards the company and to ensure equal treatment of shareholders. To maintain the board members' independence, they may not assume business relations and special tasks for the company in addition to their directorship, without informing the full board, and any remuneration for such tasks requires board approval.

In light of the board members' status as primary insiders of Norske Skog, the company's instruction for primary insiders is a part of the board manual. This instruction was revised in October 2012.

The board manual clarifies responsibilities of the chair of the board and the CEO, the board's obligations towards the general meeting, and the quorum and voting procedures in board meetings. The board manual also sets out the mandates for the two board committees referred to above. The mandate for the audit committee includes the accounting and financial reporting processes of the company, as well as the company's enterprise risk management, control functions and external auditing. The mandate for the compensation committee covers the board's discussion on salary and other remuneration of the CEO and the corporate management. Furthermore, the compensation committee serves as an advisory board to the CEO regarding remuneration and pension principles for all employees.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The board's responsibility and the purpose of risk management and internal control

The board is ultimately responsible for the management of the company. Consequently, the board is also responsible for evaluating and controlling the company's risk position. Norske Skog's enterprise risk management processes are based on COSO's Enterprise Risk Management framework, and cover financial, operational, market and organisational risks. By this delineation of risk control, all sustainability and responsibility areas covered by Norske Skog's Steering Documents are also covered by its enterprise risk management processes and is reported to the board. The system is based on the management teams in each business unit and in key corporate functions regularly reporting potential risk factors to the company's risk management function, and updated risk pictures provide a basis for the agenda of the corporate management meetings and adequate follow-up measures.

The internal control systems within the CFO organisation primarily cover the financial reporting structure and processes. Routines for internal control over financial reporting are defined in Norske Skog's internal control documentation (Financial Closing Manual and Financial Closing Checklist). Responsibilities are clearly defined in terms of execution, documentation and control. As part of the continuous focus on compliance, regular reviews of business processes, investments or other issues are carried out. These compliance processes are carried out on the basis of risk assessments, and support the business in improving internal control and achieving the set goals. The group also has a power of attorney structure which describes and regulates financial empowerment to individual positions.

Norske Skog has clearly established channels and procedures for reporting and handling instances of possible serious misconduct (whistle blowing). It is the opinion of the board that Norske Skog's internal control and systems for risk management are adequate and proportionate to the nature and complexity of the company's operations and financial situation. Further information is provided in the notes to the financial statements.

11. REMUNERATION OF THE BOARD

The remuneration of the board is decided by the general meeting on the basis of the election and remuneration committee's proposal. The committee considers the level of responsibility, complexity and time consumption, as well as the required expertise, for the board members. Proposals for annual adjustments of the remuneration of the board are based on considerations to ensure that Norske Skog -remains attractive and competitive on the market for governing bodies' competencies.

No board member has carried out specific tasks or commissions for the company in addition to the directorship, and Norske Skog has not paid other remuneration to any board member than the ordinary board remuneration.

Separate remuneration is stipulated for the chair of the board and members of committees under the board. For 2015, remuneration of the board amounts to:

1. The remuneration for the chair of the board is NOK 500 000 per year.
2. The remuneration for the other members of the board is NOK 328 000 per year.
3. The remuneration for the alternate members of the board is NOK 13 500 per meeting.
4. The remuneration for the members of the committees of the board is NOK 6 800 per meeting. Separate rates apply for the audit committee.
5. The remuneration for the chair of the audit committee is NOK 105 000 per year with the addition of NOK 6 800 per meeting.
6. The remuneration for other members of the audit committee is NOK 68 000 per year with the addition of NOK 6 800 per meeting.
7. Travel and lodging expenses are re-imbursed in accordance with the state travel allowance scale.

The total remuneration for the board of directors in 2015 was NOK 3 306 079. For the election and remuneration committee, the total remuneration was NOK 469 000. For further information, reference is made to Note 12 in the consolidated financial statements.

12. REMUNERATION OF EXECUTIVE PERSONNEL

Norske Skog has adopted guidelines for remuneration of the corporate management. These guidelines are included in the board' statement on salary and other remuneration to executive employees, which is a part of the documentation presented to the annual general meeting. The guidelines set out the main principles for salaries and other compensatory elements. Performance related remuneration of the corporate management is linked to the financial performance of the company, and the individual member of management's contribution thereto. In general, the guidelines ensure alignment of financial interests between the shareholders and the corporate management.

The CEO's remuneration terms are reviewed and decided annually by the board following preparatory discussions in the board's compensation committee. The remuneration consists of base salary, annual performance bonus, pension and other benefits. The decision on the CEO's remuneration takes into consideration the overall performance of the CEO and the company, and the market development for CEO remuneration in companies of similar complexity, size and industries. The remuneration for other members of the corporate management is decided by the CEO, and the performance related remuneration consist of the same elements as for the CEO.

Performance based elements are calculated on the basis of quantifiable objective targets as well as on quantifiable targets falling within areas over which the respective executives have a reasonable influence. More information about corporate management remuneration is available in the financial statements, Notes 9 (Norske Skogindustrier ASA) and 12 (consolidated financial statements).

In addition, Norske Skog established a long-term incentive program in 2014, in accordance with the resolution made at the annual general meeting in April 2014. The program consists of synthetic options with a term of minimum three years, and is limited to a maximum number equal to 2% of the issued shares in the company. Synthetic options have been awarded once in 2014 and once in 2015.

13. INFORMATION AND COMMUNICATIONS

Information in Norske Skog's financial statements shall provide a correct impression of the company's results, cash flow, assets and liabilities. Financial reporting follows International Financial Reporting Standards, and through open communication to shareholders and financial markets, Norske Skog ensures transparency and equality to facilitate our stakeholders' assessment of the company's financial situation.

Press releases in connection with quarterly financial statements are presented to and approved by the board before being published. When publishing interim reports, the company releases the information through press releases and stock exchange notices distributed internationally via an electronic distribution provider (including on Newsweb.no), a webcast and presentations containing additional information. Outside of the general meeting, the company's administration maintains an active dialogue with the shareholders, investors and other relevant interested parties. The company's annually published financial calendar is available on www.norskeskog.com/investors. The responsibilities on communication have been clearly defined among corporate management and members of the administration, including routines applicable should an extraordinary situation occur. Information sent to shareholders by mail is simultaneously published on www.norskeskog.com.

14. TAKE-OVERS

The board has established clear principles for how it will act in the event of a take-over bid, hereunder that it will act in agreement with the Code and Norwegian law. The principles emphasise the importance of equal treatment of existing shareholders. They further warrant that the board will ensure sufficient information in time and content for the shareholders to assess a possible bid, including issuing a statement to the shareholders with the board's assessment of such bid, together with a valuation prepared by an independent expert. A sale of a significant part of the company will require approval by the general meeting. The board will not without decision by the general meeting attempt to hinder a take-over bid for the company.

15. AUDITOR

The auditor presents an annual audit plan, describing the auditor's understanding of the industry and significant risks, as well as the audit approach to be applied. The auditor participates in audit committee meetings when discussing the quarterly financial statements and other audit related matters, and attends board meetings when otherwise requested. During 2015 and 2016, the auditor has participated in discussions with the audit committee and with the board without the corporate management being present. The company has effective guidelines for the ability of the auditor to perform non-audit services for the company upon approval by the audit committee. The company informs the general meeting about the auditor's fees for audit and non-audit services.

The board regularly assesses the quality and efficiency of the work of the auditor.

Due to the significant disagreements that have arisen in the audit process for the financial year 2015, Norske Skog and the auditor have mutually agreed that a new auditor should be elected for Norske Skog at annual general meeting scheduled for 25 May 2016. Norske Skog is in the process of obtaining tenders for the engagement as new auditor for the company, and a proposal will be announced prior to the annual general meeting in 2016.

Shares and Share Capital

NORSKE SKOG'S SHAREHOLDER POLICY
The shareholder policy is as follows:

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

DIVIDEND PROPOSAL

Based on weak earnings and the company's financial position, the board recommends that no dividend be paid for the financial year 2015.

LONG-TERM INCENTIVE PROGRAMME

Norske Skog has a synthetic option program for senior executives. The incentive program runs from 2014 to 2017 and totals 3.8 million synthetic options. By year-end 2015, 99.9% of the synthetic options had been awarded. The synthetic options are a proxy for cash payments and not options to buy shares. The exercise price for awarded options was NOK 4.80 in 2014 and NOK 3.85 in 2015, adjusted for an additional 10% per annum. The programme is described in detail in the notes to the financial statements for the Norske Skog group (Note 12) and Norske Skogindustrier ASA (Note 9).

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2015, a total of 301.8 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 177.4 million in 2014.

The Norske Skog share price was NOK 2.66 on 30 December 2015, compared with NOK 4.27 on 2 January 2015. The highest price in 2015, based on close-of-trading prices, was NOK 7.12 on 30 January, and the lowest price was NOK 1.97 on 22 September.

On 31 December 2015, the share capital of Norske Skog was NOK 189 945 626, consisting of 189 945 626 shares with a face value of NOK 1. All shares have equal rights.

At the beginning of 2015, Norske Skog owned 310 treasury shares. In April and June, 300 000 shares were bought, and 280 643 shares were later sold to employees in connection with an employee share programme in Norway. Norske Skog's holding of treasury shares was 19 667 shares as of 31 December 2015.

On 31 December 2015, the largest shareholder was GSO Capital Partners, with an ownership interest of 10.6%. On 31 December 2015, the foreign ownership was 27.5%, compared with 18% on 31 December 2014. Based on the information in the Norwegian Registry of Securities, Norske Skog had 21 052 shareholders in total on 31 December 2015, of which 1 039 resided outside of Norway.

INFORMATION TO THE FINANCIAL MARKET

Several Norwegian and international companies publish analytical reports on Norske Skog, directed towards both equity and bond investors. An overview of these companies can be found on Norske Skog's website.

FINANCIAL CALENDAR FOR 2016

- 6 January: Extraordinary general meeting
- 18 January: Silent period starts
- 5 February: Interim financial statements, fourth quarter 2015
- 4 April: Silent period begins
- 21 April: Interim financial statements, first quarter 2016
- 25 May: Annual General Meeting
- 27 June: Silent period begins
- 13 July: Interim financial statements, second quarter 2016
- 3 October: Silent period begins
- 19 October: Interim financial statements, third quarter 2016

KEY FIGURES RELATED TO SHARES

	Definitions	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Nominal value (NOK/share)		1	1	1	1	10	10	10	10	10	10
Average number of shares excluding shares held in treasury (1 000)		189 912	189 933	189 866	189 827	189 904	189 904	189 663	189 501	189 412	189 258
Net earnings per share after tax (NOK)	1	-8.03	-7.92	-9.71	-14.63	-13.36	-12.97	-6.36	-14.33	-3.26	-14.84
Cash flow per share after tax (NOK)	2	-4.09	1.06	0.36	5.18	2.40	2.09	8.95	10.43	11.43	14.60
Dividend per share (NOK)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.50
Price/cash flow ratio	3	-0.65	3.62	13.17	0.76	1.88	6.62	1.07	1.29	3.95	7.35
Number of shares 31 December (1 000)		189 946	189 946	189 946	189 946	189 946	189 946	189 946	189 946	189 946	189 946
Share prices high		7.12	6.07	4.80	8.00	22.50	14.35	17.60	45.85	118.50	114.00
Share prices low		1.97	3.47	2.44	3.43	2.58	6.82	7.93	13.15	30.75	83.00
Share prices 31 December		2.66	3.84	4.74	3.96	4.52	13.85	9.55	13.50	45.20	107.50
Trading volume (Oslo Stock Exchange) 1 000 shares		301 829	177 368	238 814	385 768	617 404	444 134	527 525	786 990	659 648	230 507
Number of shareholders 31 December		21 052	20 928	21 521	24 322	23 955	24 779	26 936	26 812	23 871	22 967
Number of foreign share-holders 31 December		1 039	1 050	1 104	1 185	1 228	1 291	1 320	1 355	1 400	1 361
Foreign shareholding 31 December		27.51 %	17.57 %	20.84 %	19.02 %	23.07 %	35.92 %	25.1 %	40.5 %	48.9 %	67.0 %
Market value (NOK million)		505	729	900	752	859	2 630	1 812	2 564	8 586	20 419

Definitions

1. Net earnings per share after tax = Profit for the year : Average number of shares
2. Cash-flow per share after tax = Cash flow : Average number of shares
3. Price/cash flow ratio = Share price 31.12. : Cash flow per share after tax

SHARES OWNED BY MEMBERS OF CORPORATE BODIES

Shareholder elected members	Number of shares	
Jon-Aksel Torgersen, Oslo (chair)	0	
- Fiducia AS	3 486 644	
Eilif Due, Levanger	3 256	
Nils Ingemund Hoff, Oslo	0	Elected 6 January 2016
Joanne Owen, London	0	Elected 6 January 2016
Siri Beate Hatlen, Bærum	0	Resigned 12 February 2016
Ole Enger, Oslo	0	Resigned 6 January 2016
Karin Bing Orgland, Oslo	0	Resigned 6 January 2016
Employee elected members		
Cecilie Jonassen (Norske Skog Saugbrugs), Sarpsborg	1 943	
Paul Kristiansen (Norske Skog Saugbrugs), Halden	22 491	
Svein Erik Veie (Norske Skog Skogn), Levanger	16 792	
Employee-elected alternate board members (personal):		
Øystein Bruce (for Cecilie Jonassen), Halden	12 148	
Carl Fredrik Nilsen (for Paul Kristiansen), Halden	0	
Børre Selen (for Svein Erik Veie), Steinkjer	3 205	
The Corporate Management		
CEO Sven Ombudstvedt, Drøbak	1 012 149	
- Elle Holding AS	1 000 000	
Chief Operating Officer Roar Ødelien, Ski	0	
CFO Rune Sollie, Bærum	19 588	
- Tia Ynwa AS	134 295	
Senior Vice President Lars P. Sperre, Oslo	34 991	
Auditor		
Ernst & Young AS	0	

PRINCIPAL SHAREHOLDERS

Principal shareholders at 31 December 2015	Number of shares	
GSO Capital Partners	20 124 672	10.59
Dimensional Fund Advisors	8 306 695	4.37
Cyrus Capital	6 200 000	3.26
Nobelsystem Scandinavia AS	5 750 000	3.03
Allskog BA	5 296 381	2.79
Astrup Fearnley AS	5 189 688	2.73
Uthalden A/S	4 450 000	2.34
Fiducia AS	3 486 644	1.84
Barokk Invest AS	3 180 000	1.67
Ses AS	3 000 000	1.58
Swedbank Norge Marketmaking account	3 000 000	1.58
Danske Bank A/S (Nominee)	2 325 203	1.22
Skandinaviska Enskilda Banken	2 060 000	1.08
Sven Ombudstvedt (Elle Holding AS)	2 012 149	1.06
Torstein I. Tvenge	2 000 000	1.05
Alfaplan AS	1 980 000	1.04
Shareholders with < 1% ownership	**111 584 194**	**58.75**
Total	**189 945 626**	**100.00**

The data is provided by RD:IR and VPS, through the Nominee ID service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Norske Skogindustrier ASA share register. Whilst every reasonable effort is made to verify all data, neither RD:IR nor VPS can guarantee the accuracy of the analysis.

Articles of Association for Norske Skogindustrier ASA

Last amended in the general meeting 18 March 2016.

ARTICLE 1 THE COMPANY FORM AND NAME

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

ARTICLE 2 OBJECTIVE

The objective of the company is to operate wood processing activities and associated activities. The company may participate in other commercial activity by subscribing to shares or in other ways.

ARTICLE 3 REGISTERED OFFICE

The company is registered in Norway, and has its corporate management and registered office in Oslo municipality.

ARTICLE 4 SHARE CAPITAL AND SHARES

The company's share capital amounts to NOK 253 406 340, divided into 253 406 340 shares each with a nominal value of NOK 1,-. The company's shares shall be registered in the Norwegian Central Securities Depository (VPS).

ARTICLE 5 BOARD OF DIRECTORS

The company's board of directors will consist of a minimum of seven and a maximum of ten directors, elected for a term of one year. No person can be elected to the board after reaching the age of 70.

The general meeting elects the board of directors and the chair of the board every year, and determines the remuneration payable to directors. The board of directors is responsible for appointing a chief executive, to be known as the president and chief executive officer, and for determining his/her remuneration. The board of directors appoints a member of the board, the chief executive or named employees to sign for the company.

ARTICLE 6 ELECTION- AND REMUNERATION COMMITTEE

The company will have an election- and remuneration committee consisting of four members elected by the general meeting for a term of one year, as well as an employee representative to be appointed by the Norwegian Works Council with the right to speak and make suggestions in matters of election, and the right to vote in remuneration matters. The chair of the election- and remuneration committee is elected by the general meeting and remuneration of the members of the committee will be determined by the general meeting.

The election- and remuneration committee will have the following tasks:

i) To issue a recommendation to the general meeting concerning election of shareholder-elected members of the board and the chair of the board.
ii) To issue a recommendation to the general meeting concerning the remuneration of board members, hereunder the chair of the board and the board's committees.
iii) To issue a recommendation to the general meeting concerning the election of members of the election- and remuneration committee, hereunder the chair of the committee.
iv) To issue a recommendation to the general meeting concerning the remuneration of members of the election- and remuneration committee.

The general meeting can stipulate more detailed guidelines for the work of the election committee.

ARTICLE 7 GENERAL MEETING

Notice of the general meeting will be issued within the deadline set by the Public Limited Liability Companies Act in writing to all shareholders with a known address. The right to participate and vote in the general meeting can only be exercised when the acquisition of shares is registered in the shareholder register on the fifth business day before the general meeting (registration date). The general meeting will be held in the local municipality in which the company has its registered office or in Oslo.

When the documents which apply to matters which are up for discussion and voting at the general meeting in the company have been made available to the shareholders on the company's website, the board can decide to not send the documents to the shareholders. A shareholder can, however, demand to have documents pertaining to matters on the agenda of the general meeting sent to him or her. The company cannot request any compensation for sending documents to the shareholders.

The annual general meeting will:

1. Approve the annual accounts, including the directors' report, and the consolidated accounts, and approve the profit and loss account and balance sheet.
2. Determine the application of the profit or coverage of the loss for the year in accordance with the approved balance sheet, including the declaration of any dividend.
3. Discuss and vote over the board's declaration on determination of salary and other remuneration for senior employees.
4. Approve the auditor's fee.
5. Elect the shareholders' representatives to the board of directors, as well as to the election- and remuneration committee, as well as stipulate any remuneration to members and alternate members of these bodies.
6. Deal with any other business stated in the notice of the meeting.

Matters which a shareholder wants to put before the general meeting for discussion and voting must be communicated in writing to the board at least seven days prior to the deadline for issuing a notice of a general meeting enclosing a proposed motion or reason for putting the matter on the agenda. Notice of the general meeting will be given, and the general meeting will be opened and chaired, by the chair of the board. The general meeting may, upon proposal presented in the meeting or before by the board, a board member or a shareholder, with simple majority of the cast votes, elect another person to chair the meeting. Should there be more than one candidate, the one that has received the most votes shall be elected.

Shareholders can vote in writing in advance in matters up for discussion and voting at the company's general meetings. Such votes can also be cast through electronic communication. The option of voting in advance is contingent upon the existence of a satisfactory method for verifying the identity of the voter. The board of directors will determine if such a method exists prior to each individual general meeting. The board of directors can stipulate more detailed guidelines for written advance votes. It must emerge from the notice of the general meeting whether voting in advance is allowed and which guidelines have been stipulated for any such voting in advance.

NORSKE SKOGINDUSTRIER ASA
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