2016

Norske Skog | Annual report | 2016

Norske Skog

THE MYTH:
Electronic communication is more environmentally friendly than paperbased communication

THE FACT:
Electronic communication also has environmental impacts

The environmental impacts of our ever-increasing digital world cannot be ignored. The ICT industry accounts for approximately 2% of global emissions, on par with emissions from the global aviation sector. *(GeSI SMARTer2020: The Role of ICT in Driving a Sustainable Future, 2015 report).*

"If compared with the electricity demand of countries in the same year, the cloud would rank 6th in the world, with demand expected to increase 63% by 2020." *(Greenpeace, 2014).*

Each year, the electronic industry - one of the world's largest and fastest growing - generates up to 41 million tonnes of e-waste from goods such as computers and smart phones. *(United Nations Environment Programme (UNEP), 2015).*

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Photo and editor: Carsten Dybevig *(Erik Sandersen page 13, Jens Borge page 33)*

Contents

Key *figures*

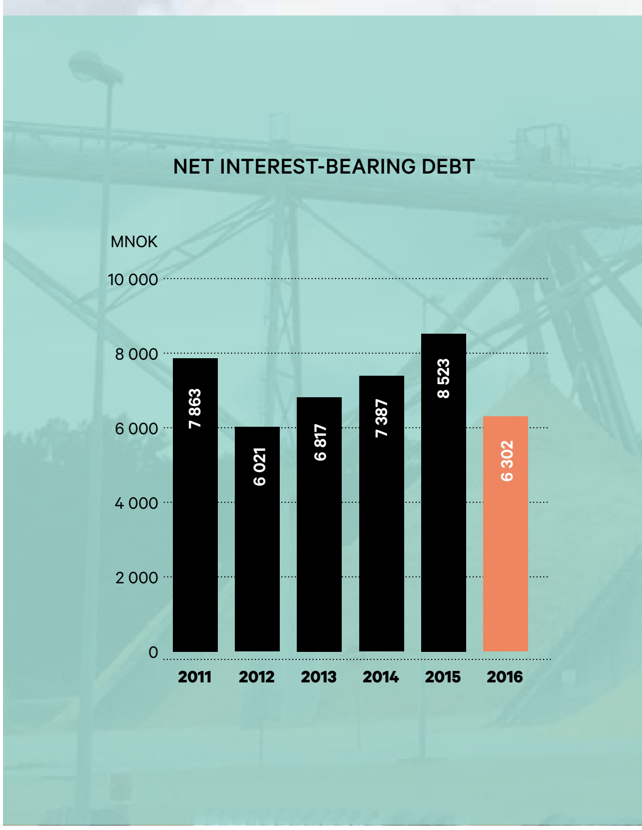
NOK MILLION	2016	2015	2014	2013	2012	2011	2010	2009
INCOME STATEMENT								
Operating revenue	11 849	11 538	12 150	13 339	16 592	18 904	18 986	20 362
Gross operating earnings	1 049	753	801	862	1 485	1 515	1 413	2 185
Operating earnings	-1 065	-164	65	-1 111	-2 663	-2 701	-2 379	-1 325
Profit/loss	306	-1 526	-1 504	-1 844	-2 781	-2 545	-2 469	-1 400
Earnings per share (NOK)	1.17	-8.03	-7.92	-9.71	-14.63	-13.36	-12.97	-6.36
CASH FLOW								
Net cash flow from operating activities	230	-777	200	68	982	455	397	1 697
Net cash flow from investing activities	-107	-206	48	-169	300	470	415	-587
Cash flow per share (NOK)	0.82	-4.09	1.06	0.36	5.18	2.40	2.09	8.95
OPERATING MARGIN AND PROFITABILITY (%)								
Gross operating margin	8.9	6.5	6.6	6.5	9.0	8.0	7.4	10.7
Return on capital employed	9.3	6.2	5.6	3.3	7.9	6.4	5.4	6.8
PRODUCTION / DELIVERIES / CAPACITY UTILISATION								
Production (1 000 tonnes)	2 506	2 444	2 612	3 039	3 555	3 832	3 998	3 895
Deliveries (1 000 tonnes)	2 520	2 432	2 616	3 050	3 588	3 857	4 013	3 894
Production / capacity (%)	93	85	88	88	88	87	89	79

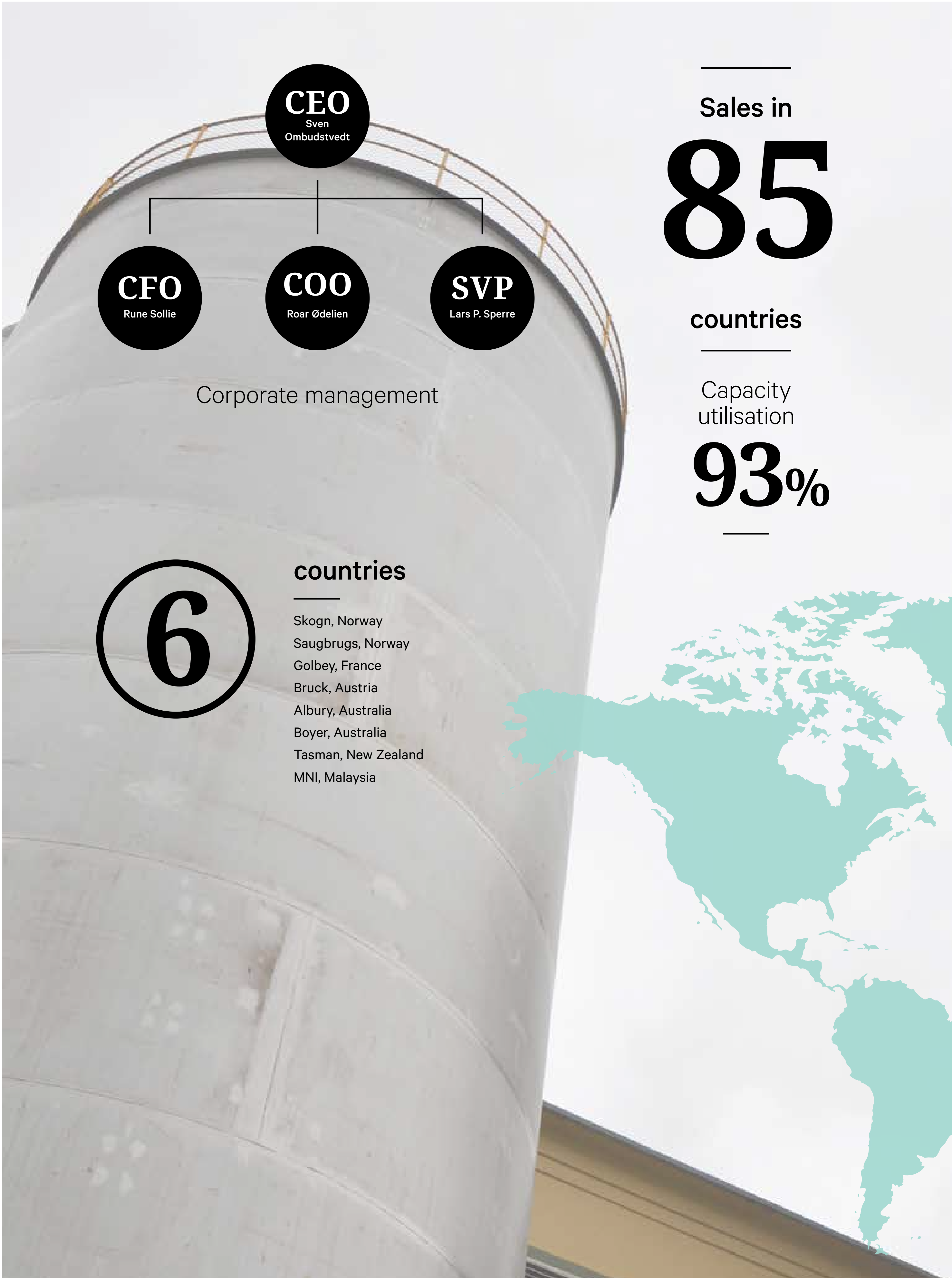
	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
BALANCE SHEET								
Non-current assets	7 162	9 473	10 686	10 611	11 393	15 803	19 271	23 546
Current assets	3 082	3 187	3 291	4 005	4 650	6 171	10 027	9 609
Total assets	10 244	12 660	13 977	14 617	16 043	21 974	29 297	33 155
Equity	184	-229	1 285	2 175	4 151	7 433	10 183	12 015
Net interest-bearing debt	6 302	8 523	7 387	6 817	6 021	7 863	8 889	9 595
Gearing	34.27	-37.15	5.75	3.13	1.45	1.06	0.87	0.80

For definitions of key figures, see Alternative performance measures on page 141.


OPERATING REVENUE
MNOK
20 000
15 000
10 000
5 000
0
18 904
16 592
13 339
12 150
11 538
11 849
2011
2012
2013
2014
2015
2016


GROSS OPERATING EARNINGS
MNOK
2 000
1 500
1 000
500
0
1 515
1 485
862
801
753
1 049
2011
2012
2013
2014
2015
2016


NET INTEREST-BEARING DEBT
MNOK
10 000
8 000
6 000
4 000
2 000
0
7 863
6 021
6 817
7 387
8 523
6 302
2011
2012
2013
2014
2015
2016



CEO
Sven Ombudstvedt

CFO
Rune Sollie

COO
Roar Ødelien

SVP
Lars P. Sperre

Corporate management

Sales in
85
countries

Capacity utilisation
93%

6 countries

- Skogn, Norway
- Saugbrugs, Norway
- Golbey, France
- Bruck, Austria
- Albury, Australia
- Boyer, Australia
- Tasman, New Zealand
- MNI, Malaysia

2 685 000
production capacity

2 520 000
tonnes sold

2 506 000
tonnes produced

8 PAPER MILLS

Employees
2 462

11% female employees

The history of **Norske Skog**

Norske Skog was established in 1962, but several of our mills have been in operation much longer. Until the 1990s, 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 acquisitions of other newsprint and magazine paper companies all over the world. The activities within other paper grades, market pulp and construction materials were sold off. In the last few 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 lower prices for finished products, while prices for input factors have increased. 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 and publications for advertising purposes. Norske Skog is listed on the Oslo Stock Exchange and had about 2 500 employees at year-end 2016.

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.
2015	Discontinued operations at the Walsum mill in Duisburg, Germany.

First quarter

The financial results for 2015 was reported. Norske Skog's gross operating earnings in the fourth quarter of 2015 were NOK 260 million, up from NOK 163 million in the third quarter. The gross operating earnings improved from the third quarter due to higher sales volume and lower costs.

Norske Skog's extraordinary general meeting was held on 6 January 2016. The extraordinary general meeting elected Ms Joanne Owen and Mr Nils Ingemund Hoff as new shareholder-elected members of Norske Skog's board of directors.

Norske Skog received unconditional subscriptions of 63 460 714 new shares at a subscription price of NOK 2.24 in the private placement directed to GSO Capital Partners LP and Cyrus Capital Partners, L.P.

Second quarter

Norske Skog reported that the gross operating earnings in the first quarter of 2016 were NOK 242 million, a slight seasonal decrease from 260 million in the fourth quarter 2015 but a substantial improvement from NOK 192 million the first quarter of last year. European sales prices increased in the quarter, whereas the cost of energy decreased.

Norske Skog successfully completed an exchange offer to 2017 bondholders, resulting in a net debt decrease by more than NOK 1 billion and an equity increase of more than NOK 1 billion.

The annual general meeting re-elected Eilif Due, Joanne Owen, Nils Ingemund Hoff and Jon-Aksel Torgersen as shareholder-elected members of Norske Skog's board of directors. Mimi K. Berdal was elected new member. The annual general meeting elected Jon-Aksel Torgersen as chair of the board.

The share capital increase relating to the repair offering was registered with the Norwegian Register of Business Enterprises. The new share capital of Norske Skog was NOK 278 994 995, divided into 278 994 995 shares, each with a par value of NOK 1.

Third quarter

Gross operating earnings for the second quarter was NOK 335 million, which is the best gross operating earnings since the third quarter of 2012 and was mainly due to lower energy costs. Net earnings in the second quarter was NOK 229 million. A gain after the exchange offer exceeding one billion NOK in April was offset by material impairments of the asset portfolio of NOK 1.4 billion at the end of the quarter.

Norske Skog launched plans to build a biogas facility at Golbey (France), 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 EUR 7 million.

Norske Skog Saugbrugs intends to develop new technology to produce better paper and new products, and was granted NOK 6.5 million from Innovation Norway for the development of nanocellulose (microfibrillated cellulose) and fibreboard.

In an extraordinary general meeting, Eilif Due, Joanne Owen, Nils Ingemund Hoff and Mimi K. Berdal were re-elected as shareholder-elected members of Norske Skog's board of directors. Henrik August Christensen was elected new member and chair of the board. BDO was elected as new auditor in Norske Skogindustrier ASA.

Fourth quarter

Gross operating earnings in the third quarter 2016 was NOK 251 million, which was a decrease from NOK 335 million in the second quarter, mainly due to somewhat higher energy and recovered paper cost and weaken pound. Net earnings in the third quarter was NOK 190 million compared with a negative NOK 874 million in the third quarter 2015.

Norske Skog sold the Topp1 21.5 MW geothermal power station at the Tasman mill site in New Zealand to NGATI Tuwharetoa Electricity Ltd, a local partner at the Tasman industrial site.

Norske Skog
– making new green products

New green business beyond publication paper is targeted to contribute 25% to gross operating earnings in 2020

Sven Ombudstvedt
President and CEO

Judging from news headlines about Norske Skog, one might conclude that we all spent most of 2016 working on financial restructuring. This, obviously, was not the case. Most of the time and effort of our people were spent on running world-class paper plants in an extremely competitive global market place and, increasingly, on exploring new business opportunities beyond publication paper.

COST CUTS ARE VITAL FOR BUSINESS SURVIVAL

2016 brought many exciting and positive developments for Norske Skog. Our mills had very good operating performance with high capacity utilisation, offsetting some headwind from rising input costs.

Looking back at our markets in 2016, the demand for publication paper continued to decline, but the situation for Norske Skog's products and segments was relatively encouraging. There is still a mismatch between supply and demand in the market place, but substantial capacity cuts over the past years have improved the market balance and should allow for increasing sales prices going forward.

However, this is an industry where only the best producers survive. Simplified it can be said that: "Factories with high cost die, while factories with low cost survive". It is almost fated. Therefore, Norske Skog has made further improvements to our operations during 2016. Our mills are among

the most efficient in the industry, and in 2017 we will continue to make them even more efficient and competitive.

THE GREEN SHIFT CREATES BUSINESS OPPORTUNITIES

In addition to running our existing production lines as efficiently as possible, Norske Skog is actively developing new revenue streams.

On 3 April 2017, in the presence of His Majesty King Harald of Norway, Norske Skog will officially open the new biogas and nano-pulp production facilities at the Saugbrugs mill in Halden, Norway. The biogas facility will contribute to gross operating earnings from the second quarter of 2017. This is just one example of exciting innovation and product development taking part at our units.

At Golbey in France a biogas plant is under construction and expected to be completed in 2017. A biogas facility is also under construction next to our mill in Skogn, Norway, and Norske Skog will supply biomass to this facility.

The Boyer mill in Australia is starting small-scale test production of new bio-based chemicals, and in New Zealand the production of wood pellets is expected to reach 40 000 tonnes, p.a.

New ventures are expected to begin to contribute meaningfully to gross operating earnings this year, and our target is for new green business beyond publication paper to contribute a fourth of gross operating earnings in 2020.

While these are exciting business opportunities, Norske Skog remains highly leveraged. We restructured our debt in 2016, but we will have to work further on our balance sheet over the next couple of years to take advantage of the profitable opportunities we see in our business units. At the same time, we want to be an attractive consolidation partner in the European market.

AMBITIOUS GOALS REQUIRE BOLD POLITICIANS

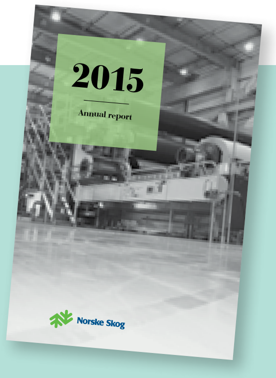
At Norske Skog, we are acutely aware that we are in charge of our own destiny. We need to remain competitive in a fiercely competitive global marketplace, and we need to be innovative and create new products and business opportunities.

However, there are definitely areas where politicians and governments could make our lives easier. The three major costs for Norske Skog are fibre raw materials, energy and logistics. All are to a substantial degree influenced by national policies, be it forestry policies, energy taxes or trucking regulations.

When considering regulations and other conditions for our industry, everyone should keep in mind that this is a truly sustainable industry based on a renewable resource with unlimited potential: wood.

The future of the pulp and paper industry has been put higher on the public agenda lately when this industry, both in EU and Norway, delivered road maps towards 2050 based on carbon neutrality. In Norway, we expect a 50 percent increase of wood logging and a doubling of value creation. Evidently, we want to play a main role in reaching these ambitious goals.

In conclusion, I would like to thank all Norske Skog's employees for their continuous contributions, firstly in the ongoing quest for efficiency in a competitive market and secondly for their ideas and contributions to the future business of Norske Skog. This, I firmly believe, will enable Norske Skog to continue to play a leading role in a wood-based and renewable future.



Prestigious annual report award *to Norske Skog*

Norske Skog won the prestigious award "Farmandprisen" for 2016 for best 2015 annual report among small and medium sized companies on the Oslo Stock Exchange.

The award is the most prestigious and oldest award for annual reports in Norway.

“The jury’s recognition is a great honour and achievement, especially as most of the content – text, tables, graphs and images – is produced in-house. Obviously, as a producer of publication paper, Norske Skog takes special interest in its annual report,” says Carsten Dybevig, Vice President Corporate Communication.

Design work for the report was done by Pan2ne Design.

The award was established by the Farmand business magazine, which was founded in 1891 and is regarded as the first Nordic business magazine. Every year since 1955, this prestigious award has been handed out for outstanding annual reports.

Norske Skog also won the award in 1991, 1999, 2012 and 2014.

VP Communication Carsten Dybevig and Tone Strømberg from Pan2ne Design received the prize in a ceremony downtown Oslo.

Handling of recovered paper.

What happens to *yesterday’s paper?*

Increasingly consumers sort their trash, including putting paper in separate containers. But what actually happens to yesterday’s newspapers and magazines?

The answer is that Norske Skog and other paper producers utilize this waste to produce new paper.

The proportion of pulp stemming from recycled paper varies from none at some of Norske Skog’s mills to substantial amounts at mills such as Golbey, Albury and Skogn. In total about a third of the fibre we use is recycled.

The process starts with old newspapers and magazines that are compressed into large bales for transport to our mills. There, the paper is dissolved in water and chemicals in rotating drums.

After the paper is dissolved, the resulting liquid has to be de-inked. This is done in tanks where air bubbles are blown into the mix. Ink sticks to the bubbles, which float to the surface, allowing the ink to be skimmed off.

After removing the ink, the pulp is bleached, as is pulp based on fresh wood, and then it is ready to be turned into paper yet again.

Why, then, isn’t all paper based on recycling? Firstly, some paper is always lost. But even if, theoretically, all paper was collected, the fibres wear out and a proportion of new material has to be introduced in order to sustain the cycle.

Also, it is important to keep in mind that wood-based pulp is in itself a renewable resource, and Norske Skog is working hard to ensure its fresh fibre comes from sustainable forestry, so the environmental impact of recycled versus virgin wood fibre is not as obvious as it might seem.

Nanocellulose – *promising future for Norske Skog*

Norske Skog is exploring a number of ways to diversify its revenue base. One of the exciting opportunities is nanocellulose, or microfibrillated cellulose (MFC).

In April 2017 a pilot plant for production of MFC will officially open at Norske Skog Saugbrugs in Halden, Norway. The project is partly funded by the Innovation Norway government agency.

MFC is a new – and renewable – commodity that will enhance paper-based products. In addition, MFC can over time be developed as a replacement for plastic products, as well as a thickening substance in various products such as paint.

Research and production of MFC has so far been based on chemical cellulose pulp (sulphate and sulphite pulp). Production of MFC from thermomechanical pulp, which is the case at Norske Skog Saugbrugs, is entirely new.

New product test - nanocellulose from Saugbrugs.

Biogas *coming on stream*

From the biogas facility at Saugbrugs.

As an important part of Norske Skog's strategy of broadening the group's revenue streams, two biogas production facilities are being prepared for commercial production at the Saugbrugs mill in Norway and the Golbey mill in France.

The Saugbrugs facility was completed in the beginning of 2017 and will officially be opened by the King of Norway in April 2017. It will be at full run-rate and contribute to gross operating earnings in 2017.

Biogas is a win-win proposition for Norske Skog. It converts waste from paper production into valuable renewable energy for use at the mills and for external sale. In doing so, we drastically reduce the net carbon emissions of our mills, and we improve waste handling. In other words: This is good business and good for the environment.

The biogas produced at Saugbrugs will be used to power heavy vehicles that would otherwise run on fossil diesel.

The Golbey biogas plant is also expected to be completed during 2017.

Norske Skog's mill at Skogn, Norway, is also partnering with the company Biokraft AS, which is building a biogas plant that will utilize waste from the paper mill.

Norske Skog expects to expand biogas production to its other sites.

Andrew Leighton, Regional President of Norske Skog Australasia.

Norske Skog's stronghold *"down under"*

While Norske Skog's roots are in Norway, the Australasia region, halfway around the globe, is now a key part of the group.

As the Regional President of Norske Skog Australasia, Andrew Leighton has a unique insight into this market, which has some very notable characteristics.

"One obvious characteristic is that Norske Skog, with two mills in Australia and one in New Zealand, is the only domestic producer of publication grades," Leighton says. This has lead to the Australasia market being characterized by long-term contracts with relative price stability with major customers.

Another notable characteristic is that the size of Australia brings its own challenges. "As an example, the city of Perth, one of the largest cities in Australia, is a five-hour flight from Sydney, and easier to access for many Asian suppliers than from our mills on the eastern seaboard of Australia," Leighton observes.

Being the only domestic producer does not mean that Norske Skog is left alone. "Australasia's geographic isolation from other major publication markets leads to it being seen by some overseas paper producers as a convenient 'dumping ground' for their excess capacity. As their own markets diminish over time, the temptation for our competitors to engage in predatory pricing in Australia and New Zealand increases," he says.

After two decades in the paper industry, first in his native Canada and then in Australia, Leighton has experienced ups and downs.

"My first ten years in this industry were characterized by a large and growing publication paper industry, and expansion into a rapidly developing Asian market. There was a great deal of optimism and significant investment in larger, faster paper machines," he says. "The past ten years have been all about digital disruption and the decline of publication paper demand. I have had to oversee the closures and staff cuts, he says."

"I have a passion for growth and innovation, so the focus on strict cost management has not been enjoyable," Leighton admits.

"On the other hand, the decline in the publication paper sector has by necessity meant that I have had the opportunity to work with my team to develop and pursue a diversification and growth strategy outside of paper," Leighton says, pointing to several examples, including plans to build a large-scale, export-oriented pellet business fueling renewable power stations in Asia and a joint venture underway with Circa Group, an Australian technology company, to produce and market a new bio-solvent called Cyrene made from wood cellulose.

"The goal is to produce a bio-solvent that can replace current fossil fuel based solvents, which are harmful to the environment and carry negative health effects. Governments in Europe and around the world are enacting regulation to phase out the use of such solvents, which are a key ingredient in many specialty materials, semi-conductor, pharmaceutical and agricultural products, and early indications from the market are very positive," Leighton says, before concluding:

"Norske Skog has a difficult transition to make as we maintain profitability in our mature core publications paper business and selectively and wisely invest in diversifying our earnings in new areas. While it will not be easy, I believe we have the leadership, skills and resources to navigate this transition and to create a more robust, diversified business through growth in renewables and in adjacent forest products businesses. One day I hope Norske Skog will be the subject of a case study on how to successfully transform a structurally challenged manufacturing business."

"There's more technology in a paper plane **than in a Boeing 737"**

While she will readily admit that the claim in the title might be debatable, Cecilie Jonassen wants to illustrate a key point: Modern paper production is an impressively high-tech process.

As Assistant Line Manager, Jonassen is in charge of the largest paper machine at Norske Skog Saugbrugs in Halden, Norway. The machine is a behemoth that turns pulp into paper, with enough output to cover a football field with paper in a little over half a minute.

And this is done with extreme levels of precision. The finished paper is almost 9 meters wide but only 42 micrometres thick, in other words 42 millionths of a metre, or, if you prefer, 42 thousands of a millimetre.

This flimsy sheet of paper races through the machine at a speed comparable to a car on the highway, around 90 kilometres per hour.

“The precision of it all is what I would highlight, and the reason why I would claim that this is indeed very high tech and very impressive to observe,” says Jonassen.

Jonassen joined Norske Skog as a process engineer directly after finishing her master’s degree in chemical engineering at the Norwegian University of Science and Technology. She says the paper industry is known to have a close relationship with universities in Norway, and during her studies she had summer internships that contributed to her career choice.

She has stayed with the group for 11 years in various process and production oriented positions. Two years ago she also joined the Board of Directors as an employee representative.

Obviously, there have been challenges along the way. “I started just as the paper market was starting to become difficult. In fact, it has been exciting to see what the industry has done. We started improving operations very early on and have kept on improving continuously. The continuous cost focus and continuous improvements mean that we have not been taken by surprise, and we have avoided big, dramatic cuts,” Jonassen says.

"Also, this forces us to look for other opportunities, making Norske Skog a very exciting place to be,” she adds, pointing to the ongoing initiatives to develop new revenue streams for Norske Skog, such as production of biogas and new types of fibreboard.

She is full of praise for the work culture at Norske Skog. "Everyone contributes, and there is a tremendous experience within these walls. People are empowered, they get responsibility and opportunities, so they stay."

After two years on the Board of Director's, she has also gained a broader perspective beyond production and operations. “I have tremendous respect for the job that has been done on the financial side, in parallel with the operational improvements."

In general, Jonassen feels that in a country dominated by offshore oil and gas, Norway’s other industries, including the pulp and paper industry, does not necessarily get enough credit. “We tend to overlook the advanced and exciting things happening in the mainland industry, the opportunities that exist and the inclusive work culture that encourages contributions from everyone."

I started just as the paper market was starting to become difficult. In fact, it has been exciting to see what the industry has done. We started improving operations very early on and have kept on improving continuously.

Cecilie Jonassen, member of the board of directors and assistant line manager at Norske Skog Saugbrugs.

Board of Directors

NILS INGEMUND HOFF (55)

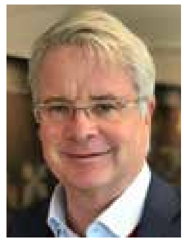
Board member since 2016

Residence:	Bergen
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, og Molvik Grafisk AS. Director in different Bergen Group ASA subsidiaries.

MIMI K. BERDAL (57)

Board member since 2016

Residence:	Oslo
Education:	Master in Law from the University of Oslo (Norway)
Position:	Consultant, self-employed
Director-ships:	Chairman of the board Gassco AS and Helsetelefonen AS, board member of Itera ASA, Interoil Exploration & Production ASA, EMGS ASA, Real Capital AS and Stabæk Fotball. Chair of Nomination Committee in Sevan Marine ASA and committee member in Borregaard ASA and Goodtech ASA.



HENRIK AUGUST CHRISTENSEN (54)

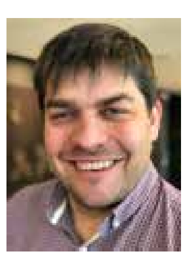
CHAIRMAN AND BOARD MEMBER SINCE 2016

Residence:	Oslo
Education:	Master in Law from the University of Oslo (Norway)
Position:	Partner in the Norwegian law firm Ro Sommernes DA
Director-ships:	Chairman of the board Strawberry Group AS, Pipeliner AS, Fearnley Advisors AS and various other companies. Director of Storebrand Optimer ASA, AS Naturbetong, Stangeskovene AS, Strawberry Capital AS, Nordic Choice Hospitality Group AS and various other companies.

JOANNE OWEN (43)

Board member since 2016

Residence:	London
Education:	Education: Law degree LLB Hons, Exeter University (UK), legal practice course at Nottingham Trent University (UK)
Position:	Partner at The international law firm Proskauer Rose LLP



SVEIN ERIK VEIE (44)

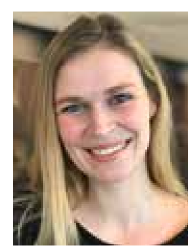
Board member since 2010

Residence:	Skogn
Education:	Process operator and industrial mechanic
Position:	1. Machine operator Norske Skog 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).

EILIF DUE (62)

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).



CECILIE JONASSEN (35)

Board member since 2015

Residence:	Sarpsborg
Education:	Master of Science, Norwegian University of Sciences and Technology (NTNU), Norway
Position:	Assistant line manager PM6, Norske Skog Saugbrugs
Director-ships:	Chair TEKNA group at Norske Skog Saugbrugs, member European Works Council (EWC), Secretary Norske Skog Work Council Norway

PAUL KRISTIANSEN (61)

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, 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.

Corporate Management

SVEN OMBUDSTVEDT (50)

CHIEF EXECUTIVE OFFICER (CEO) in Norske Skog since 2010

BACKGROUND:	
2010 – dd	Chief Executive officer (CEO)
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 (50)

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 (48)

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 (40)

SENIOR VICE PRESIDENT CORPORATE STRATEGY AND LEGAL (SVP) in Norske Skog since 2006

BACKGROUND:	
2014 – dd	Senior Vice President Corporate Strategy and Legal (SVP)
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)

KEY FIGURES RELATED TO SHARES

NOK MILLION	2016	2015	2014	2013
Number of shares 31 December (1 000)	278 995	189 946	189 946	189 946
Trading volume (Oslo Stock Exchange) 1 000 shares	196 943	301 829	177 368	238 814
Number of shareholders 31 December	20 783	21 052	20 928	21 521
Foreign shareholding 31 December	39 %	28 %	18 %	21 %
Share prices 31 December (NOK)	2.84	2.66	3.84	4.74
Net earnings per share after tax (NOK)	1.17	-8.03	-7.92	-9.71
Cash flow per share after tax (NOK)	0.82	-4.09	1.06	0.36
Dividend per share (NOK)	0.00	0.00	0.00	0.00
Book equity per share (NOK)	0.66	-1.21	6.77	11.45
Price / Net earnings (P/E)	2.4	-0.3	-0.5	-0.5
Price / Cash flow (P/CF)	3.4	-0.7	3.6	13.2
Price / Book (P/B)	4.3	-2.2	0.6	0.4
Market capitalization 31 December (MC)	792	505	729	900
Net interest-bearing debt 31 December (NIBD)	6 302	8 523	7 387	6 817
Enterprise value 31 December (EV)	7 094	9 028	8 117	7 717
Capital employed 31 December (CE)	6 938	9 055	9 345	9 484
Gross operating earnings (GOE)	1 049	753	801	862
NIBD/GOE	6.0	11.3	9.2	7.9
EV/GOE	6.8	12.0	10.1	9.0
EV/CE	1,0	1,0	0,9	0,8
Return on capital employed	9.3 %	6.2 %	5.6 %	3.4 %

For definitions of key figures, see Alternative performance measures on page 141.

2012	2011	2010	2009	2008	2007
189 946	189 946	189 946	189 946	189 946	189 946
385 768	617 404	444 134	527 525	786 990	659 648
24 322	23 955	24 779	26 936	26 812	23 871
19 %	23 %	36 %	25 %	41 %	49 %
3.96	4.52	13.85	9.55	13.50	45.20
-14.63	-13.36	-12.97	-6.36	-14.33	-3.26
5.18	2.40	2.09	8.95	10.43	11.43
0.00	0.00	0.00	0.00	0.00	0.00
22.71	39.13	53.61	63.25	71.77	84.00
-0.3	-0.3	-1.1	-1.5	-0.9	-13.9
0.8	1.9	6.6	1.1	1.3	4.0
0.2	0.1	0.3	0.2	0.2	0.5
752	859	2 631	1 814	2 564	8 586
6 021	7 863	8 889	9 595	14 047	16 408
6 773	8 721	11 520	11 409	16 611	24 994
10 312	14 450	17 626	19 268	27 665	30 140
1 464	1 515	1 413	2 185	2 723	3 932
4.1	5.2	6.3	4.4	5.2	4.2
4.6	5.8	8.2	5.2	6.1	6.4
0,7	0,6	0,7	0,6	0,6	0,8
7.9 %	6.4 %	5.4 %	6.8 %	5.0 %	6.3 %

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

Despite a clearly better operating result, Norske Skog's margins remain too low and the financial leverage too high. The board recommends that no dividend is disbursed for the financial year 2016.

LONG-TERM INCENTIVE PROGRAMME

Norske Skog has a synthetic option program for senior executives. The synthetic options are a proxy for cash payments and not actual options to buy shares. By year-end 2016, 10.77 million synthetic options had been awarded. The programme is described in detail in the notes to the financial statements, Note 12 consolidated financial statements and Note 9 parent financial statements.

SHARES AND SHARE CAPITAL

Norske Skog's shares have been listed on the Oslo Stock Exchange since 1976. In 2016, 197 million Norske Skog shares were traded on the Oslo Stock Exchange, compared with 302 million in 2015.

The Norske Skog share price was NOK 2.84 on 30 December 2016, compared with NOK 2.79 on 4 January 2016. The highest price in 2016, based on close-of-trading prices, was NOK 4.05 on 26 July, and the lowest price was NOK 1.69 on 15 March.

On 31 December 2016, the share capital of Norske Skog was NOK 278 994 995, consisting of 278 994 995 shares with a face value of NOK 1. All shares have equal rights.

At the beginning of 2016, Norske Skog owned 19 667 treasury shares. In May 2016, 158 223 shares were bought, and 177 600 shares were later sold to employees in connection with an employee share programme in Norway. Norske Skog's holding of treasury shares was 290 shares as of 31 December 2016.

On 31 December 2016, the largest shareholder was GSO, the credit arm of Blackstone, through various accounts. On 31 December 2016, the foreign ownership was 38.9%, compared with 27.5% on 31 December 2015. Based on the information in the Norwegian Registry of Securities, Norske Skog had a total of 20 783 shareholders on 31 December 2016, of which 1 035 resided outside of Norway.

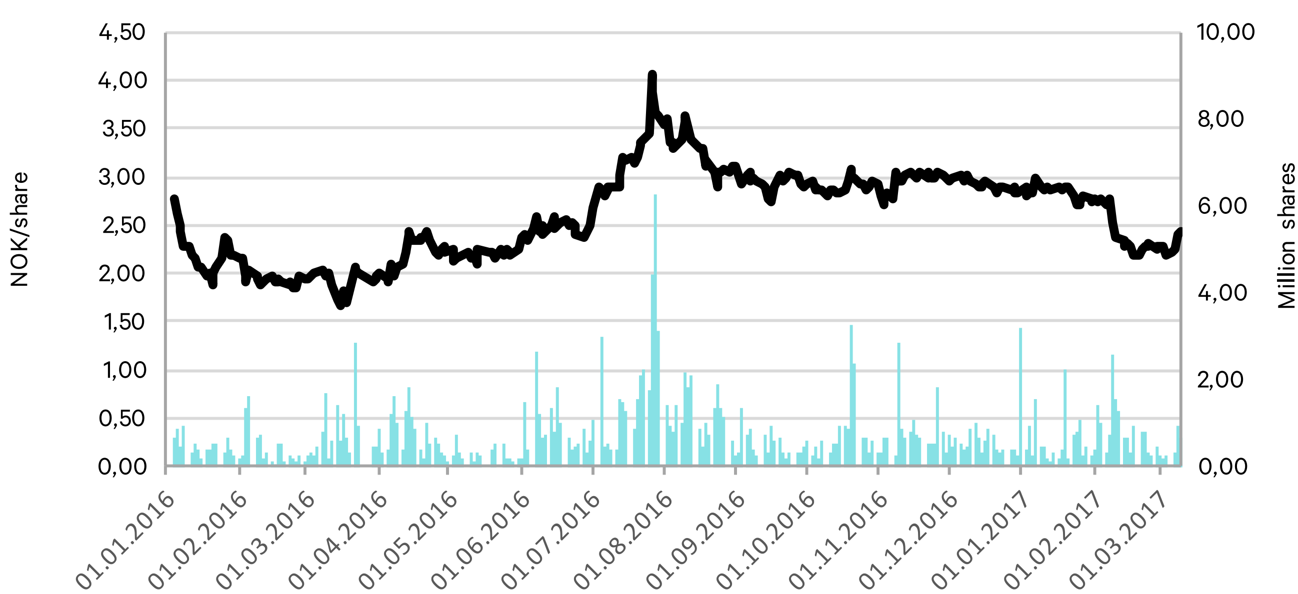
INFORMATION TO THE FINANCIAL MARKET

The international high yield market actively tracks Norske Skog. International and Norwegian brokerages also publish analytical reports, directed towards both bond and equity investors. For more investor information, please refer to Norske Skog's website, www.norskeskog.com/investors

FINANCIAL CALENDAR FOR 2017

- **19 April:** Annual General Meeting
- **26 April:** Interim financial statements, first quarter 2017
- **13 July:** Interim financial statements, second quarter 2017
- **19 October:** Interim financial statements, third quarter 2017

NORSKE SKOGINDUSTRIER ASA - SHARE PRICE AND VOLUME



Source: Thomson Reuters


VALMET

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 and other fibre related business. 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 of directors and the corporate management. For further information on corporate bodies and corporate governance matters, please visit Norske Skog's website www.norskeskog.com.

Corporate Governance is continuously addressed by the board of directors, and the board of directors 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 in the publication paper industry and other fibre related business. 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 The Norske Skog group.

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-down of fixed assets in Norway and Australasia in 2016, of a total amount of NOK 1.4 billion, Norske Skog's consolidated total equity as at 31 December 2016 was NOK 184 million, which is equivalent to 1.8% of total assets (for Norske Skogindustrier ASA, the total equity was NOK 456 million, which is equivalent to 14.6% of total assets). Norske Skog has during 2016 completed a number of initiatives to improve equity and enhance liquidity.

On 31 March 2016, an issuance of new equity was made through a private placement to funds managed by GSO Capital Partners LP and Cyrus Capital Partners, L.P. 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 7 June 2016, Norske Skog announced the results of a repair offering to repair for the dilutive effect of the abovementioned private placement. The repair offering comprised an issue of up to 31 512 247 new shares at a subscription price of NOK 2.24 per share, 25 588 655 new shares were subscribed providing total gross proceeds in the amount of NOK 57 million.

Despite these actions, the leverage and interest cost remain high, and the equity low. In addition to operational improvements, the board of directors will continue to pursue recapitalisation opportunities, with the aim of reducing leverage and interest cost, and improving the equity level.

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 2016 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 5 000 000, 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 2016, Norske Skog owned a total of 290 treasury shares. During 2016, a total of 177 600 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 RELATED PARTIES

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 of director's manual, the members of the board of directors 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 annual general meeting on 25 May 2016, 37 shareholders and shareholder proxies were present, representing 110 442 538 shares out of a total of 253 386 676 voting shares, corresponding to 43.04% 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 2016, 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.

On 6 January 2016, an extraordinary general meeting was held, 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.

On 10 August 2016, an extraordinary general meeting was held, with 37 shareholders and shareholder proxies present, representing 130 302 536 shares out of a total of 278 994 705 voting shares. This corresponds to 46.70% of the total number of voting shares. Based on the recommendation from the election and remuneration committee, the extraordinary general meeting elected Henrik A. Christensen as new chairman of the board of directors, and re-elected the remaining directors of the board. Futhermore, the extraordinary general meeting elected BDO AS as new auditor for the company.

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 three 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. The current number of board members is eight, 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. In the extraordinary general meeting on 10 August 2016, Henrik A. Christensen was elected as the new chairman of the board and replaced Jon-Aksel Torgersen. Of the five shareholder elected board members, two are women 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 fulfilled. 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 30 November 2016 flagged a combined shareholding of 22.22%, 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 1.90% 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.

As of 14 March 2017, Mimi K. Berdal held 85 000 shares through her wholly owned company MKB Invest AS, Eilif Due personally held 103 256 shares, Paul Kristiansen personally held 62 191 shares, Svein Erik Veie personally held 19 992 shares and Cecilie Jonassen personally held 5 143 shares.

As of 14 March 2017, the CEO Sven Ombudstvedt held in total 2 415 349 shares, partly personally and partly through his wholly-owned company Elle Holding AS, the CFO Rune Sollie held in total 232 083 shares, partly personally and partly through his wholly-owned company Tia Ynwa AS and the SVP Corporate Strategy & Legal Lars P. Sperre personally held 88 191 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 2016 and into 2017, 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 Nils Hoff (chair), Eilif Due and Paul Kristiansen. The members of the compensation committee are Henrik A. Christensen (chair), Joanne Owen, Eilif Due and Paul Kristiansen. 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 2016. The compensation committee focused on the company's long term incentive program in 2016, in accordance with the resolution made at the annual general meeting in May 2016. 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 12 physical meetings in 2016, which was 4 more than its annual plan. 2 matters were resolved by written resolutions and 8 meeting was held as a phone meeting. The audit committee held 9 meetings in 2016. The compensation committee did not hold separate meetings outside board meetings in 2016.

The board carries out a yearly 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 self-assessment for 2016 was postponed due to the large number of new board members in 2016.

THE BOARD MANUAL

The board has adopted a board manual, updated in December 2016. The mandate for the compensation committee and the mandate for the audit committee were revised in December 2016.

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 December 2016.

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 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 annually 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 annual 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 2016, 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 chair of the audit committee is NOK 105 000 per year with the addition of NOK 6 800 per meeting.
5. The remuneration for other members of the audit committee is NOK 68 000 per year with the addition of NOK 6 800 per meeting.
6. Travel and lodging expenses are re-imbursed in accordance with governments rates.

The total remuneration for the board of directors in 2016, including committee work, was NOK 3 180 752. For the election and remuneration committee, the total remuneration was NOK 388 000. 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' s 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 long-term incentive program is described in Note 12 of the consolidated financial statements for 2016.

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 www.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 2016 and 2017, 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.

Articles of Association for Norske Skogindustrier ASA

Last amended on 25 May 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 278 994 995, divided into 278 994 995 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 three 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.

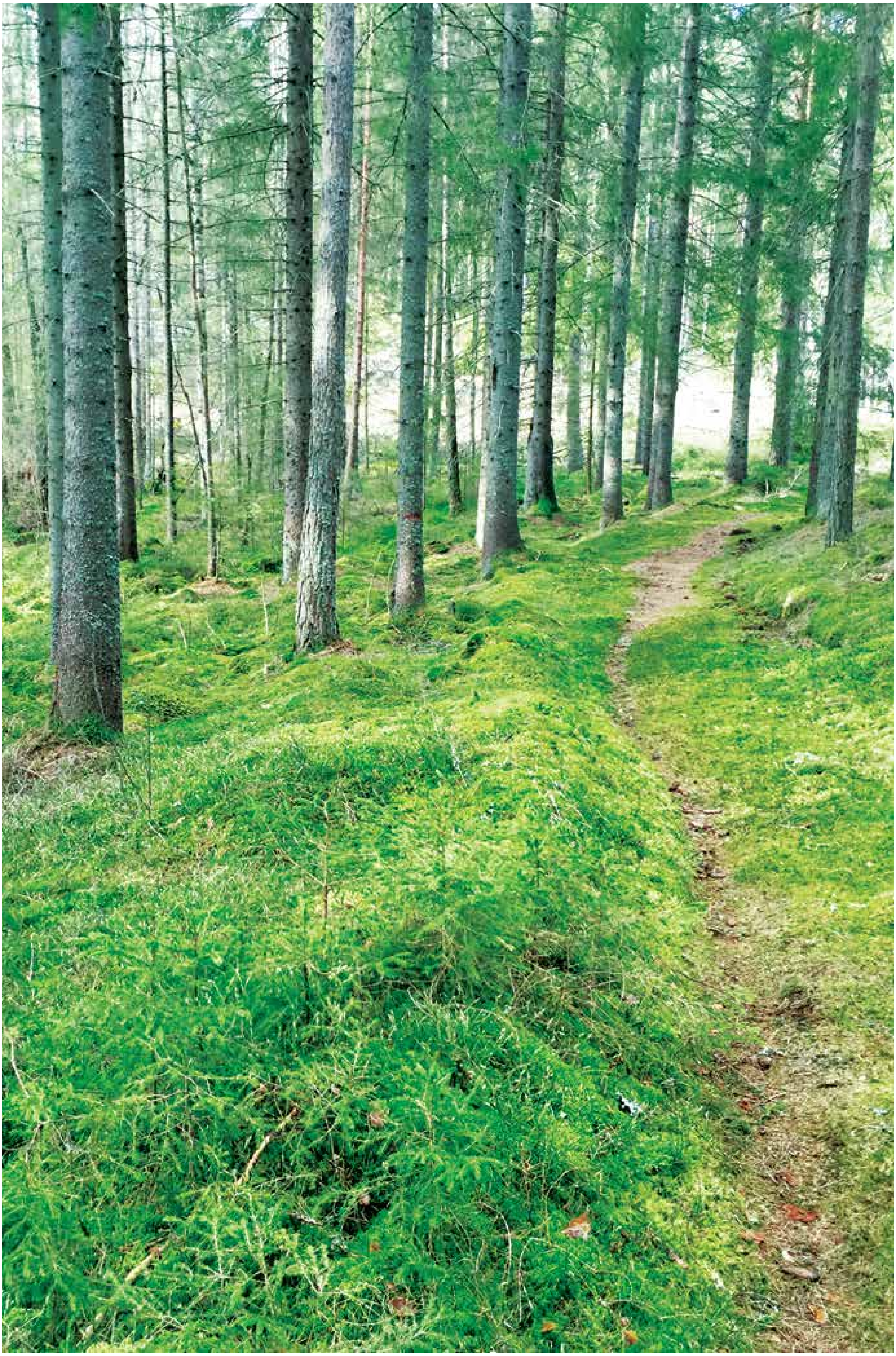
ARTICLE 7 GENERAL MEETING
Notice of the general meeting will be issued within the deadline set by the Public Limited Liability Companies Act in writing to all shareholders with a known address. The right to participate and vote in the general meeting can only be exercised when the acquisition of shares 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.



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 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

Last year analysis has been reviewed by Corporate management and key stakeholders in accordance to the GRI G4 sustainability reporting guidelines. The 2016 review showed only minor changes compared to last year.

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 subcategories Labour Practices and Decent Work, Human Rights, Society, and Product Responsibility. The materiality analysis highlights 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 on human rights have high impact to the stakeholders. For Norske Skog, both raw materials, emissions and anticompetitive 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. Blue 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

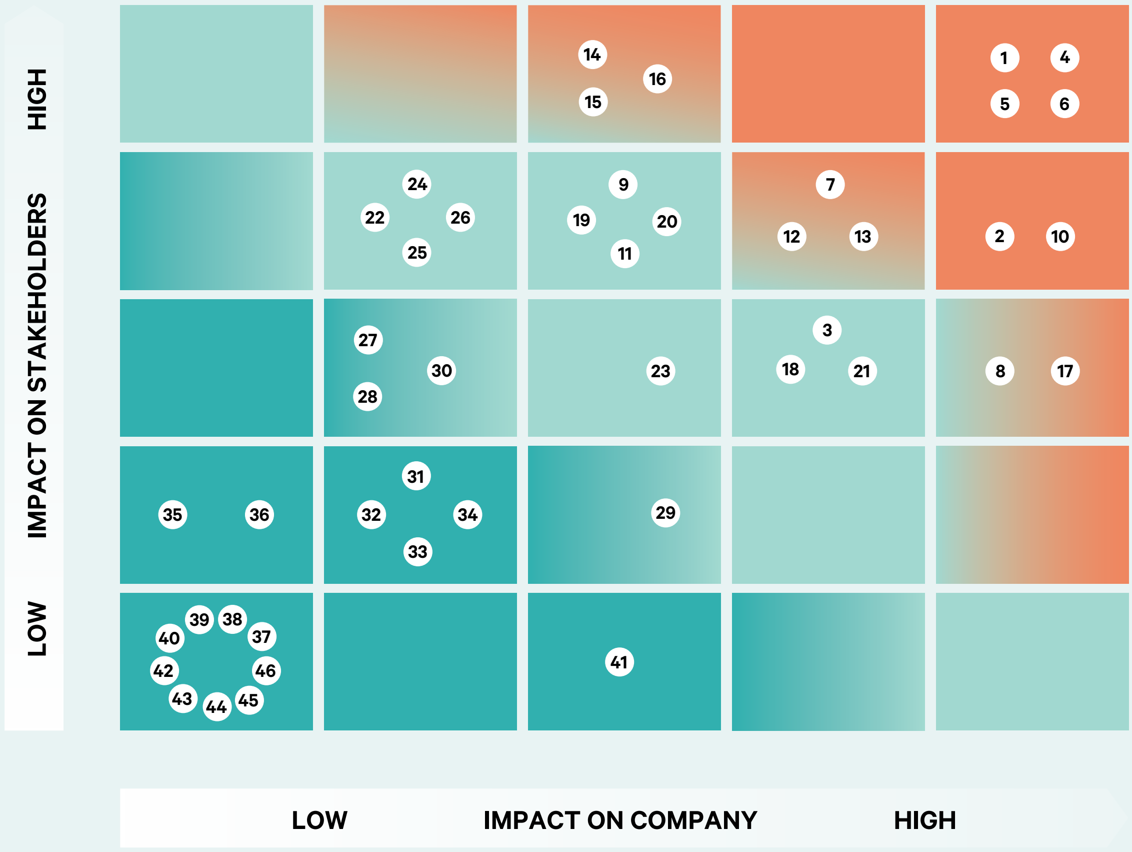
The risk of non-compliance may entail unethical conduct and legal and financial consequences, and may affect our reputation negatively. Norske Skog emphasizes that the line organisation has the responsibility to comply with the Steering Documents. Compliance must take place where the risk lies, primarily 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 as 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 procedures where the Corporate Legal department ensures that the Steering Documents are maintained from time to time and reflects market standards within its various elements. The Corporate Management ensures that adequate internal control systems are maintained both on a group level and for each business unit. Norske Skog has for a number of years maintained a reporting channel (whistle-blowing) where employees and other stakeholders of the Norske Skog group can report on possible un-ethical and/or unlawfull behaviour related to Norske Skog's business, property or stakeholder interests.

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 shall 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:

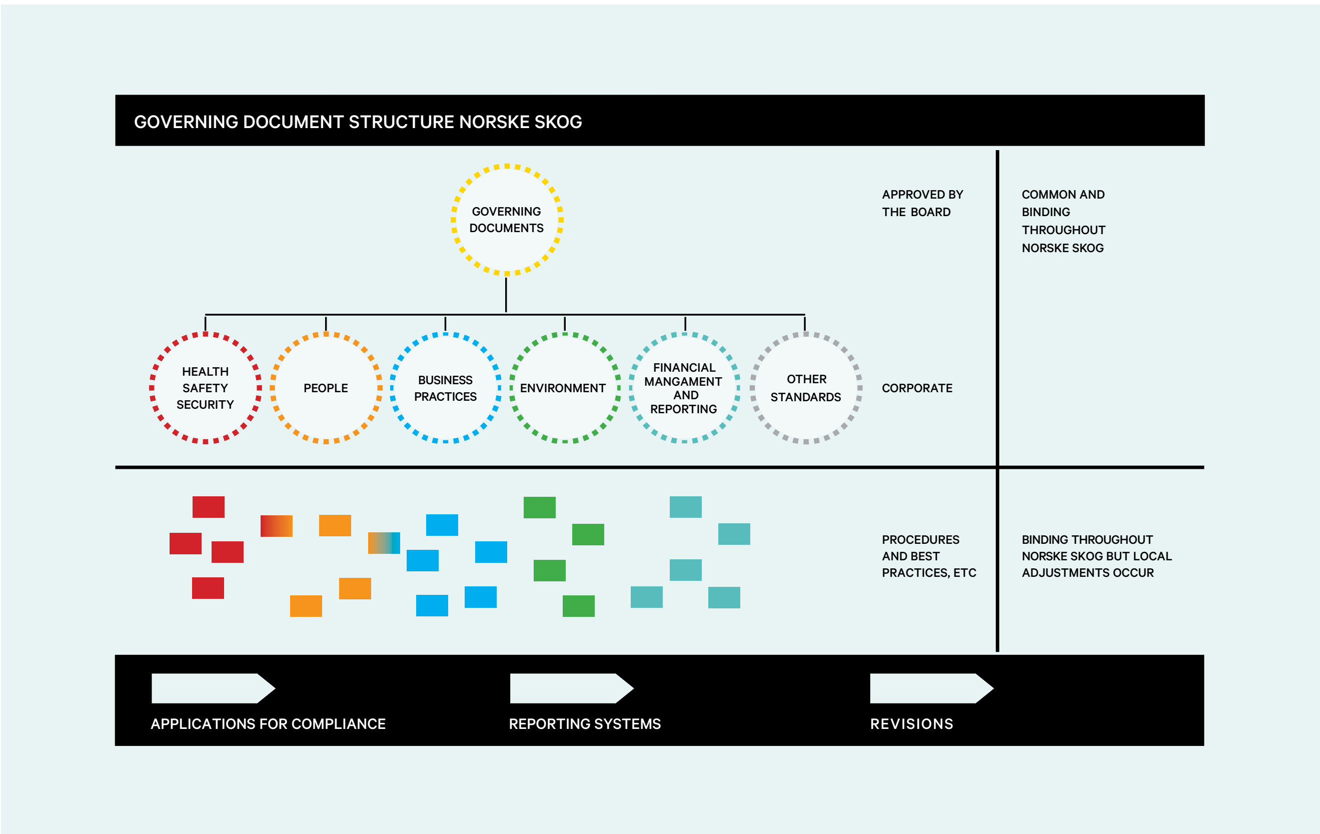
- Leadership commitment
- Employee participation and safe behavior
- Training and competence
- Hazard and risk management
- Management systems, reviews, audits, inspections
- Performance measurement and reporting
- Emergency preparation and response
- Health
- Contractors
- PPE, Personal Protective Equipment

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



SUBJECT	TARGET 2016	RESULT 2016	COMMENTS
Health & Safety			
H1	0	1.5	Low risk factors
H2	< 7.43	8.0	Improved from 2015
Absence due to illness	< 3.6	3.8	Same as in 2015

of safety are maintained. We strongly believe 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 2016. We achieved an H1 level, lost time injuries per million working hours, of 1.5 compared to 1.0 in 2015.

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:

- Reduce sick leave
- Reduce employment drop out rates
- 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 health, safety and environmental (HSE) work.

All our business units also have local health, safety and enviromental (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 Life data base system (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 staff at the group level.

People and Organisation

As of 31 December 2016, Norske Skog employed 2 462 people in Europe and Australasia. This is a reduction of one hundred employees from one year ago, due to general staff reductions in most units. The turnover of people, including retirement, was close to nine percent. Our employment levels are not subject to seasonal variations and the share of temporary employments is less than two percent of the total.

Female share of total workforce	11 %
Females in management positions	12 %
Females in top management positions	7 %

Norske Skog fully complies with all laws regulating collective bargaining and recognises freedom of association. In 2016, unions represented 85 percent of our employees for collective bargaining purposes. Our commitment to respecting the freedom of association is embodied in the Global Framework Agreement on the Development of Good Working Relations, concluded by Norske Skog and the IndustriALL Global Union.

Further, Norske Skog respects fundamental human rights and subscribes to the United Nations Global Compact principles. There has been no reported incidents of child labour, forced or compulsory labour during the reporting period. Nor has there been any reported incidents of discrimination in respect of employment or occupation.

The risk of such incidents in the supply chain is considered low, and a high-level risk assessment of suppliers has not provided information or indications of any violation by our suppliers.

Key figures – *employees*

BUSINESS UNIT	NUMBER OF EMPLOYEES 31 DECEMBER 2016			AVERAGE AGE OF ORDINARY EMPLOYEES	AVERAGE SENIORITY OF ORDINARY EMPLOYEES	% FEMALE
	Ordinary	**Other employees**	**Total**	**End 2016**	**End 2016**	**End 2016**
Norske Skog Albury	159	7	166	46.7	16.2	4.0
Norske Skog Boyer	253	13	266	48.8	22.0	6.5
Norske Skog Tasman (NZ)	152	7	159	51.3	18.8	8.0
Natures Flame	12	0	12	51.0	6.0	16.0
Australia Shared Services	61	0	61	44.6	10.4	42.0
Australasia	**637**	**27**	**664**	**48.5**	**18.4**	**9.8**
Norske Skog Saugbrugs	449	63	512	45.0	21.0	7.0
Norske Skog Skogn	355	39	394	49.0	24.0	7.3
Corporate headquarter	31	5	36	47.8	9.0	25.0
Norway	**835**	**107**	**942**	**46.8**	**21.8**	**7.8**
Norske Skog Bruck	380	43	423	44.9	21.9	9.1
Parec	26	0	26	44.6	12.8	15.4
Norske Skog Golbey	315	33	348	46.0	19.0	14.7
Sales offices in Europe	59	0	59	45.8	11.5	60.3
Europe	**780**	**76**	**856**	**45.4**	**19.6**	**15.4**
Norske Skog group total	**2 252**	**210**	**2 462**	**46.8**	**20.1**	**11.0**

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 2016 traced back to key stakeholders:

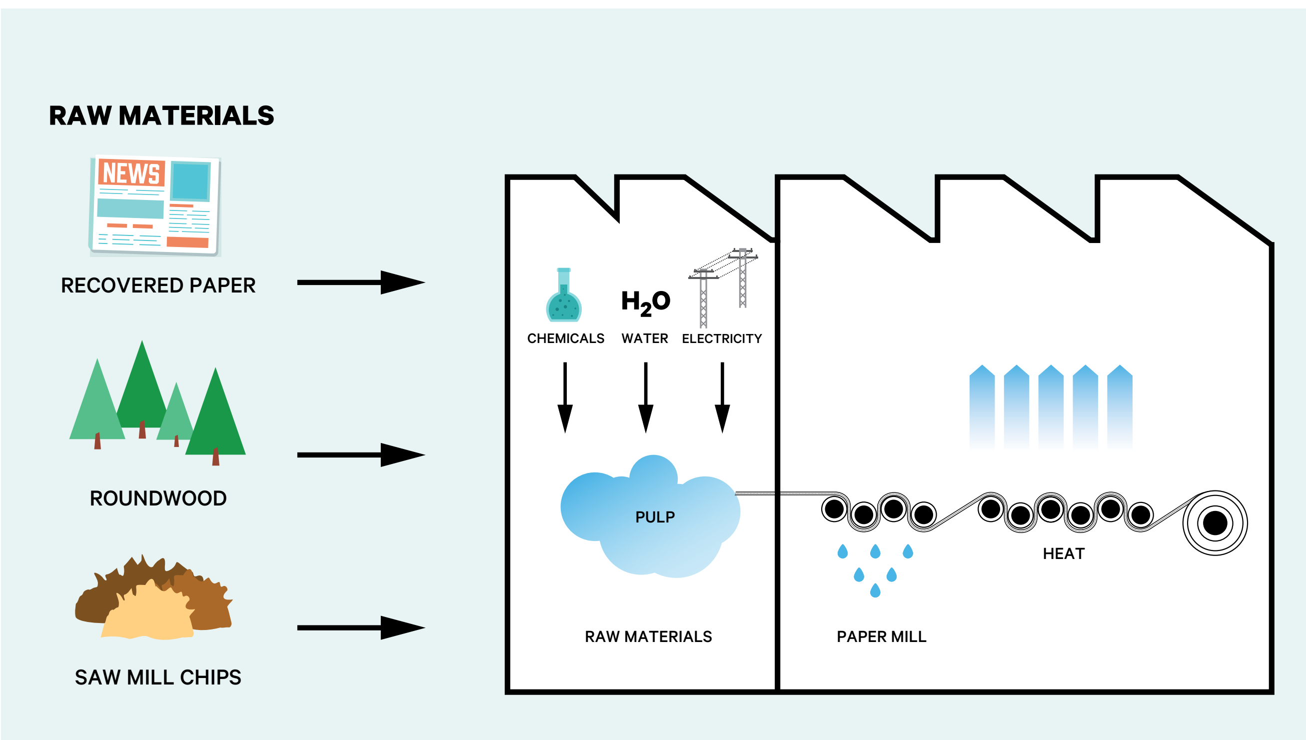
- Purchase of goods and services: NOK 8.9 billion
- Capital expenditures: NOK 0.3 billion
- Salaries: NOK 1.5 billion
- Taxes and public fees: NOK 0.3 billion
- Financial costs and working capital: NOK 0.7 billion

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.

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 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 re-covered 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 31.12.2016

	NEWSPRINT (INCLUDING IMPROVED NP)	SC (MAGAZINE PAPER)	LWC (MAGAZINE PAPER)	TOTAL CAPACITY
Norske Skog Skogn	520 000	0	0	520 000
Norske Skog Saugbrugs	0	485 000	0	485 000
Norske Skog Golbey	580 000	0	0	580 000
Norske Skog Bruck	125 000	0	265 000	390 000
Total Europe	**1 225 000**	**485 000**	**265 000**	**1 975 000**
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	135 000	285 000
Total Australasia	**575 000**	**0**	**135 000**	**710 000**
Total Norske Skog group	**1 800 000**	**485 000**	**400 000**	**2 685 000**

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 2016 was 84% down 2 percentage points compared to 2015.

FRESH FIBRE

In 2016, Norske Skog consumed 1.55 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 consumed 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 75% of our consumption of fresh fibres in 2016. Sawmill chips, a byproduct from the sawmill industry, accounted for the remaining 25%. The roundwood component of our fresh fibre came from both forests (67%) and plantations (33%). 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 2016, recycled fibre made up 30% of the fibre used in our products. Mills utilising recovered paper consumed in total 0.834 million tonnes in 2016.

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.

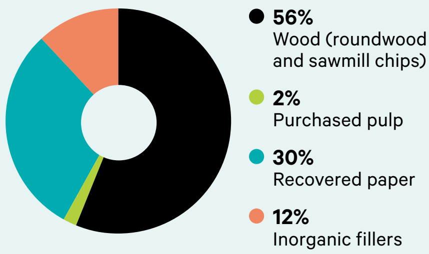
On a tonnage basis, our largest consumption of recovered paper takes place in continental Europe. The fibre source used at the different Norske Skog mills depends upon availability and economic considerations. The minimization of transport distances and costs is an increasingly important economic and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

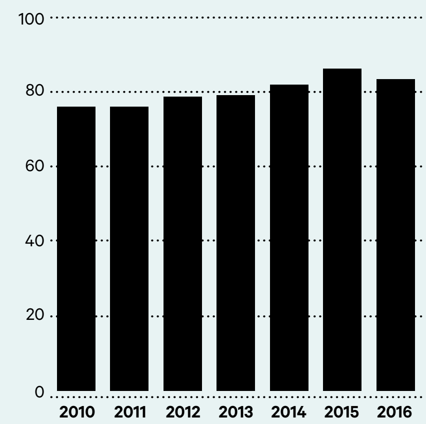


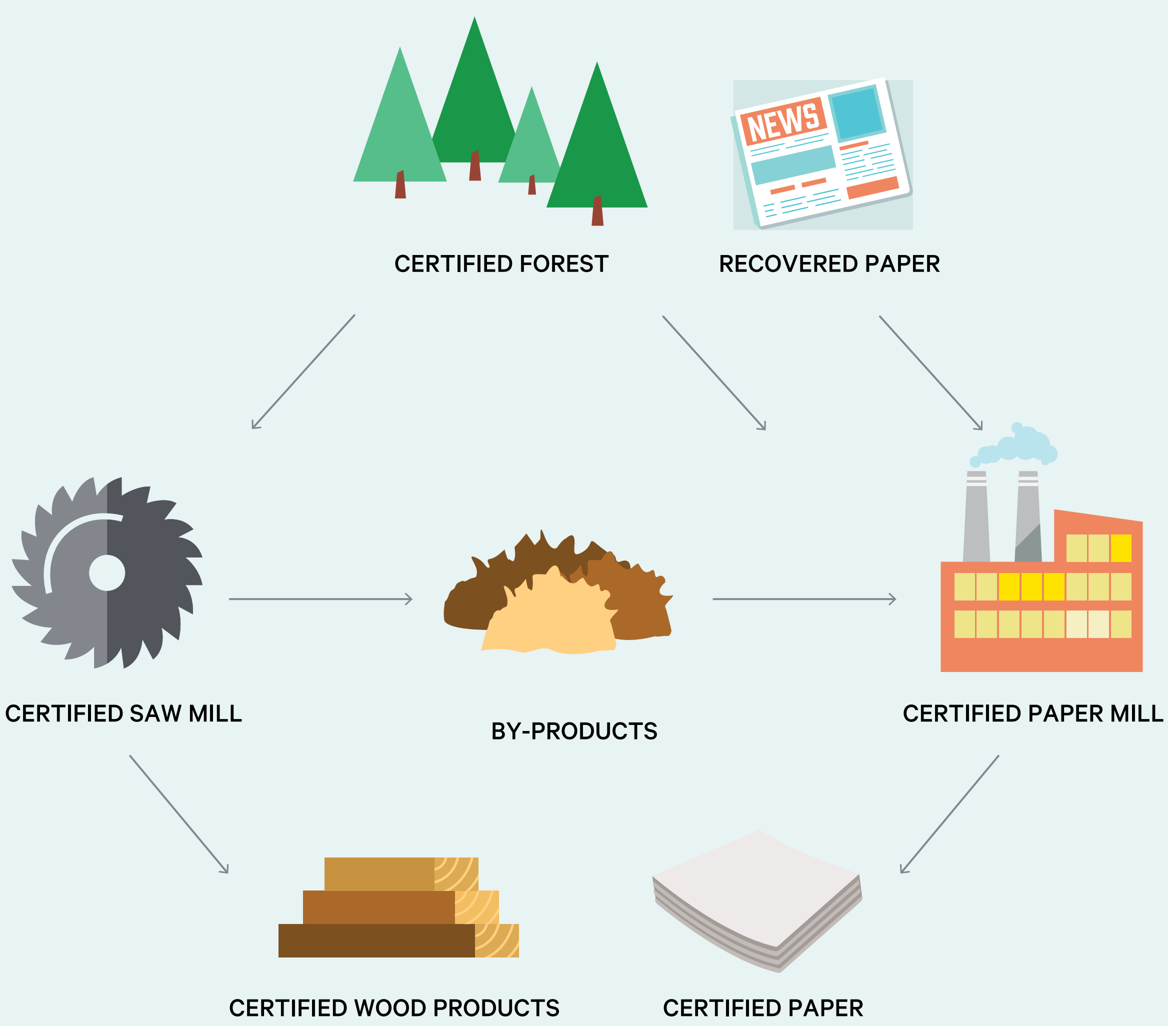
RECOVERED PAPER IN NEWSPRINT PRODUCTION

Norske Skog Albury, Australia	33 %
Norske Skog Bruck, Austria	80 %
Norske Skog Golbey, France	58 %
Norske Skog Skogn, Norway	19 %

CERTIFIED PROPORTION OF FRESH FIBRE (%)

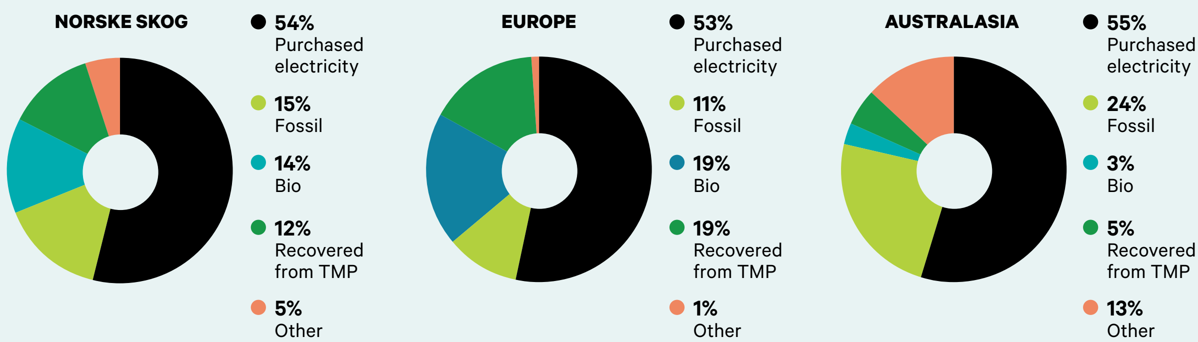
(Roundwood and chips)



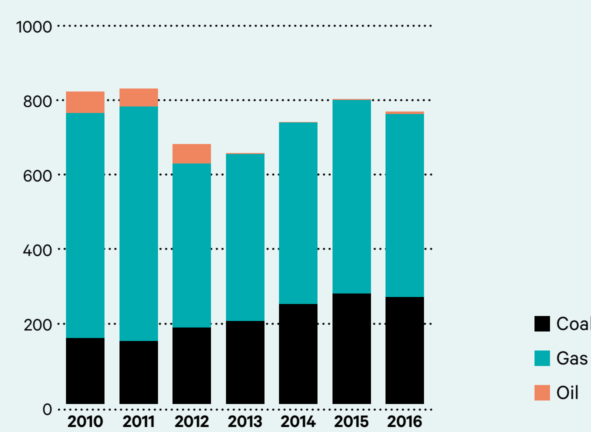


NORSKE SKOG ENERGY CONSUMPTION (TOTAL AND BY REGION)

Total 9831 GWh, 3,92 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 2016 was a little higher than in 2015. Four mills had lower or similar energy consumption per tonne of paper in 2016 compared to 2015.

54% of the total energy consumed by the group is electricity. In 2016, the remaining energy sources were fossil fuel (15%), bio-fuel (14%), heat recovery from TMP (12%) and other sources such as geothermal energy and heat (steam) purchased from third parties (5%). In 2016, 94% 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 biofuel from external suppliers.

Natural gas is the most commonly used fossil fuel, with a share of 62%, down 0.9 percentage points from 2015. Coal constitutes 37% of fossil fuel consumption, up 0.4 percentage points from 2015. Oil makes up 0.9%, which is up 0.5 percentage points compared to 2015.

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 is 53% 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 2016, our emissions were 25% 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

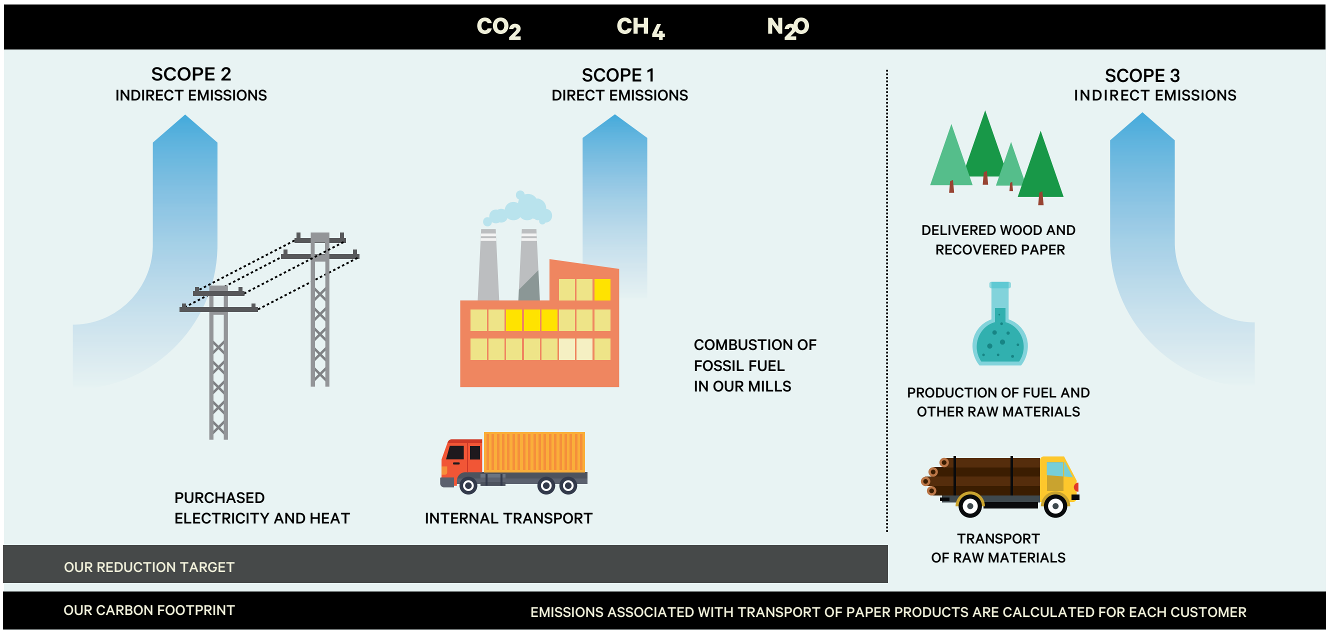
Norske Skog's target for reducing greenhouse gas emissions covers direct emissions (referred to as 'Scope 1' in the Greenhouse Gas Protocol) from the combustion of fossil fuels in boilers, combined heat and power plants, infrared drying equipment, mobile machinery and other mill site based equipment, 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 1.35 million tonnes of fossil fuel derived CO_2-equivalents (including CO_2, CH4 and N_2O) in 2016. The total emissions from our mills was up by 0.7% in 2016 compared to emissions in 2015. The main reason is higher total paper production. The total emission reduction achieved to date, compared to our base year 2006 is 25%.

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 0.516 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	478	21	3	479
Direct emissions from transportation and mobile sources	5	0	1	6
Total direct emissions	484	22	4	485
Indirect (Scope 2) Emissions				
Indirect emissions from steam and power imports	865	0	0	865
Total Fossil Fuel Based Emissions (Direct & Indirect)				
Direct & Indirect	1 348	22	4	1 350
CO_2 emissions from combustion of biomass *	516	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:

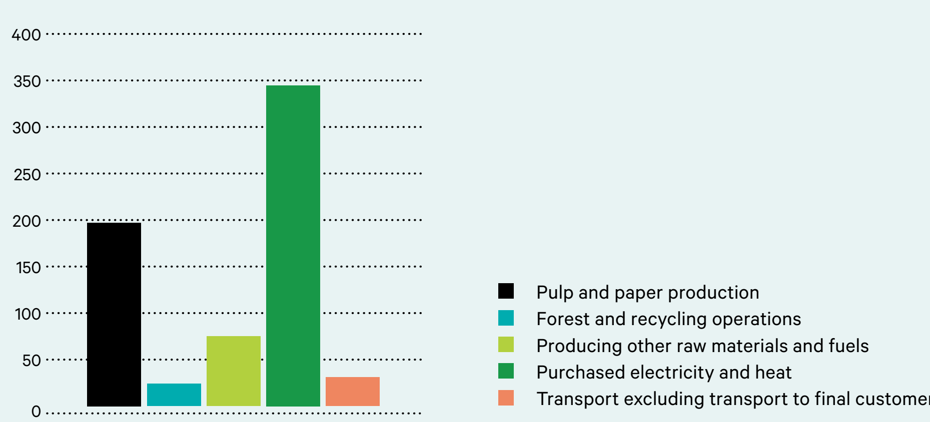
- Pulp and paper production
- Forest and recycling operations
- Producing other raw materials and fuels
- Purchased electricity and heat
- Transport – excluding transport to final customer which is calculated on a case by case basis
- Carbon stored in forest products (biogenic carbon) is reported separately.

The average global carbon footprint per tonne of paper produced by the Norske Skog mills in 2016 was 672 kg CO_2 equivalents/tonne paper. This represents a decrease of 4.1% compared to 2015. 1 432 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 51% of the emissions per tonne of paper. Pulp and paper production makes up 29%, forest and recycling operations 5%, production of other raw materials 11% and transport to the mills 5% 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 282 kg CO_2-equivalents/tonne of paper in Europe to 743 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 that 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 2016 and 2017 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 production-weighted averages for all mills. In 2016, four mills reached their E-index targets.

Increased amount of COD and suspended solids are the main reason for not achieving the 2016 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	2 868 000
Sawmill chips	m^3	968 000
Recovered paper	tonnes	834 000
Purchased pulp	tonnes	55 000
Inorganic fillers	tonnes	324 000
Energy		
Electricity	GWh	5 596
Heat	GWh	4 240
Discharges to water		
Discharged process water	mill m^3	44
Organic material (COD)	tonnes	12 286
Suspended Solid (SS)	tonnes	1 723
Phosphorus (Tot-P)	tonnes	41
Emission to air		
CO_2-equivalents (direct)	tonnes	485 000
SO_2	tonnes	217
NO_x	tonnes	763
Production waste		
Sludge (dry)	tonnes	254 000
Bark	tonnes	114 000
Other	tonnes	23 000
Products		
Newsprint grades	tonnes	1 727 000
Magazine paper	tonnes	779 000
Total	tonnes	2 506 000

ENVIRONMENTAL INDEX	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016	Target 2016	Target 2017
COD kg/tonne	3.9	4.3	4.2	4.9	3.6	3.6
Suspended solids kg/tonne	0.35	0.54	0.51	0.69	0.41	0.41
Nitrogen oxides g/GJ	95	95	89.8	87	97	95
Waste to landfill kg/tonne	14.8	14.4	19.4	17.0	16.8	17.4
Total energy consumption GJ/tonne	12.2	12.3	12.3	12.4	12.2	12.2
Environmental index	**0.96**	**1.06**	**1.13**	**1.16**	**1.02**	**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 2016 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 seven wholly owned mills and represents a 'group average'.

The total water use per tonne of paper in 2016 is on the same level as in 2015. 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

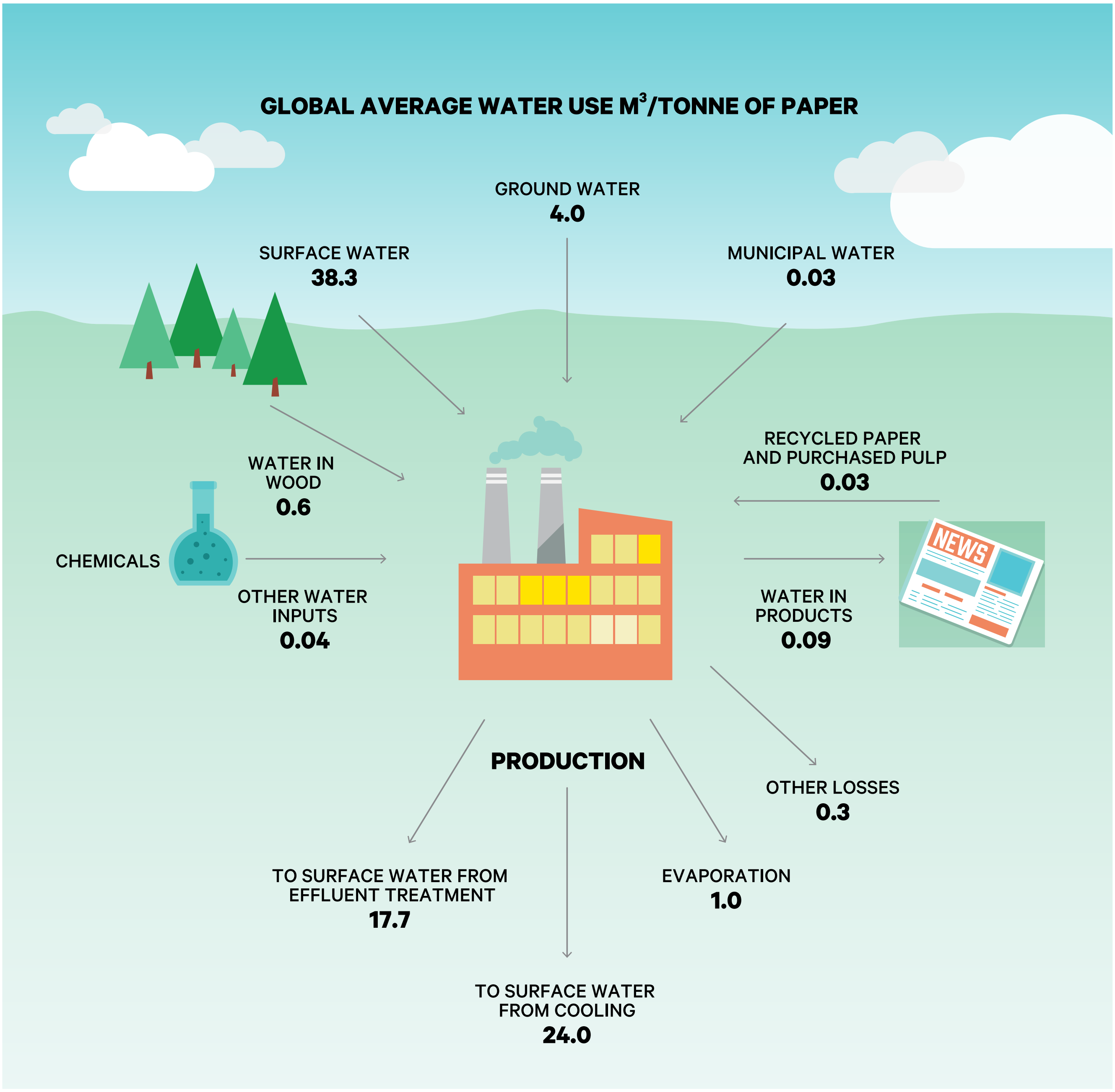
The majority of fresh water used by Norske Skog's mills (89%) originates from surface water sources. A further 9% is supplied from ground water supplies and a relatively small amount, 0.1%, comes from municipal water supplies.

Water also enters the manufacturing process through the purchased raw materials. 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 (56%) 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 2016, the emission of sulphur dioxide per tonne of paper was down by 23% compared to 2015. The emissions of NOx per tonne of paper were down by 8% compared to last year.

The total quantity of production waste generated by the group in 2016 was 391 000 dry tonnes. This is an increase of about 11 000 tonnes compared to 2015. In 2016, 142 000 tonnes of ash were generated from combustion, at the same level as in 2015.

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 2016, 81% of the waste was used as bio-fuel, an increase of 3% compared to 2015. 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 316 tonnes in 2016, at the same level as last year. Hazardous waste is disposed through authorized collection systems in accordance with national regulations.

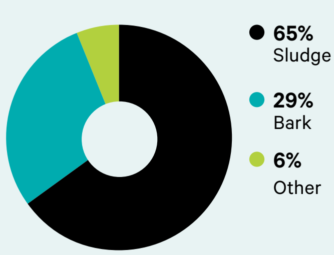
WATER DISCHARGES

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 2016, water discharge from the production process per tonne of paper was down 2% compared to 2015. The discharges of dissolved organic material and suspended matters per tonne of paper was up by 17% and 34% compared to 2015. The discharge of nitrogen and phosphorus increased by 13% and 10% compared to 2015. 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.

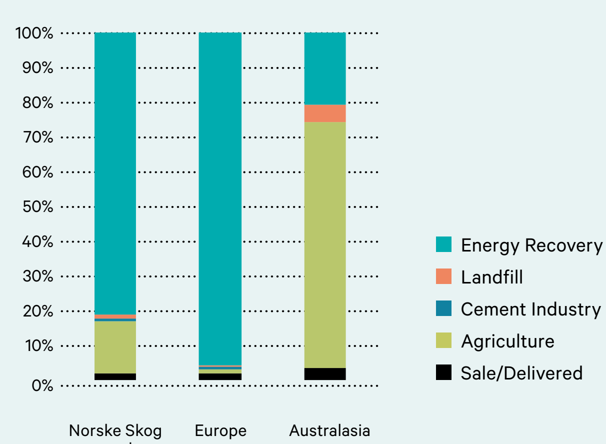
During 2016, the mills Norske Skog Saugbrugs, Norske Skog Skogn, Norske Skog Golbey, Norske Skog Albury and Norske Skog Boyer reported to the local authorities that they had incidents resulting in exceeding permit limits linked to the quality of discharged water. None of these overruns resulted in sanctions from the authorities.

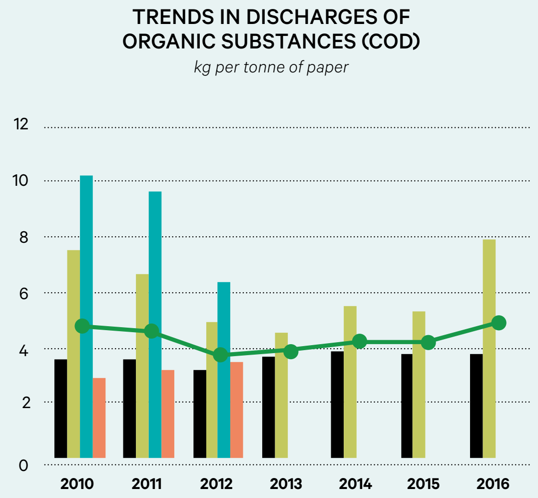
Norske Skog does not use bleaching chemicals containing chlorine in any mills. Chlorinated organic compounds are therefore not created and AOX is not included in our emission reporting.

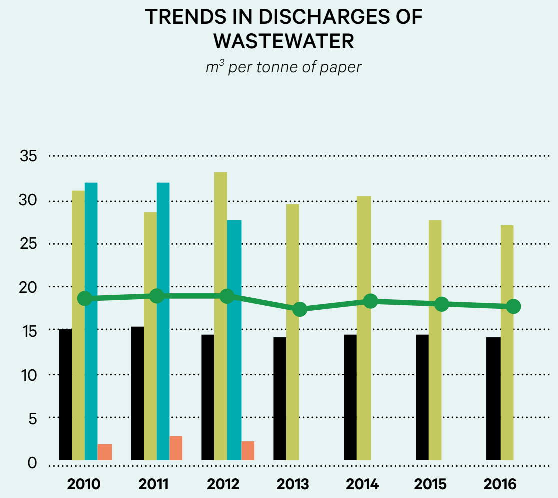
PRODUCTION WASTE
Total 390 844 tonnes



DISPOSAL OF MILL PRODUCTION WASTE







Europe Australasia South America Asia Total

Mill figures

		Bruck	Golbey	Saugbrugs
PRODUCTION				
Paper	1 000 tonnes	359	552	428
CONSUMPTION				
Roundwood	1 000 m^3	217	233	710
Sawmill chips	1 000 m^3	0	398	56
Recovered paper	1 000 tonnes	186	433	0
Purchased pulp	1 000 tonnes	26	0	23
Pigments and fillers	1 000 tonnes	97	19	120
Electric power	MWh/tonne	1.18	1.72	2.62
	GWh	422	949	1 119
Thermal energy[1)]	GJ/tonne	4.03	5.54	6.33
	TJ	1 446	3 056	2 709
DISCHARGE TO WATER				
Treated process water	m^3/tonne	12.9	10.3	18.8
	1000 m^3	4 616	5 678	8 065
Organic material (COD)	kg/tonne	3.1	1.8	4.7
	tonnes	1114	998	2 002
Suspended solids (SS)	kg/tonne	0.3	0.1	0.30
	tonnes	112	64	128
Phosphorus (tot-P)	g/tonne	4.6	13.7	11.33
	tonnes	1.7	7.5	4.8
AIR EMISSIONS [2)]				
CO_2-e (fossil) (total direct)	tonne/tonne	0.474	0.064	0.005
CO_2-e (fossil) (indirect)	tonne/tonne	0.000	0.129	0.016
CO_2-e (fossil) (total)	1000 tonnes	170	106	9 110
WASTE [3)]				
Waste to landfill	kg/tonne	1.64	0.09	13.86
	tonnes	590	49	5 932
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)	%	92	36	93

1) Includes heat recovered from the production process
2) Emissions from production, internal transport and purchased energy (CEPI toe 3 and 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
500	257	262	149
755	398	532	22
181	19	0	314
117	98	0	-
0	0	6	-
36	0	47	5
2.50	2.46	2.81	3.26
1 252	632	737	485
6.11	6.81	7.59	8.31
3 050	1 750	1 992	1 234
14.7	11.9	28.1	52.0
7 346	3 049	7 363	7 720
5.8	1.8	17.2	2.2
2 875	461	4 513	322
0.9	0.1	3.1	0.9
453	18	813	134
33.4	2.1	36.1	n.r.
16.7	0.5	9.5	n.r.
0.011	0.221	0.819	0.002
0.015	2.190	0.336	0.866
13	619	303	129
33.99	7.37	64.04	3.12
16 980	1 892	16 804	463
ISO	ISO	ISO	ISO
PEFC/FSC	PEFC	FSC	FSC
86	98	99	97

TO THE MANAGEMENT OF NORSKE SKOGINDUSTRIER ASA

Independent auditor's report on environmental information for 2016

We have reviewed the environmental information presented in Norske Skog's 2016 Annual Report, pages 36 - 50 ("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 50, 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 2016 reported from a sample of two reporting units (Norske Skog Bruck and Norske Skog Tasman) 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 50 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 2016. The UN Global Compact table referred to on page 50, appropriately reflects where relevant information is presented in the Norske Skog Annual Report 2016.

Oslo, 16 March 2017
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 2016 includes the 100% owned mills at 31 December 2016 and figures compared to the same 100% owned mills in 2015.

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 41 and 43. 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 2016 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. The group is geographical diverse with production sites in Europe and Australasia. In Europe, the group has four production sites, two in Norway, one in France and one in Austria. In Australasia, the group has two sites in Australia and one in New Zealand. The European segment is the largest with 2.0 million tonnes of capacity, of which 1.1 million tonnes newsprint and 0.9 million tonnes magazine paper. Norske Skog acquired its Australasian assets in 2000 and only produced newsprint in the region for a number of years. 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.

Norske Skog aims to generate 25% of group gross operating earnings from new businesses by 2020, with the shift predominantly involving new green investments like biogas and wood pellets. In 2017 Norske Skog will add a new revenue stream, biogas. The biogas production at Saugbrugs in Norway will provide environmental friendly fuel to local buses. As such, Norske Skog is succeeding not only in diversification, but also in entering a new green future. Similar projects are under construction at the Golbey mill in France and at the Skogn mill in Norway. The project at the Skogn mill is by a third party and Norske Skog will provide the biomass for a new biogas facility adjacent to the paper site. Norske Skog is also continuously evolving to save energy. The magazine paper production at the Saugbrugs mill in Norway is the most energy efficient in the world. Several projects at all mills will ensure the group remains a leader in energy savings.

In 2015, Norske Skog acquired Nature's Flame, the market leading wood pellets producer in New Zealand. The production of wood pellets has since increased and export opportunities to Japan are being explored. Wood pellets are a renewable alternative to fossil fuels and an important alternative for Japan to fulfil its environmental obligations. New Zealand is ideally located for export to Japan and Norske Skog has access to fibre necessary for the production.

At the Bruck mill in Austria, Norske Skog intends to close its oldest and least efficient paper machine towards the end of 2017. A project is ongoing to replace the newsprint machine from 1953 with a state of the art tissue machine. Norske Skog is further involved in R&D to enhance the use of renewable biomass, replacing existing products. This includes both new building materials and bio-solvents for pharmaceutical and agrichemical industries.

New technologies for distribution of content and advertisements have challenged publication paper. The ever-present 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 inclination to buy newspapers and magazines. Actual demand alternates around the secular trend pending on the business cycle.

Almost everyone now has a handheld device or more, giving instant access to a vast amount of free and also subscription based content. Content is however consumed very different digitally and on paper. While a reader on average spends 40 minutes on a paper newspaper, consumers typically only scan the online version for 30 seconds. The attention span directly translates to revenue potential for our customers, the publishers. For newspapers the split is 88% of revenue form the paper edition and only 12% of revenue from the online version. Several publisher have recently refocused their paper efforts given the lack of success in shifting revenues from print to new digital platforms.

Paper is old, but not old fashioned. Paper has unique characteristics in achieving attention for advertising and readability for knowledge transferral. The pervasive advantages of the internet to consumers bring direct challenges to content providers in being noticed. Advertisers increasingly turn to paper to stand out. Reading on paper brings no disturbances, it is you and the text. Turning pages engages you more than scrolling. Numerous research show paper to be the better medium when obtaining knowledge. 90% of newsreaders still prefer the printed newspaper.

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 consume 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 more than a decade.

NORSKE SKOG IN 2016

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

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

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

In January 2016 Norske Skog proposed an exchange offer to holders of unsecured bonds maturing in 2016 and 2017. The proposal was however legally challenged by a group of secured bondholders. As a consequence, the proposal was modified to an exchange offer to 2017 bondholders only and also to include issuance of new equity and various liquidity initiatives. The 2017 bond was exchanged into new bonds maturing in 2026 and 2115. The 2016 bond was redeemed in June 2016. The transactions extended debt maturities and reduced interest costs.

Norske Skog constructed a new biogas facility at Saugbrugs in 2016 and 2017. The new facility will be operational in the first quarter of 2017. A similar biogas project was commenced at the Golbey mill in July 2016 and is on schedule for completion by year-end 2017. In New Zealand, production was ramped up at the acquired domestic wood pellets producer Nature's Flame and export opportunities to Japan explored. The geothermal power station at the Tasman mill in New Zealand was divested in December 2016.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue was NOK 11.8 billion in 2016 (NOK 11.5 billion). The increase reflected better newsprint prices in Europe and higher sales volumes. Group variable costs decline per tonne with lower energy costs, while fixed costs remained stable. A weaker GBP following the UK's vote to leave the EU in June 2016 had a negative impact on Norske Skog's newsprint exports from Norway to the UK. The negative currency effect was however partly offset by higher newsprint prices in the UK.

Gross operating earnings improved to NOK 1 049 million in 2016 (NOK 753 million) with the better market on the continent clearly offsetting the headwind from a weaker GBP. Depreciation was NOK 682 million in 2016 (NOK 767 million), the reduction is due to impairment charges recognised in 2016.

Restructuring expenses in 2016 amounted to NOK 67 million (NOK 53 million), mainly related to de-manning. Other gains and losses in 2016 were NOK -127 million (NOK -97 million), largely reflecting a lower valuation of energy contracts in Norway and New Zealand. A total impairment charge of NOK 1.4 billion was recognized in the second quarter of 2016, predominately reflecting a more conservative projection for the Australasian business.

Operating earnings were NOK -1.1 billion in 2016 (NOK -164 million). The decline reflected the impairment charge.

Financial items in 2016 were NOK 1.0 billion (NOK -801 million) due to the deleveraging effect from the modified exchange offer. Net interest expenses were NOK 910 million in 2016 (NOK 919 million). Currency gains of NOK 380 million (NOK -719 million) reflected NOK appreciation to debt denominated in EUR and USD.

Income taxes recognized in the income statement for 2016 amounted to NOK 538 million (NOK -520 million). This included a change in deferred tax of NOK 564 million, whereof recognized deferred tax assets were NOK 257 million at 31 December 2016.

Profit for the period was NOK 306 million in 2016 (NOK -1.5 billion). Earnings per share in 2016 were NOK 1.2 (NOK -8.0).

Net cash flow from operating activities was NOK 230 million in 2016 (NOK -777 million). Cash from operations was NOK 973 million (NOK 116 million) reflecting the better operating environment in 2016. Cash from net financial items, primarily interest payments, was NOK -723 million (NOK -843 million), while taxes paid was NOK 20 million (NOK 50 million).

BALANCE SHEET

Total assets were NOK 10.2 billion at 31 December 2016 (NOK 12.7 billion). Total non-current assets were NOK 7.2 billion at 31 December 2016 (NOK 9.5 billion). The reduction of NOK 2.3 billion mainly reflected impairment charges and depreciation. Investments in property, plant and equipment were NOK 302 million in 2016 (NOK 180 million). Investments in 2016 included the construction of the new biogas facility at Saugbrugs in Norway in addition to normal maintenance capital expenditure.

Total current assets were NOK 3.1 billion at 31 December 2016 (NOK 3.2 billion), a decrease due to lower inventories. Cash and cash equivalents were NOK 532 million at 31 December 2016 (NOK 536 million).

Total non-current liabilities were NOK 7.5 billion at 31 December 2016 (NOK 9.0 billion). Net interest-bearing debt, the main portion of non-current liabilities, decreased by NOK 2.2 billion through 2016 and amounted toNOK 6.3 billion at 31 December 2016. The reduction resulted from exchange offer deleveraging, non-cash currency gains and positive cash flow from operations.

Total current liabilities were NOK 2.5 billion (NOK 3.9 billion). The decreased largely reflected a reduction in interest-bearing current liabilities following the redemption of the 2016 bond.

Equity was NOK 184 million at 31 December 2016 (NOK -229 million). The increase reflected profit for the period in addition to proceeds from shares issued and classification of perpetual notes as equity. Equity per share was NOK 0.7 at 31 December 2016 (NOK -1.2).

DIVIDEND PROPOSAL

Despite a clearly better operating result, Norske Skog's margins remain too low and the financial leverage too high. The board recommends that no dividend is disbursed for the financial year 2016.

SEGMENT ACTIVITY AND MARKET DEVELOPMENT

Norske Skog's reporting structure in 2016 provided segment information for publication paper Europe and publication paper Australasia. Other activities largely comprise costs above the segment level.

World demand for newsprint and magazine paper decreased by 5% and 6% respectively in 2016. Capacity closures and capacity conversions in the industry have however supported high capacity utilization for newsprint, while magazine paper remains oversupplied.

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 8.3 billion in 2016 (NOK 8.1 billion). Gross operating earnings clearly improved to NOK 778 million (NOK 413 million). The improvement reflected better newsprint prices and higher sales volumes. Sales volumes in the segment increased by 4% to 1.9 million tonnes. An on average weaker NOK to EUR and USD compared to the previous year was favourable, but a weaker GBP reduced the export margin for newsprint to the UK. Variable costs per tonne were helped by lower energy costs, but spot electricity prices in Norway and higher recovered paper prices were headwinds in the second half of the year. Fixed costs were somewhat lower.

Demand for newsprint and magazine paper in Europe declined by 3% and 5% respectively in 2016, compared to the previous year. Capacity utilization in the segment Publication Paper Europe was 92% in 2016 (82%).

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

Demand for newsprint in Oceania decreased by 10% in 2016, while demand for magazine paper has been relatively stable in recent years. Capacity utilization in the segment Publication Paper Australasia was 95% in 2016 (91%).

OTHER ACTIVITIES

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

PROFITABILITY IMPROVEMENTS AND FINANCIAL POSITION

The market for publication paper in Europe improved in 2016 with better prices for newsprint following announcements of capacity closures/conversions and a modest demand decline. The trough year of 2015 led to negative cash cost margins for marginal suppliers and a realization that capacity needed to be removed from the market. The announced capacity take outs will support high industry utilization rates for newsprint in Europe throughout 2017. For magazine paper the industry utilization rate for SC is acceptable, while LWC is oversupplied with an industry utilization rate below 90%. Norske Skog's SC exports from Norway to North America benefits from a strong USD, while the LWC production in Austria has a competitive advantage locally.

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

NOK depreciated on average to EUR, USD and AUD in 2016, but appreciated against a weaker GBP. Norske Skog has more than a third of its total capacity in Norway and exports close to all production abroad. A weaker NOK makes Norske Skog more competitive in international markets. Norske Skog is predominately financed through international bonds denominated in EUR and USD. NOK appreciated from year-end 2015 to year-end 2016. A stronger NOK makes foreign debt smaller in NOK terms.

Variable costs decreased in 2016 compared to the previous year, but electricity prices in Norway and recovered paper prices were headwinds in the second half of the year. High spot electricity prices in Norway are a seasonal occurrence, while recovered paper prices are likely to remain elevated through 2017 with packaging demand from China. Fixed costs remained flat despite currency headwinds in 2016. Identified cost reduction initiatives are targeting a run rate reduction of group fixed costs by more than 10% by year-end 2017.

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

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

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

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

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

PARENT COMPANY

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

BOARD OF DIRECTORS

Norske Skog's board of directors consists of five shareholder-elected members Henrik A. Christensen (chair), Mimi K. Berdal, Eilif Due, Nils Ingemund Hoff, Joanne Owen and three employee-elected representatives Paul Kristiansen, Svein Erik Veie and Cecilie Jonassen.

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 2 462 employees at year end 2016 (2 557). The reduction of one hundred employees is due to general staff reductions in all units.

HEALTH AND SAFETY

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

RESEARCH AND DEVELOPMENT

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

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

The paper industry has traditionally had few female employees. At Norske Skog, the proportion women has been around 10% for many years. The group's board of directors consists of five members elected by the shareholders and three members elected by and among the employees. The shareholder representatives currently consist of three men and two women, while one employee representative is female. Companies with a total female percentage of less than 20% are except from the gender balance requirement for employee elected board members. Norske Skog is working to encourage the Norwegian Discrimination Act's objective within our business. This include activities to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith.

COOPERATION PROJECTS

Norske Skog and the environmental foundation Bellona have signed a partnership agreement to create a more environmentally friendly supply chain. The collaboration targets more efficient log use and commercializing 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 for the group is amplified by high financial leverage.

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

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

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

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

Risk factors are further discussed in Notes 8 and 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. Norske Skog's business units all have traceability certificates to document the origin of wood.

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

OUTLOOK FOR 2017

The market balance for publication paper in Europe is expected to improve with announced capacity conversions/closures in the industry. This has resulted in a favourable pricing environment for newsprint with operating rates to remain well above 90% throughout 2017. Cost inflation from recovered paper and energy prices, together with headwinds from a weaker GBP, will however dampen the positive price effect.

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

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

New businesses beyond publication paper will start to contribute to gross operating earnings this year, with the biogas facility at Saugbrugs in Norway coming on stream in the first quarter and the completion of the biogas facility at Golbey in France by year-end. The group targets 25% of GOE to be generated from new businesses by 2020, with additional initiatives beyond biogas including wood pellets and tissue paper. The diversification strategy needs funding to be achieved.

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

NORSKE SKOGINDUSTRIER ASA (THE PARENT COMPANY)

The activities of Norske Skogindustrier ASA consist mainly of corporate functions. Income of NOK 109 million in 2016 (NOK 119 million) reflected intercompany revenue for services provided. Employee benefit expenses and other operating expenses were NOK 156 million (NOK 138 million). At year-end 2016, Norske Skogindustrier ASA had 36 employees.

Financial items amounted to NOK 407 million (NOK -1 423 million) due to a deleveraging gain following the exchange offer to 2017 bondholders and a non-cash positive currency effect. Net interest costs were equal to the previous year at NOK 299 million. The profit for Norske Skogindustrier ASA was NOK 340 million in 2016 (NOK -1 482 million).

Net cash flow from operating activities was NOK -168 million (NOK -811 million). The figure largely constituted interest payments of NOK 140 million (NOK 447 million), which were lower due to less debt following the exchange offer.

Total assets were NOK 3.1 billion at 31 December 2016 (NOK 7.9 billion). Total non-current assets were NOK 2.9 billion at 31 December 2016 (NOK 7.5 billion). The reduction of NOK 4.6 billion mainly reflected repayment of capital from Norske Treindustrier ASA to Norske Skogindustrier AS at NOK 3.7 billion and impairment of investments in subsidiaries of NOK 1.2 billion.

Total current assets were NOK 258 million at 31 December 2016 (NOK 395 million). Cash and cash equivalents were NOK 158 million at 31 December 2016 (NOK 261 million).

Total non-current liabilities were NOK 1.9 billion at 31 December 2016 (NOK 5.8 billion). The reduction resulted from exchange offer deleveraging and non-cash currency gains.

Total current liabilities were NOK 0.7 billion (NOK 2.4 billion). The decreased largely reflected a reduction in interest-bearing current liabilities following the redemption of the 2016 bond.

Norske Skogindustrier ASA issued 89 million new shares at a price of NOK 2.24 per share in a direct placement and a subsequent repair offer in 2016. Total proceeds amounted to close to NOK 200 million, which enhanced the financial position of Norske Skogindustrier ASA.

Equity was NOK 456 million at 31 December 2016 (NOK -232 million). The increase reflected profit for the period in addition to proceeds from shares issued and classification of perpetual notes as equity.

As described above the board of directors recognizes the challenging industry Norske Skog operates in, the remaining high financial leverage in Norske 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.

The recapitalisation options that have been pursued for the group would have reduced leverage and interest cost, while improving the equity in Norske Skogindustrier ASA.

PROFIT/LOSS ALLOCATION

The net profit for the year for Norske Skogindustrier ASA (the parent company) in 2016 was NOK 340 million (NOK -1 482 million) which has been allocated to retained earnings.

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

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

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Consolidated financial statements

NORSKE SKOGINDUSTRIER ASA

CONTENTS

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

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

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

Henrik August Christensen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Cecilie Jonassen
Board member

Svein Erik Veie
Board member

Mimi K. Berdal
Board member

Sven Ombudstvedt
President and CEO

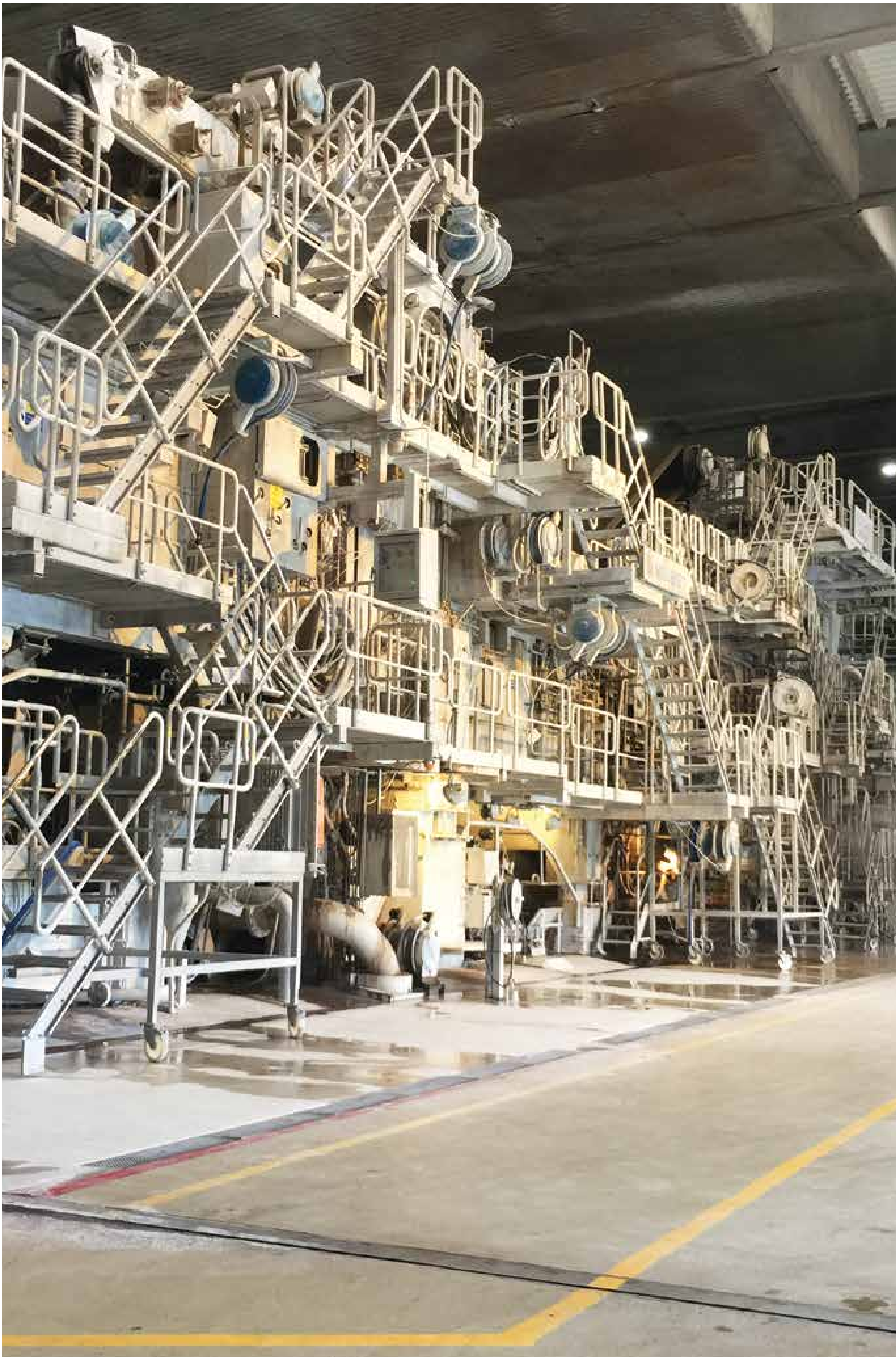
CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

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

2. ACCOUNTING POLICIES

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

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

CONSOLIDATION

a) Basis of consolidation

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

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

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

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

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

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

b) Associates

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

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

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

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

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

SEGMENT REPORTING

Reportable segments

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

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

Accounting policies applied in the segment reporting

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

Performance measurement

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

Intercompany transactions

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

FOREIGN CURRENCY TRANSLATION

a) Functional and presentational currency

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

b) Transactions and balances

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

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

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

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

c) Group companies

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

i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
ii. Income and expenses for each income statement are translated at average exchange rates on monthly basis,
iii. All resulting exchange differences are booked to comprehensive income and presented in other equity reserves.

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

BIOLOGICAL ASSETS

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

INTANGIBLE ASSETS

a) Goodwill

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

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

b) Patents and licenses

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

c) Computer software

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

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

FINANCIAL ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TRADE PAYABLES

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

PROVISIONS

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

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

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

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

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

CURRENT AND DEFERRED INCOME TAX

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

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

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

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

PENSION OBLIGATIONS, BONUS ARRANGEMENTS AND OTHER EMPLOYEE BENEFITS

a) Pension obligations

Group companies operate various pension schemes. These are generally funded through payments to insurance companies, as determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

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

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

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

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

b) Share-based remuneration

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

c) Bonus arrangements

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

d) Short-term obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

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

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

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

NEW AND AMENDED INTERPRETATIONS AND STANDARDS ADOPTED BY THE GROUP

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

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

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

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

IFRS 9 Financial instruments

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

IFRS 15 Revenue from contracts with customers

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

IFRS 16 Leases

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

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

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

c) Annual assessment of the remaining economic life of PPE

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

d) Provision for future environmental obligations

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

e) Residual value and dismantling provision

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

f) Fair value of derivatives and other financial instruments

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

g) Deferred tax assets

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

h) Pensions

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

3. OPERATING SEGMENTS

REPORTABLE SEGMENTS

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

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

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

Publication paper Europe

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

Publication paper Australasia

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

Other activities

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

REVENUES AND EXPENSES NOT ALLOCATED TO OPERATING SEGMENTS

Norske Skog manages non-current debt, taxes and cash positions on a group basis. Consequently, financial items and tax expenses are presented only for the group as a whole.

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

MAJOR CUSTOMERS

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

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

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

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

OPERATING REVENUE PER MARKET

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

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

NET CASH FLOW FROM OPERATING ACTIVITIES

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

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

PROPERTY, PLANT AND EQUIPMENT PER GEOGRAPHICAL REGION

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

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

INVENTORIES

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

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

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

NON-CURRENT ASSETS HELD FOR SALE

Norske Skog did not have any non-current assets held for sale at 31 December 2016.

ASSUMPTIONS APPLIED WHEN CALCULATING THE RECOVERABLE AMOUNT

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

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

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

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

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

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

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

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

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

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

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

SENSITIVITY TO ESTIMATES OF RECOVERABLE AMOUNT

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

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

PROPERTY, PLANT AND EQUIPMENT ALLOCATED TO CASH-GENERATING UNITS

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

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

EXPECTED USEFUL LIFE

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

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

5. FINANCIAL ITEMS

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

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

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

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

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

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

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

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

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

6. MORTGAGES

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

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

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


LONG VEHICLE

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

FAIR VALUE MEASUREMENT HIERARCHY FOR FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

8. FINANCIAL RISK AND HEDGE ACCOUNTING

FINANCIAL RISK FACTORS

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

MARKET RISK

a) Interest rate risk

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

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

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

Interest rate sensitivity analysis

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

- Floating rate debt is exposed to changes in market interest rates, i.e. the interest costs or interest income associated with such instruments will fluctuate based on changes in market rates. These changes are accounted for in the sensitivity analysis. The result is based on the assumption that all other factors are kept constant.

- Changes in market rates on fixed rate debt will only affect the income statement if they are measured at fair value. Thus, fixed rate instruments recognised at amortised cost will not represent an interest rate risk as defined by IFRS 7. Such instruments will therefore not have any influence on the sensitivity analysis.

- Results are presented net of tax, using the Norwegian statutory tax rate of 24%.

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

b) Currency risk

Transaction risk - cash flow hedge

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

Translation risk - net investment hedge

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

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

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

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

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

Foreign exchange - sensitivity analysis on financial instruments

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

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

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

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

c) Commodity risk

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

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

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

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

Sensitivity analysis for commodity contracts

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

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

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

Sensitivity analysis for embedded derivatives

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

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

LIQUIDITY RISK

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

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

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

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

CREDIT RISK

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

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

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

9. DERIVATIVES

FAIR VALUE OF DERIVATIVES

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability are not based on observable market data (i.e. unobservable inputs).

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

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

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

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

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

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

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

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

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

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

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

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

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

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

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

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

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

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

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

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

11. INTEREST-BEARING LIABILITIES

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

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

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

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

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

FINANCIAL DEBT PAYMENTS

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

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

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

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

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

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

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

NET INTEREST-BEARING DEBT

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

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

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

12. EMPLOYEE BENEFIT EXPENSES

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

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

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

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

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

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

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

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

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

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

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

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

LONG-TERM INCENTIVE PROGRAMME

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

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

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

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

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

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

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

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

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

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

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

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

13. PENSION COSTS AND PENSION OBLIGATIONS

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

DESCRIPTION OF THE DEFINED BENEFIT PLANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PENSION PLANS IN THE BALANCE SHEET

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

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

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

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

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

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

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

Remeasurements is mainly related to changes in financial assumptions.

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

Remeasurements is mainly related to changes in financial assumptions.

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

SENSITIVITY ANALYSIS

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

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

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

14. OTHER OPERATING EXPENSES

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

15. LEASES

OPERATING LEASES

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

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

FINANCE LEASES

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

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

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

16. OTHER GAINS AND LOSSES

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

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

The net loss on divestments of business activities, property, plant and equipment in 2016 of NOK 17 million was primarily related sell of the Topp1 power station at the Tasman mill and scrapping of equipment no longer in use.

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

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

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

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

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

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

17. INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. SPECIFICATION OF BALANCE SHEET ITEMS

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

19. INVESTMENTS IN ASSOCIATED COMPANIES

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

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

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

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

20. PROVISIONS

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

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

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

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

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

DISMANTLING PROVISION

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

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

ENVIRONMENTAL PROVISION

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

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

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

21. PERPETUAL NOTES

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

22. EARNINGS AND DIVIDEND PER SHARE

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

[1] *There were no dilution effects in 2016 or 2015.*

[2] *In April 2016 Norske Skog issued a perpetual notes that is classified as equity with an original face value of EUR 79 million. The perpetual note has a 2% coupon, which is payable at the company's option. Any interest deferred will be accrued at a 2% rate per annum, thus 2% dividend of the nominal amount is allocated and added to the perpetual notes at a yearly basis.*

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

23. SHARES

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

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

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

24. CAPITAL MANAGEMENT

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

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

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

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

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

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

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

25. CONTINGENT LIABILITIES

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

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

26. RELATED PARTIES

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

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

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

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

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

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

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

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

27. EVENTS AFTER THE BALANCE SHEET DATE

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

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Financial statements

NORSKE SKOGINDUSTRIER ASA

CONTENTS

INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

BALANCE SHEET

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

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

Henrik August Christensen
Chair

Eilif Due
Board member

Nils Ingemund Hoff
Board member

Joanne Owen
Board member

Paul Kristiansen
Board member

Cecilie Jonassen
Board member

Svein Erik Veie
Board member

Mimi K. Berdal
Board member

Sven Ombudstvedt
President and CEO

STATEMENT OF CASH FLOWS

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

STATEMENT OF CHANGES IN EQUITY

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

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

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

3. OPERATING REVENUE BY GEOGRAPHICAL MARKET

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

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

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

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

5. SHARES IN SUBSIDIARIES

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

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

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

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

6. FINANCIAL ITEMS

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

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

[2] *Other financial expenses in 2015 include losses from the divestment of subsidiaries.*

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

[4] *In April 2016 Norske Skog completed an exchange of the existing bond EUR 2017 into two new bonds with longer maturities with a gain of NOK 1 624 million. See Note 5 in the Consolidated Financial Statement for more information. In February 2015 Norske Skog completed refinancing a portion of its bond maturities though the issuance of an EUR 290 million Senior Secured Notes (SSN) and exchange of existing bonds into new bonds with longer maturities. Gain from exchange and fair value hedge was respectively NOK 399 million and NOK 90 million. The SSN was issued by the subsidiary Norske Skog AS and exchanges bond was issued by the subsidiary Norske Skog Holding AS.*

[5] *In connection with refinancing in 2015 the group company structure was changed. Several of the subsidiaries were sold to Norske Treindustrier AS with a gain of NOK 420 million.*

7. MATURITY OF INTEREST-BEARING LIABILITIES

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

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

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

8. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

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

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

	31.12.2016	31.12.2015
Man-labour years	36	42

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

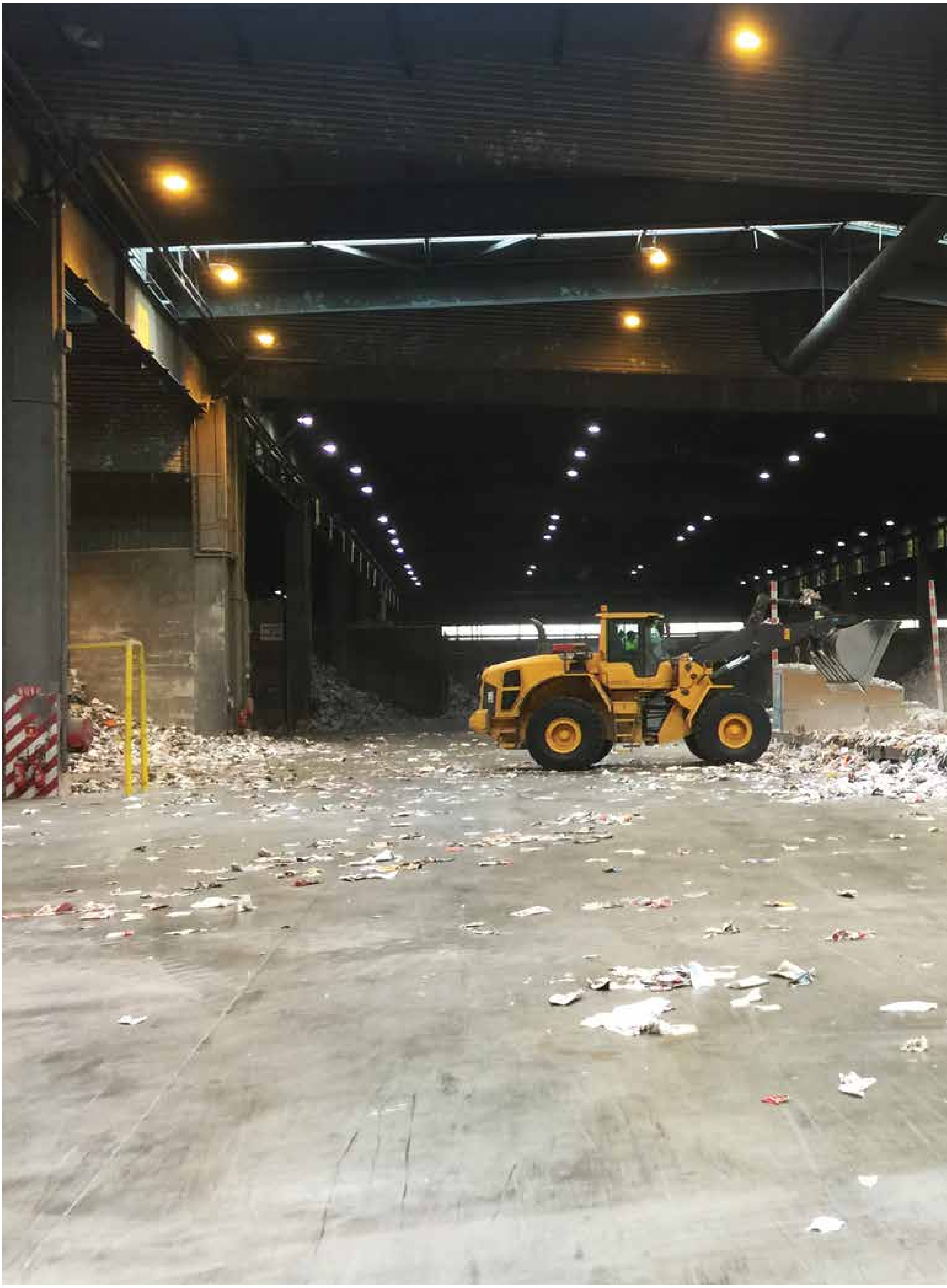
PENSION ASSET IN THE BALANCE SHEET	31.12.2016	31.12.2015
Net pension asset in the balance sheet	**0**	**0**

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

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

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

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

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9. BOARD STATEMENT ON REMUNERATION FOR SENIOR EXECUTIVES

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

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

FIXED SALARY

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

VARIABLE ELEMENTS

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

Annual incentive plans

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

Long-term incentive programme

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

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

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

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

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

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

Benifits in kind

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

PENSION PLANS

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

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

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

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

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

TERMINATION PAYMENT AGREEMENTS

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

ACCOUNT OF THE IMPACT FOR THE COMPANY AND SHAREHOLDERS OF AGREEMENTS RELATING TO OTHER REMUNERATION THAN ORDINARY SALARY ENTERED INTO OR AMENDED IN 2016

The bonus schemes in 2016 yielded a disbursement of NOK 10 million. The long-term incentive programme did not give basis for payments in 2016.

THE BOARD'S STATEMENT ON DETERMINATION OF SALARY AND OTHER REMUNERATION FOR 2016

The board aims to apply the main principles and guidelines described above to both fixed salary and other remuneration to the company's executives for the current financial year.

10. INCOME TAXES

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

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

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

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

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

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

11. INTERCOMPANY RECEIVABLES/LIABILITIES

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

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

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

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

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

12. EQUITY

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

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

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

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

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

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

13. GUARANTEES

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

14. RELATED PARTIES

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

15. EVENTS AFTER THE BALANCE SHEET DATE

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

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Munkedamsveien 45
Postboks 1704 Vika
0121 Oslo

Independent Auditor's Report

To the General Meeting of Norske Skogindustrier ASA

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the financial statements of Norske Skogindustrier ASA.

The financial statements comprise:	*In our opinion:*
• The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and • The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.	• The financial statements are prepared in accordance with laws and regulations, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report. • The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report. • The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report.

Basis for Qualified Opinion

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

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

Material Uncertainty Related to Going Concern

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

Key Audit Matters

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

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

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information about industry trends and developments to support the impairment tests. In connection with the impairment tests, management also concluded that it was appropriate to redefine the number of Cash Generating Units (CGUs) from two to four. The updated impairment test resulted in no further impairment as at 31 December 2016. We refer to the description in note 4 to the consolidated financial statements.	comparing actual results to plans and forecasts for prior periods. Our audit procedures encompassed both the impairment test as at 30 June 2016 and the updated test related to yearend financial reporting. We also evaluated the appropriateness of redefining the CGUs compared to the requirements in IAS 36. For issues related to allocation of impairment to appropriate accounting periods, we refer to our description under "Basis for qualified opinion".
Debt exchange offer in 2016	
In April 2016, the Company settled the 2017 bond, by issuing a new bond due 2026 and a perpetual bond. The exchange was accounted for as a settlement of the existing bond, and an issuance of the new bonds. The Company recognized a gain of NOK 1 624 million, based on the difference between the fair value of the new bonds, and the carrying value of the existing bond. In addition, NOK 148 million was recognized directly to equity for the perpetual loan, based on the management assessment of the loan not being a financial liability under IFRS. The nature and complexity of the matter and related accounting standards made us identify this as a high risk area in our audit. A further description of this matter is given in notes 5 and 6 to the consolidated financial statements.	We obtained the terms of the existing bond agreement and the new bond agreements and calculations supporting the accounting of the exchange as a settlement. We also obtained the bond agreement for the perpetual debt and the management assessment regarding the classification as equity. We examined the calculations supporting the treatments as a settlement by comparing the cash flows in the calculations with the terms of the bond agreements. We also reviewed the assumptions applied in the calculations. Further, we read the terms of the perpetual bond to determine whether the classification of the bond as equity was in compliance with IAS 32.
Deferred Tax	
Several entities in the group have accumulated significant unused tax losses. In addition, several of the subsidiaries have material temporary differences linked to the property, plant and equipment. In the financial statements for 2016, the group reported a tax expense (-income) of NOK -538 million, deferred tax asset of NOK 257 million and deferred tax liability of NOK 293 million. Deferred tax asset not recognized amounts to NOK 3 246 million. The complexity and materiality of this matter has lead us to identify this as a high risk in our audit. We refer to the description in note 17 to the consolidated financial statements.	We obtained a specification of all tax positions for the different entities in the group. We also obtained management assessment of how to account for the tax positions. We performed a detailed review of the tax positions and management assessment to ensure that that the treatment and disclosures in the financial statements were in compliance with the requirements in IAS 12.

Revenue Recognition	
The development over the recent years and the group's financial situation implies that there is an inherent risk that the operating paper mills may overstate revenues. Based on this, revenue recognition in these entities were considered a risk in our audit of the consolidated financial statements.	The audit of revenues was based on a detailed understanding of the revenue recognition accounting policies and the process of recording revenues according to the defined polices, including relevant control activities over this process. We performed tests regarding the operating effectiveness of these controls. In addition, we performed detailed tests of the entities' cut-off procedures to verify correct cut-off based on the entities' terms of delivery.

Other Information

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 16 March 2017
BDO AS

Terje Tvedt
State Authorised Public Accountant

DECLARATION FROM THE BOARD OF DIRECTORS AND CEO

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

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

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

Alternative performance measures

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

Norske Skog uses APMs as described below:

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

Gross operating margin: Gross operating earnings / operating revenue

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

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

Gearing: Net interest bearing debt / equity

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

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

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

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

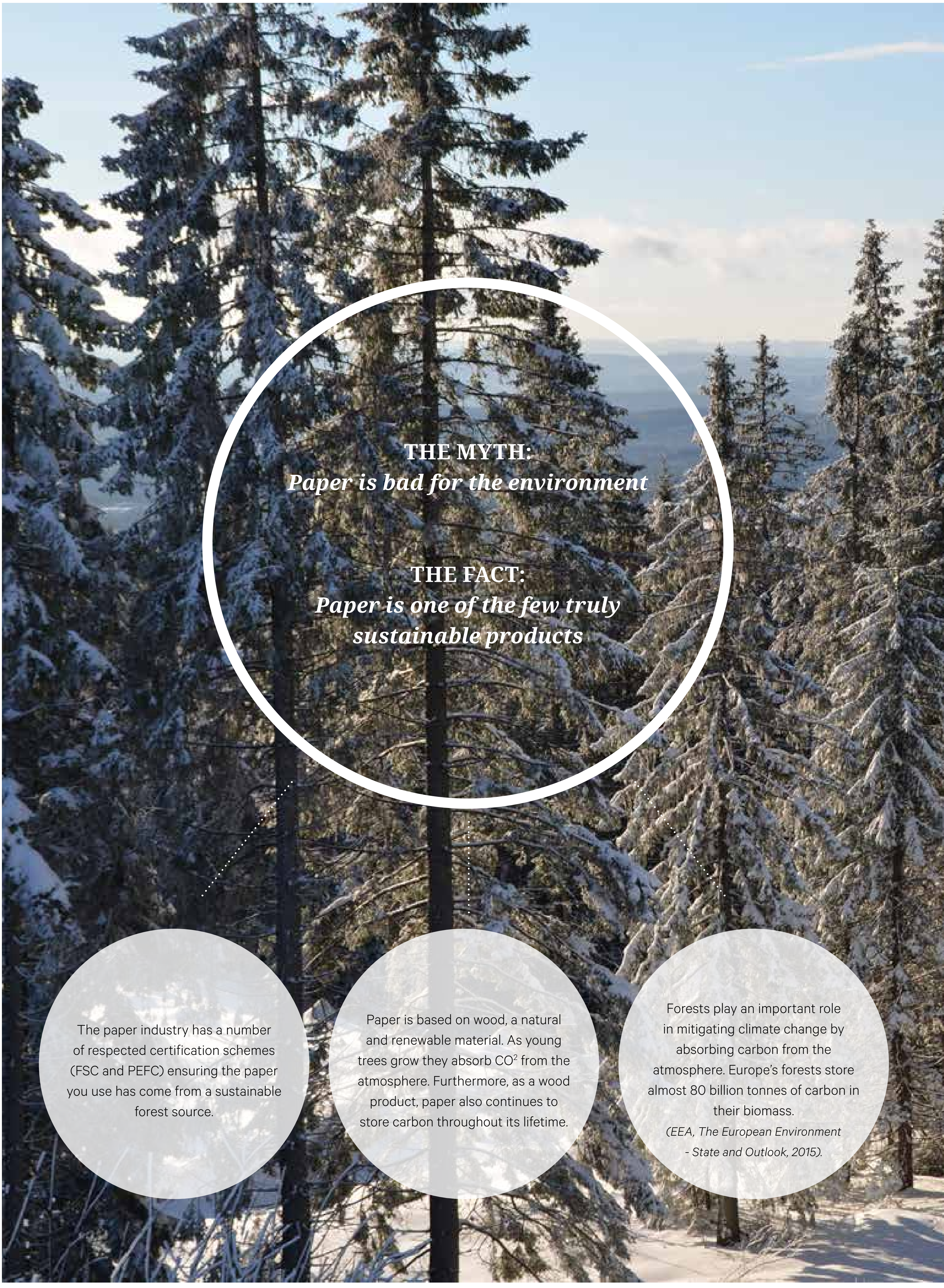
Price / Book (P/B): Share prices 31 December / Book equity per share

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

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

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

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



THE MYTH:
Paper is bad for the environment

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

The paper industry has a number of respected certification schemes (FSC and PEFC) ensuring the paper you use has come from a sustainable forest source.

Paper is based on wood, a natural and renewable material. As young trees grow they absorb CO^2 from the atmosphere. Furthermore, as a wood product, paper also continues to store carbon throughout its lifetime.

Forests play an important role in mitigating climate change by absorbing carbon from the atmosphere. Europe's forests store almost 80 billion tonnes of carbon in their biomass.
(EEA, The European Environment - State and Outlook, 2015).

NORSKE SKOGINDUSTRIER ASA
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