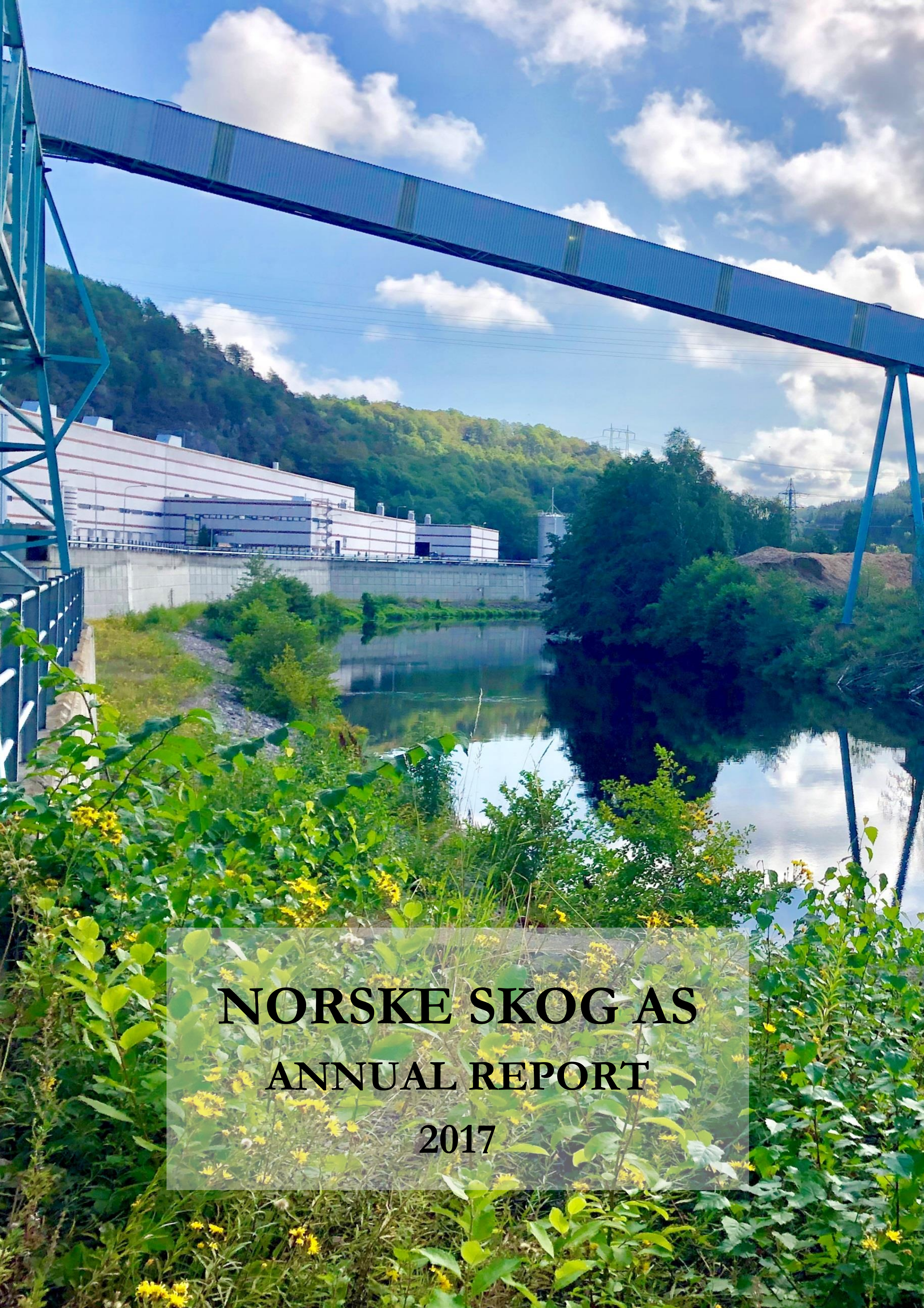

NORSKE SKOG AS

ANNUAL REPORT

2017

Norske Skog is one of the leading producers of publication paper in the world, with an annual production capacity of 2.6 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 production 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 is newsprint and 0.9 million tonnes is magazine paper. The production capacity in the Australasian segment is 0.6 million tonnes newsprint and 0.1 million tonnes magazine paper. Importantly, Norske Skog is the only domestic producer in the region.

NORSKE SKOG IN 2017

2017 has been marked by the challenging operating environment with a decrease in revenue following reduced magazine prices in Europe and increased export from Australasia. Cost pressure from increased prices on recovered paper, fibre and energy contributed further to reduced gross operating earnings and a challenging liquidity situation. For the Norwegian mills, a shortage of fibre contributed to inefficient operations and increased costs impacting profitably and liquidity negatively.

The continuous efforts to address the unsustainable capital structure through restructuring discussions was a key focus through 2017, with several attempts to find a consensual solution with all stakeholders. The challenging liquidity situation led to the company not making payment of interest under the EUR 290 million senior secured notes due 2019 ("SSNs") or the Norwegian Securitisation Facility ("NSF") EUR 100 million when due in June 2017.

Following the failure by the company to pay due interest under the SSNs in June 2017, and following the expiry of applicable grace periods, an event of default crystallised under the SSNs. As a result, the majority holders of the SSNs instructed the Security Agent to accelerate the liabilities under the SSNs on 12 September 2017.

On 23 November 2017, Oceanwood, having accumulated the majority of the SSNs, announced that it was terminating the restructuring discussions and that it was going to instruct the security agent, Citibank, N.A., London Branch, to take enforcement action on the pledge over the entire issued share capital of Norske Skog AS, facilitating the sale of Norske Skog AS along with its direct and indirect subsidiaries, to the highest bidder for cash pursuant to a competitive public auction process.

In December 2017, the prior ultimate parent company of the group, Norske Skogindustrier ASA, and the intermediate holding companies Norske Treindustrier AS and Norske Skog Holding AS, filed for bankruptcy. Following these bankruptcies, Norske Skog AS became the new ultimate parent company of the Norske Skog group. The operating companies of the group have continued producing and supplying customers.

The auction process for the sale of the shares in Norske Skog AS, which was publicly launched on 13 December 2017, was ended on 3 May 2018 when a wholly owned subsidiary of Oceanwood Opportunities Master Fund entered into a sale and purchase agreement with Citibank, N.A., London Branch, as security agent for the shares of Norske Skog AS.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue was NOK 11.5 billion in 2017 (NOK 11.9 billion). Gross operating earnings decreased to NOK 702 million in 2017 (NOK 1 097 million). The decrease reflected a combination of lower magazine prices in Europe, higher mix of Asian export sales from Australasia at lower pricing and unfavourable currency impact. Group variable costs have been higher due to higher recovered paper, fibre and energy prices, but positively affected by improvements in fibre and energy consumption following investments at certain mills.

Depreciation was NOK 608 million in 2017 (NOK 674 million). The reduction is due to lower carrying value of fixed assets after impairments recognized in 2016. Restructuring expenses in 2017 amounted to NOK 9 million (NOK 64 million) and is mainly related to de-manning. Other gains and losses in 2017 were NOK -88 million (NOK -126 million), largely reflecting the change in value of embedded derivatives in energy contracts and change in value of certain energy contracts, accounted for at fair value.

Operating earnings were NOK -1 702 million in 2017 (NOK -947 million). The decrease reflected weaker market conditions in 2017 and further impairments recognised in 2017.

Financial items in 2017 were NOK -1 554 million (NOK -340 million) due to losses on receivables of NOK 477 million to Norske Skogindustrier ASA and other former group companies that filed for bankruptcy in 2017, net interest expenses of NOK 644 million in 2017 (NOK 476 million), and currency losses of NOK 312 million (gain of NOK 179 million) mainly related to translation effects on debt denominated in EUR.

Income taxes recognized in the income statement for 2017 amounted to NOK -234 million (NOK 527 million). This included a change in deferred tax of NOK -221 million.

Loss for the period was NOK -3.6 billion in 2017 (NOK -1.0 billion).

Net cash flow from operating activities was NOK 404 million in 2017 (NOK 514 million). Cash from operations was NOK 606 million (NOK 988 million) reflecting the weaker operating environment in 2017. Cash from net financial items, primarily interest payments, was NOK -184 million (NOK -470 million), while taxes paid was NOK 19 million (NOK 4 million). The lower interest payments is due to Norske Skog AS not paying interests on its outstanding debt from June 2017.

BALANCE SHEET

Total assets were NOK 8.1 billion at 31 December 2017 (NOK 10.5 billion). Total non-current assets were NOK 4.9 billion at 31 December 2017 (NOK 7.2 billion). The reduction of NOK 2.3 billion mainly reflected impairment charges and depreciation. Investments in property, plant and equipment were NOK 281 million in 2017 (NOK 305 million). Investments in 2017 included the construction of the new biogas facilities at Saugbrugs in Norway and Golbey in France, in addition to normal levels of operational capital expenditure.

Total current assets were NOK 3.2 billion at 31 December 2017 (NOK 3.3 billion), with cash and cash equivalents of NOK 433 million at 31 December 2017 (NOK 371 million).

Total non-current liabilities were NOK 2.6 billion at 31 December 2017 (NOK 6.0 billion). Total current liabilities were NOK 7.0 billion (NOK 2.4 billion). The increase reflected a reclassification of interest-bearing liabilities due to default on coupon payments of the SSNs and the EUR 100 million NSF in 2017. Net interest-bearing debt, the main portion of current liabilities, increased by NOK 0.7 billion through 2017 and amounted to NOK 5.7 billion at 31 December 2017.

Equity was NOK -1.4 billion at 31 December 2017 (NOK 2.1 billion). The decrease reflected loss for the period.

DIVIDEND PROPOSAL

The board does not recommend payment of dividend for the financial year 2017.

RISK MANAGEMENT

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. The demand for publication paper will likely continue to decrease and the market balance is therefore over time dependent on future conversions or closures of production capacity. 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.

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, replicating cash flows from the EUR based European market. The interest rates (coupons) on these bonds are fixed, providing predictability. Liquidity is ensured by maintaining 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 Note 8 in the consolidated financial statements.

CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENT

Norske Skog is subject to reporting requirements for corporate governance and corporate social responsibility pursuant to the Norwegian Accounting Act Section 3-3b and 3-3c. Corporate governance and corporate social responsibility are described on www.norskeskog.com.

At Norske Skog, we are committed to reducing our environmental impact through sustainable operations and continuous improvement. To achieve this, we make sure that our environmental management programs and standards are an integral part of all our activities. Details of environmental responsibility are described on www.norskeskog.com.

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.

Norske Skog has invested in and completed biogas plants at Saugbrugs and Golbey and will continue to explore other projects within bioenergy that support and develop the business. Investments into projects for alternative use of fibre and development of biochemicals are being done in the form of pilot plants that, if successful, can contribute to growth when commercialised.

GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

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

GOING CONCERN

On 3 May 2018, a wholly owned subsidiary of Oceanwood Opportunities Master Fund entered into a sale and purchase agreement with Citibank, N.A.,London Branch, as security agent, for the acquisition of the shares in Norske Skog AS, along with its direct and indirect subsidiaries. The purchase price agreed in the sale and purchase agreement will not procure sufficient proceeds to fully discharge the company's financial and guarantee liabilities under the SSNs, the EUR 16 million liquidity facility and the EUR 159 million senior notes due 2021 and USD 61 million senior notes due 2023. Upon completion of the transaction, such financial and guarantee liabilities that are not fully discharged from the proceeds will be released. The transaction is subject to Oceanwood obtaining the relevant antitrust and other regulatory approvals in the countries concerned (including Australia and New Zealand), which is currently anticipated to be obtained in the second half of 2018.

Upon completion the release of the abovementioned liabilities will improve the company's equity with approximately NOK 3.5 billion. Following the release, Norske Skog AS will have significantly less debt and interest costs, which will improve both the solidity and liquidity of the company and group.

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 transactions described above and the potential impact both on liquidity and equity following the release of liabilities after completion of the sale of shares. 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 financial budget and updated forecasts for 2018.

Based on these considerations and reflecting inherent 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 a going concern basis.

OUTLOOK FOR 2018

The market balance for publication paper in Europe has improved into 2018 due to capacity conversions/closures in the industry in 2017. This has resulted in a favourable pricing environment for newsprint and magazine grades with higher operating rates in 2018 than previous years, and expected improvement in gross operating earnings compared to 2017.

The Asian export market for newsprint, constituting around 50% of the Australasian business for the group, is encouraging with improved prices due to the globally tight market balance. Domestically in Australia and New Zealand, the group has long-term customer contracts, but the business is exposed to a secular decline in demand which is expected to continue.

Group sales volumes in 2018 are expected to be on level with the previous year.

Underlying increases in costs for pulp, fibre and energy are expected to continue in 2018 and impact on the cost levels in the business. Shortage of wood, particularly in Norway, has continued into 2018 and may remain an issue both through increased cost and inefficient operations of the mills.

Following the completion of the sale of the shares in Norske Skog AS, and with Oceanwood as a financially strong new owner, the focus of the group will remain to maintain and develop a sustainable and stable business platform. The group will continue to focus on developing initiatives to improve the competitiveness of the mills though continuous cost reductions, developing our core business, invest in promising new growth projects, and be an attractive consolidation partner for publication paper in Europe.

NORSKE SKOG AS (THE PARENT COMPANY)

The parent company, Norske Skog AS, is incorporated in Norway and has its head office at Skøyen in Oslo. The Norske Skog group had 2 414 employees at year end 2017 (2 426). The activities of Norske Skog AS consist of holding shares in the operating companies of the Norske Skog group and the company had no employees or operating activities of its own as at 31 December 2017. All employees were employed from 1 January 2018 following the bankruptcy of the previous ultimate parent company Norske Skogindustrier ASA on 19 December 2017. The group's operational activities have continued in Norske Skog AS, including the head office function that previously was performed by Norske Skogindustrier ASA.

Financial items amounted to NOK -3 228 million (NOK -938 million) mainly due to external interest expenses at NOK 490 million (NOK 421 million) and impairment charges of NOK 2 296 million (NOK 752 million) on shares in subsidiaries. Losses on foreign currency amounts to NOK 331 million (gain of NOK 130 million). The loss for the period for Norske Skog AS was NOK 3 239 million in 2017 (NOK 942 million).

Net cash flow from operating activities was NOK 112 million (NOK -255 million). The lower interest payments is due to that Norske Skog AS did not pay interests on its outstanding debt from June 2017.

Total assets were NOK 4.5 billion at 31 December 2017 (NOK 6.6 billion). Total non-current assets were NOK 4.2 billion at 31 December 2017 (NOK 6.5 billion). Total non-current liabilities were NOK 297 million at 31 December 2017 (NOK 3.8 billion). The decrease is due to reclassification of SSNs and NSF as they were in default at year-end. Current liabilities at were NOK 5.1 billion at 31 December 2017 (NOK 453 million)

Equity was NOK -0.9 billion at 31 December 2017 (NOK 2.3 billion). The decrease reflected loss for the period. As at year end 2017, Norske Skog had lost more than 50% of its share capital. Following the completion of the sale of the shares in the company and the release of financial and guarantee liabilities described above, the equity is estimated to increase to a level in excess of NOK 2 billion, representing an equity ratio of approximately 25%. Combined with the improved liquidity in 2018, expected from the price increases for publication paper and reduced interest cost, the board considers that appropriate measures are in place to increase the equity and liquidity to adequate levels.

As described above, the board of directors recognizes the challenging industry Norske Skog operates in and the exposures to the group's various risks that could impact the financial performance, liquidity and equity in the parent company. The risk factors described for the group are also relevant for the parent company. Furthermore, Norske Skog AS is also exposed to the risks of funding from the cash generating operations not being available for the company when required, whether by way of intragroup loans or other capital transactions such as dividend payments.

PROFIT/LOSS ALLOCATION

The loss for the year for Norske Skog AS (the parent company) in 2017 was NOK 3 239 million (NOK 942 million) whereof NOK 2 019 million has been allocated from share premium and NOK -1 220 million has been allocated to retained earnings.

SKØYEN, 23 MAY 2018 - THE BOARD OF DIRECTORS AND CEO OF NORSKE SKOG AS

Sven Ombudstvedt	Nils Ingemund Hoff	Lars P. S. Sperre
Chairman	Board member	President and CEO

CONSOLIDATED INCOME STATEMENT

NOK MILLION	NOTE	2017	2016
Operating revenue	3	**11 527**	**11 852**
Distribution costs		-1 255	-1 229
Cost of materials		-6 904	-6 791
Change in inventories		-11	-66
Employee benefit expenses	12	-1 718	-1 762
Other operating expenses	14	-937	-907
Gross operating earnings		**702**	**1 097**
Depreciation	4	-608	-674
Restructuring expenses	20	-9	-64
Other gains and losses	16	-88	-126
Impairments	4	-1 699	-1 180
Operating earnings		**-1 702**	**-947**
Share of profit in associated companies	19	-61	-211
Financial income	5	5	16
Financial expenses	5	-1 247	-535
Net unrealised/realised gains/losses on foreign currency	5	-312	179
Loss before income taxes		**-3 317**	**-1 498**
Income taxes	17	-234	527
Loss after tax		**-3 551**	**-972**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION		**2017**	**2016**
Loss after tax		**-3 551**	**-972**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		155	-223
Reclassified translation differences upon divestment of foreign operations		-102	0
Tax expense on translation differences		0	0
Total		**53**	**-223**
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations		-26	-10
Tax effect on remeasurements of post employment benefit obligations		6	-1
Total		**-20**	**-11**
Other comprehensive income		**34**	**-234**
Total comprehensive income		**-3 517**	**-1 206**

CONSOLIDATED BALANCE SHEET

NOK MILLION	NOTE	31.12.2017	31.12.2016
Assets			
Deferred tax asset	17	64	257
Intangible assets	4	23	22
Property, plant and equipment	3, 4	4 698	6 548
Investments in associated companies	19	1	151
Other non-current assets	10	153	206
Total non-current assets		**4 939**	**7 184**
Inventories	3, 18	1 148	1 161
Trade and other receivables	10	1 497	1 732
Cash and cash equivalents	8	433	371
Other current assets	18	92	49
Total current assets		**3 170**	**3 313**
Total assets		**8 109**	**10 497**
Shareholders' equity and liabilities			
Paid-in equity		5 160	5 160
Retained earnings and other reserves		-6 586	-3 069
Total equity		**-1 427**	**2 090**
Pension obligations	13	262	226
Deferred tax liability	17	348	303
Interest-bearing non-current liabilities	6, 11, 18	1 348	4 979
Other non-current liabilities	18	602	524
Total non-current liabilities		**2 560**	**6 033**
Interest-bearing current liabilities	6, 11, 18	4 802	430
Trade and other payables	18	2 052	1 797
Tax payable	17	4	11
Other current liabilities	18	119	137
Total current liabilities		**6 976**	**2 374**
Total liabilities		**9 535**	**8 407**
Total equity and liabilities		**8 109**	**10 497**

SKØYEN, 23 MAY 2018 – THE BOARD OF DIRECTORS AND CEO OF NORSKE SKOG AS

Sven Ombudstvedt
Chair

Nils Ingemund Hoff
Board member

Lars P. S. Sperre
President and CEO

CONSOLIDATED STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2017	2016
Cash flow from operating activities			
Cash generated from operations		11 378	11 804
Cash used in operations		-10 772	-10 816
Cash flow from currency hedges and financial items		-21	-28
Interest payments received	5	4	15
Interest payments made	5	-167	-457
Taxes paid		-19	-4
Net cash flow from operating activities [1)]	3	**404**	**514**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3, 4	-276	-299
Sales of property, plant and equipment and intangible assets		5	194
Purchase of shares in companies and other financial payments		-29	0
Sales of shares in companies and other financial payments		21	-1
Net cash flow from investing activities		**-279**	**-105**
Cash flow from financing activities			
New loans raised		424	1 446
Repayments of loans		-401	-553
Change in intercompany balance with group		-89	-1 185
Net cash flow from financing activities		**-65**	**-293**
Foreign currency effects on cash and cash equivalents		2	-17
Total change in cash and cash equivalents		**62**	**99**
Cash and cash equivalents 01 January		371	271
Cash and cash equivalents 31 December		433	371
[1)] **Reconciliation of net cash flow from operating activities**			
Profit/loss before income taxes		-3 317	-1 498
Depreciation and impairments	4	2 307	1 854
Share of profit in associated companies	19	61	211
Gains and losses from divestment of business activities and property, plant and equipment	16	0	16
Taxes paid		-19	-4
Change in trade and other receivables		-148	-48
Change in inventories		48	59
Change in trade and other payables		42	-23
Change in restructuring provision		-30	-5
Financial items with no cash impact		1 370	-130
Gains and losses on commodity contracts and embedded derivatives	16	73	95
Value change biological assets	16	18	12
Disposal and repurchasing of renewable energy certificates		-3	-3
Change in environmental provisions with no cash impact		2	-3
Change in pension obligations and other long term employee benefits		-6	-15
Other		8	-4
Net cash flow from operating activities		**404**	**514**

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	PAID-IN EQUITY	RETAINED EARNINGS	OTHER EQUITY RESERVES	TOTAL EQUITY
Equity 1 January 2016	**6 593**	**-2 063**	**199**	**4 729**
Loss	0	-972	0	-972
Repaid paid-in capital	-1 434	0	0	-1 434
Other comprehensive income	0	-35	-199	-234
Equity 31 December 2016	**5 160**	**-3 069**	**0**	**2 090**
Loss	0	-3 551	0	-3 551
Other comprehensive income	0	34	0	34
Equity 31 December 2017	**5 160**	**-6 586**	**0**	**-1 427**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Norske Skog AS ("the company") and its subsidiaries (together "the group") manufacture, distribute and sell publication paper. This includes newsprint and magazine paper. The group has seven fully-owned mills in five countries (Norway, France, Austria, Australia and New Zealand). Norske Skog AS was founded 5 November 2014, is incorporated in Norway and has its head office at Skøyen in Oslo. The former ultimate parent company Norske Skogindustrier ASA filed for bankruptcy at 19 December 2017. Norske Skog AS became the new ultimate parent company of the group as of that date.

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).

The consolidated 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 corresponding amounts for prior year in parenthesis. The consolidated financial statements were authorised for issue by the board of directors in Norske Skog AS on 23 May 2018.

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 AS group.

	Income statement		**Balance sheet**	
	2017	**2016**	**31.12.2017**	**31.12.2016**
AUD	6.36	6.25	6.41	6.23
EUR	9.84	9.29	9.84	9.09
GBP	11.15	11.39	11.09	10.61
NZD	5.79	5.85	5.84	5.99
USD	8.31	8.40	8.21	8.62

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements of Norske Skog AS are set out below. The consolidated financial statements 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. The policies have been consistently applied to all periods presented, unless otherwise stated. They have been prepared under the assumption of going concern.

Consolidation

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Norske Skog AS group and its subsidiaries as at 31 December 2017. Control is achieved when the Norske Skog AS group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Norske Skog AS group controls an investee if, and only if, the Norske Skog AS group has:

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

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

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

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

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. 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 AS.

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

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

Foreign currency translation

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

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

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

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

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

c) Group companies
The results and financial position of all group entities which have a functional currency different from the presentational currency are translated into the presentational currency as follows:
i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
ii. Income and expenses for each income statement are translated at average exchange rates 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 derecognized, 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 of the transaction.

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 AS 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. 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) Bonus arrangements

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

c) Short-term obligations

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

Borrowings

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

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

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

Derecognition

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

Paid-in equity

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

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

Revenue recognition

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

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

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

Dividend income

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

Interest income

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

Leases

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

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

Government grants

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

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

New and amended interpretations and standards adopted by the group

A number of new standards and amendments to standards and interpretations are not mandatory for 31 December 2017 reporting periods and have not been early adopted in 2017 by the group. New standards and amendments that are expected to have an impact on the consolidated financial statements, including note disclosures, are set out below:

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers replaces IAS 11, IAS 18 and IFRIC 13 with effect from 1 January 2018 and establishes a single and comprehensive framework which sets out how much revenue is to be recognised, and when. The core principle is that a vendor should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the vendor expects to be entitled in exchange for those goods or services. The new standard is in line with the current revenue recognition at the group.

The application of the core principle in IFRS 15 is carried out in five steps in which the Group's sales contracts have been analysed based on. The first two steps are to identify the contract with the customer. After identifying the contract with the customer, a vendor identifies the contract into performance obligations. A performance obligation is a promise by a vendor to transfer goods or services to a customer. Each performance obligation is distinct being either a good or service from which the customer can benefit on its own. Norske Skog Group generates revenue mainly from sale of newspaper and magazine paper products. Customer contracts can be identified through orders of products with terms and prices according to individual agreements. Performance obligations are clearly identified as the products are delivered based on customer contract. The third and fourth steps, a vendor determines the transaction price of the entire contract and then allocates the transaction price among the different performance obligations that have been identified. The prices received by the Norske Skog Group, are divided into fixed and variable parts. The variable consideration comprises payment discount and volume rebates. The amount expected to be paid as discount or rebates are deducted from sales in line with estimates of the amount of the discount the customer is entitled to. In case the product do not meet the quality as specified in the agreement, an estimation of potential claim is to be taken into account at time of the sales. Further, the prices received do not include financing components and no significant contracts identified where the group act as an agent. Our overall assessment is that the change in regulatory related to discounts, rebates or claims, is that it will have a marginal impact on Norske Skog's accounts as a significant part of the Group's sales are easily identified with a defined price for each obligation. In the fifth step, we assess when each performance obligation is satisfied (point or time or over period) and revenue are recognized. Norske Skog'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 which are described in more detailed above under the section "Revenue recognition".

The group intends to adopt the modified retrospective application of IFRS 15 from 1 January 2018. The adoption of IFRS 15 is not expected to have any impact on revenues, profit or loss, assets or liabilities at 1 January 2018. Regarding presentation and disclosure, the new standard will result in additional information to be included in the notes compared to existing standards.

IFRS 9 Financial instruments

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial Instruments: Recognition and Measurement from the effective date 1 January 2018, 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 impairment model for financial assets under IFRS 9 require recognition of doubtful receivables allowances based on expected credit losses. The group has an expected credit loss model for trade receivables, whereby expected credit losses are recognized based on ageing categories of trade receivables that includes all receivables. Norske Skog has historically low levels of realised bad debts in trade receivables, and the adoption of IFRS 9 will not result in a significant change in the provision for losses.

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. The group intends to adopt the new standard from 1 January 2018 and will not restate comparative information. The Group expect no significant impact on its income statements, balance sheet or cash flow statement for 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 63 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. 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 AS group is a producer of publication paper. Publication paper includes newsprint and magazine paper. Newsprint encompasses standard newsprint and other paper qualities used in newspapers, inserts, catalogues, etc. These paper qualities, measured in grammes per square meter, will normally be in the range 40-57 g/m^2. 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.

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

Publication paper Europe

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

Publication paper Australasia

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

Other activities

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

Revenues and expenses not allocated to operating segments

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

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

Major customers

Norske Skog had a total sales volume of newsprint and magazine paper of 2 491 000 tonnes in 2017, of which sales to the group's largest customer constituted approximately 252 000 tonnes. Total sales volume in 2017 of newsprint and magazine paper to the five largest customers in Europe and Australasia amounted to approximately 330 000 and 370 000 tonnes respectively.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

2017	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**8 063**	**3 423**	**40**	**0**	**11 527**
Distribution costs	-855	-392	-8	0	-1 255
Cost of materials	-4 892	-1 977	-35	0	- 6 904
Change in inventories	-8	-13	10	0	-11
Employee benefit expenses	-1 176	-536	-6	0	-1 718
Other operating expenses	-629	-288	-20	0	-937
Gross operating earnings	**504**	**217**	**-19**	**0**	**702**
Depreciation	-386	-219	-3	0	-608
Restructuring expenses	-11	3	0	0	-9
Other gains and losses	0	-17	-72	0	-88
Impairments	-718	-981	0	0	-1 699
Operating earnings	**-611**	**-997**	**-94**	**0**	**-1 702**
Share of operating revenue from external parties (%)	100	100	100		100

2016	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**8 292**	**3 520**	**40**	**0**	**11 852**
Distribution costs	-820	-401	-8	0	-1 229
Cost of materials	-4 824	-1 944	-23	0	- 6 791
Change in inventories	-61	-12	7	0	-66
Employee benefit expenses	-1 207	-549	-5	0	-1 762
Other operating expenses	-602	-291	-14	0	-907
Gross operating earnings	**778**	**323**	**-3**	**0**	**1 097**
Depreciation	-395	-275	-4	0	-674
Restructuring expenses	-26	-38	0	0	-64
Other gains and losses	2	-32	-96	0	-126
Impairments	-233	-947	0	0	-1 180
Operating earnings	**125**	**-969**	**-103**	**0**	**-947**
Share of operating revenue from external parties (%)	100	100	100		100

OPERATING REVENUE PER MARKET

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

	2017	**2016**
Norway	227	286
Rest of Europe	7 125	6 971
North America	386	598
South America	76	43
Australasia	2 495	2 772
Asia	1 059	990
Africa	158	191
Total	**11 527**	**11 852**

NET CASH FLOW FROM OPERATING ACTIVITIES

	2017	2016
Publication paper Europe	270	802
Publication paper Australasia	285	186
Other activities	51	-0
Total cash flow allocated to segments	**607**	**988**
Cash from net financial items	-184	-471
Taxes paid	-19	-4
Net cash flow from operating activities	**404**	**514**

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2017	2016
Publication paper Europe	193	175
Publication paper Australasia	82	122
Other activities	0	1
Total	**276**	**299**

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.

	31.12.2017	31.12.2016
Publication paper Europe	3 350	4 102
Publication paper Australasia	1 348	2 446
Other activities	0	0
Total	**4 698**	**6 548**

INVENTORIES

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

	31.12.2017	31.12.2016
Publication paper Europe	740	744
Publication paper Australasia	400	408
Other activities	8	9
Total	**1 148**	**1 161**

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Assumptions applied when calculating the recoverable amount

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

Norske Skog's composition of cash-generating units were changed 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 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 17 years. Sales volumes develop in accordance with the useful lives of the different paper machines in the group. Norske Skog has modelled the cash flows throughout the useful life of the paper machines. The model assumes that Norske Skog closes capacity in line with the secular decline in market demand. The timing of capacity closures follow from RISI cost curve positioning and RISI market demand projections. RISI is the leading global source for forest products information and data (www.risi.com).

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

The impairment model uses one base case scenario. Additionally, one scenario using RISI price estimates and one scenario using a -2.0% price decline across all grades in 2019 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 financial budget 2018 approved by the board of directors, updated with forecast of sale prices and costs as of December 2017. Beyond 2018 sales prices are increased by inflation adjusted by a factor assuming that not all cost increases are passed on to customers. Costs beyond 2018 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.

Gross operating earnings for the group was reduced from NOK 1 097 million in 2016 to NOK 702 million in 2017. The decrease reflected a combination of lower prices for magazine prices in Europe and export prices to Asia, higher variable costs for recovered paper, wood and energy prices and currency effects due to appreciation of NOK against GBP and EUR. The financial budget and updated forecast for 2018 assumes improved margins compared to 2017 reflecting contracted higher prices linked to a strong market balance for newsprint and SC following closures in 2017. For the ongoing years, we have assumed in the impairment model that the industry will continue being irrational and not close down capacity in 2019 leading to a lower utilization due to continued demand decline. Consequently, prices are expected to increase less than costs in 2019 and 2020. Furthermore, the diminishing Australasian market is assumed to put pressure on prices due to more exports into Asia. On the cost side pressure on main input variables will increase the costs. Negative effects related to the existing energy contracts are significantly reducing the EBITDA margin at Skogn and Saugbrugs in the impairment model.

The IFRS accounting standard IAS 36 requires more weight to be assigned to historical and current margins and contracts, which have resulted in an impairment charge of the assets as at 31 December 2017 of NOK 1 699 million. The impairment charges relates to Australasia Newsprint of AUD 154 million (NOK 981 million), Europe Newsprint of NOK 267 million and SC of NOK 451 million. When calculating value in use at 31 December 2017, the discount rate after tax (WACC) was 7.2% for Norway, 6.3% for France, 6.2% for Austria, 8.1% for Australia and 8.2% for New Zealand. The reason for differences in discount rates are different interest rate levels, different tax rates and country specific risks.

In 2016 an impairment charge of approximately NOK 1.4 billion were recognized. The impairment charge was mainly related to the business in Australasia with NOK 947 million and NOK 233 million for the European business. In addition an impairment of NOK 205 million for the associated company Malaysian Newsprint Industries Sdn. Bhd. (MNI) was recognized. When calculating value in use at 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.

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. 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	-2 623
5% decrease in volume	-1 008
1% increase in the discount rate (WACC)	-243

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 after recognition of impairment as of 31 December 2017.

	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS
Europe Newsprint	1 964	709
Australasia Newsprint	397	115
Magazine	229	212
Super calendared	218	218
Other	8	10
Carrying value 31 December 2017	**2 815**	**1 263**

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 approximately NOK 50 million.

In connection with the year-end closing process for 2017, Norske Skog performed a review of the expected remaining useful lives of PPE. The useful life of most of the 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 2017 by far exceeded purchases of PPE the future annual depreciation amount is expected to decrease.

INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS	LICENSES AND PATENTS	TOTAL
Acquisition cost 1 January 2016	133	84	217
Additions	20	0	20
Disposals	-10	0	-10
Reclassified from plant under construction	0	1	1
Currency translation differences	-3	-4	-7
Acquisition cost 31 December 2016	**140**	**81**	**221**
Accumulated depreciation and impairments 1 January 2016	128	72	200
Depreciation	4	2	6
Disposals	0	0	0
Currency translation differences	-3	-4	-7
Accumulated depreciation and impairments 31 December 2016	**129**	**70**	**199**
Carrying value 31 December 2016	**11**	**11**	**22**
Acquisition cost 1 January 2017	140	81	221
Additions	15	0	15
Disposals	-10	0	-10
Reclassified from plant under construction		0	0
Currency translation differences	3	5	8
Acquisition cost 31 December 2017	**148**	**86**	**234**
Accumulated depreciation and impairments 1 January 2017	129	70	199
Depreciation	3	2	5
Disposals	0	0	0
Currency translation differences	3	4	7
Accumulated depreciation and impairments 31 December 2017	**135**	**76**	**211**
Carrying value 31 December 2017	**13**	**10**	**23**

Licenses, patents and other intangible assets are depreciated over a period from five to 20 years. Other intangible assets consist mainly of capitalised development costs related to customising of software.

PROPERTY, PLANT AND EQUIPMENT	BIOLOGICAL ASSETS	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS	FIXTURES AND FITTINGS	PLANT UNDER CONSTR-UCTION	TOTAL
Acquisition cost 1 January 2016	339	31 207	6 722	502	221	38 991
Additions	0	55	2	1	247	305
Disposals	0	-262	0	-1	0	-263
Reclassified from plant under construction	15	110	4	7	-137	-1
Currency translation differences	-12	-729	-174	-23	-7	-945
Acquisition cost 31 December 2016	**342**	**30 381**	**6 554**	**486**	**324**	**38 087**
Accumulated depreciation from new companies	155	24 943	4 818	460	45	30 421
Depreciation	0	517	143	7	0	667
Impairment	25	1 084	71	0	0	1 180
Value changes	12	0	0	0	0	12
Disposals	0	-55	0	0	0	-55
Currency translation differences	-5	-530	-129	-22	0	-686
Accumulated depreciation and impairments 31 December 2016	**187**	**25 959**	**4 903**	**445**	**45**	**31 539**
Carrying value 31 December 2016	**155**	**4 422**	**1 651**	**41**	**279**	**6 548**
Acquisition cost 1 January 2017	342	30 381	6 554	486	324	38 087
Additions	0	44	3	4	230	281
Disposals	0	-2	0	-5	0	-7
Reclassified from plant under construction	15	83	12	13	-123	0
Currency translation differences	10	899	215	32	8	1 164
Acquisition cost 31 December 2017	**367**	**31 405**	**6 784**	**530**	**439**	**39 525**
Accumulated depreciation from new companies	**187**	**25 959**	**4 903**	**445**	**45**	**31 539**
Depreciation	0	450	142	9	0	601
Impairment	0	1 379	320	0	0	1 699
Value changes	18	0	0	0	0	18
Disposals	0	-2	0	-5	0	-7
Currency translation differences	5	779	164	29	0	977
Accumulated depreciation and impairments 31 December 2017	**210**	**28 565**	**5 529**	**478**	**45**	**34 827**
Carrying value 31 December 2017	**157**	**2 840**	**1 255**	**52**	**394**	**4 698**

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 2017 amounted to NOK 2 million (2016 NOK 3 million), and the interest rate used was 4,9% (2016 4.2%)

Disposals in 2017 were primarily related to scrapping of fully depreciated assets that no longer have any technical values. 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.

Non-current assets held for sale

Norske Skog did not have any non-current assets held for sale at 31 December 2017.

5. FINANCIAL ITEMS

FINANCIAL ITEMS		2017	2016
Financial income			
External interest income		3	4
Interest income from group companies		2	12
Total		**5**	**16**
Financial expenses			
External interest expense		-522	-430
Interest expense from group companies		-127	-62
Loss on receivables		-477	0
Other financial expenses		-120	-42
Total		**-1 247**	**-535**
Realised/unrealised gains / (losses) on foreign currency		**-312**	**179**
Financial items		**-1 554**	**-340**

Interest income and expense from group companies relates to former group companies. Intercompany interest is calculated based on a standard margin, adjusted where necessary to reflect local market conditions and transfer pricing principles.

Loss on receivables for 2017 are related receivables on the the former group entities Norske Skogindustrier ASA, Norske Skog Holding AS, Lysaker Invest AS and Norske Skog Eiendom AS which filed for bankruptcy in December 2017.

During 2017 the Norske Skog group worked hard to achieve a consensual recapitalization of the Norske Skogindustrier ASA group and thereby avoid bankruptcy proceedings for the parent company. The consensual recapitalization process could not be achieved and the accrued costs related to this process were expensed in 2017, is and included in the line other financial expenses.

6. MORTGAGES

	31.12.2017	31.12.2016
Loans secured by mortgages on property		
2019 Senior Secured Notes (EUR 290 million)	3 201	2 635
Other mortgage debt	127	128

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. Please refer to Note 25 for further details on the share pledge enforecement process and the treatment of the SSN.

Norske Skog has a securitization facility (NSF) of EUR 100 million secured by receivables of the mills in Norway, inventory of the mills in Norway and France and certain collection bank accounts.

The other mortgage debt includes facilities secured by property, plant and equipment at mills.

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2017	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	10	32	110	0	153
Trade and other receivables	10	1 431	0	0	66	1 497
Cash and cash equivalents		433	0	0	0	433
Other current assets	18	57	35	0	0	92
Total		**1 931**	**67**	**110**	**66**	
	NOTE		**FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**	**OTHER FINANCIAL LIABILITIES AT AMORTISED COST**	**NON-FINANCIAL LIABILITIES**	**TOTAL**
Interest-bearing non-current liabilities	11, 18		0	1 348	0	1 348
Interest-bearing current liabilities	11, 18		0	4 802	0	4 802
Other non-current liabilities	18		272	0	330	602
Trade and other payables	18		0	2 052	0	2 052
Other current liabilities	18		88	17	14	119
Total			**360**	**8 218**	**344**	

31.12.2016	NOTE	LOANS AND RECEIVABLES	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL
Other non-current assets	10	13	41	145	7	206
Trade and other receivables	10	1 680	0	0	52	1 732
Cash and cash equivalents		371	0	0	0	371
Other current assets	18	17	32	0	0	49
Total		**2 081**	**73**	**145**	**59**	
	NOTE		**FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**	**OTHER FINANCIAL LIABILITIES AT AMORTISED COST**	**NON-FINANCIAL LIABILITIES**	**TOTAL**
Interest-bearing non-current liabilities	11, 18		0	4 979	0	4 979
Interest-bearing current liabilities	11, 18		0	430	0	430
Other non-current liabilities	18		202	0	322	524
Trade and other payables	18		0	1 797	0	1 797
Other current liabilities	18		67	46	25	137
Total			**268**	**7 251**	**347**	

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).

31.12.2017	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives	26	26	0	0	26
Commodity contracts	6	6	0	1	5
Miscellaneous other non-current assets	121	121	0	0	121
Other non-current assets	**153**	**153**	**0**	**1**	**152**
Accounts receivable	1 127	1 127	0	0	1 127
Other receivables	304	304	0	0	304
Prepaid VAT	66	66	0	0	66
Trade and other receivables	**1 497**	**1 497**	**0**	**0**	**1 497**
Cash and cash equivalents	**433**	**433**	**0**	**0**	**433**
Derivatives	5	5	0	0	5
Commodity contracts	30	30	0	0	30
Current investments	57	57	0	0	57
Other current assets	**92**	**92**	**0**	**0**	**92**
Interest-bearing non-current liabilities [1)]	1 348	1 348	0	0	1 348
Interest-bearing current liabilities	4 802	4 350	0	2 635	1 715
Total interest-bearing liabilities	**6 150**	**5 698**	**0**	**2 635**	**3 063**
Derivatives	215	215	0	0	215
Commodity contracts	57	57	0	0	57
Non-financial non-current liabilities	330	330	0	0	330
Other non-current liabilities	**602**	**602**	**0**	**0**	**602**
Accounts payable	1 029	1 029	0	0	1 029
Other payables	1 014	1 014	0	0	1 014
Trade and other payables	**2 043**	**2 043**	**0**	**0**	**2 043**
Derivatives	41	41	0	0	41
Commodity contracts	26	26	0	23	3
Non-financial current liabilities	52	52	0	0	52
Other current liabilities	**119**	**119**	**0**	**23**	**96**

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	165	165	0	0	165
Other non-current assets	**206**	**206**	**0**	**1**	**205**
Accounts receivable	998	998	0	0	998
Other receivables	682	682	0	0	682
Prepaid VAT	52	52	0	0	52
Trade and other receivables	**1 732**	**1 732**	**0**	**0**	**1 732**
Cash and cash equivalents	**371**	**371**	**0**	**0**	**371**
Derivatives	6	6	0	0	6
Commodity contracts	26	26	0	24	2
Current investments	17	17	0	0	17
Other current assets	**49**	**49**	**0**	**24**	**25**
Interest-bearing non-current liabilities [1)]	4 979	4 921	0	2 420	2 501
Interest-bearing current liabilities	430	430	0	0	430
Total interest-bearing liabilities	**5 409**	**5 351**	**0**	**2 420**	**2 931**

Derivatives	201	201	0	0	201
Commodity contracts	1	1	0	0	1
Non-financial non-current liabilities	322	322	0	0	322
Other non-current liabilities	**524**	**524**	**0**	**0**	**524**
Accounts payable	997	997	0	0	997
Other payables	799	799	0	0	799
Trade and other payables	**1 796**	**1 796**	**0**	**0**	**1 796**
Derivatives	39	39	0	0	39
Commodity contracts	28	28	0	0	28
Non-financial current liabilities	70	70	0	0	70
Other current liabilities	**137**	**137**	**0**	**0**	**137**

[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 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

FINANCIAL RISK MANAGEMENT

Norske Skog' 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.

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. Liquidity is ensured by maintaining sufficient cash balances and open credit lines linked to accounts receivables facilities. Norske Skog continuously assess the most competitive funding sources for the group. The business risk of the group is amplified by its high financial leverage.

There is uncertainty with regards to the changes in the broader economic climate development and more adverse developments than expected may influence all of the above. The aforementioned risks may all impact on the operating plan for 2018 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 2018 is realistic given facts at hand. A deleveraged and recapitalized group would be in a better position to diversify its business model.

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' green diversification strategy will gradually shift the focus beyond publication paper.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. 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.

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

FINANCIAL RISK FACTORS

Norske Skog AS group is exposed to various financial risk factors through the group's operating activities, including market risk (interest rate risk, currency risk and commodity risk), liquidity risk and credit risk. Norske Skog AS group seeks to minimise losses and volatility on the group's earnings caused by adverse market movements. Moreover, Norske Skog AS group monitors and manages financial risk based on internal policies and standards set forth by corporate management and approved by the board of directors. These written policies provide principles for the overall risk management as well as standards for managing currency risk, interest rate risk, credit risk, liquidity risk and the use of financial derivatives and non-derivative financial instruments. Compliance with policies and standards is continuously monitored. There were no breaches of these policies during 2017 and 2016.

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 AS has secured most of the interest rate payments by primarily paying fixed interest rates on its loan obligations.

INTEREST-BEARING ASSETS AND LIABILITIES	31.12.2017			31.12.2016		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	588	4 431	5 019	493	3 554	4 047
Interest-bearing assets	-433	0	-433	-371	0	-371
Net exposure	**155**	**4 431**	**4 586**	**122**	**3 554**	**3 676**

All amounts presented in the table are notional amounts. Total interest-bearing liabilities will therefore differ from booked amounts due to bond discounts/premiums. 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 23%.

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 2017 (NOK 1 million higher/lower at 31 December 2016). Change in net interest payments accounts for NOK 3 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 AS group has not done any cash flow hedging during 2017 or 2016.

Translation risk - net investment hedge

Norske Skog AS group does not have any net investment hedges.

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 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 2017, 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 341 million higher/lower (NOK 274 million higher/lower at 31 December 2016). The effect of the sensitivity analysis on the income statement is mainly caused by foreign exchange gains/losses on the translation of EUR and USD denominated debt for which there is no hedge accounting.

c) Commodity risk

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

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

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

Norske Skog AS group portfolio of commodity contracts mainly of physical energy contracts. Fair value of commodity contracts is especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts depends on currency and price index fluctuations. The energy contracts in Norway are nominated in EUR. These contracts contain embedded derivatives that are sensitive to changes in exchange rates. NOK weakened against EUR during 2017, which had a negative 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 31.12.2017**	**NET PROFIT AFTER TAX - INCREASE**	**NET PROFIT AFTER TAX - DECREASE**
Energy price	change 10%	-48	+128	-90
Currency	change 10%	-48	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 31.12.2017	NET PROFIT AFTER TAX - INCREASE	NET PROFIT AFTER TAX - DECREASE
Currency	change 10%	-224	272	-220
Price index	change 2.5%	-224	3	-3

Liquidity risk

Norske Skog AS group is exposed to liquidity risk in a scenario when the group's cash flow from operating activities is not sufficient to cover payments of financial liabilities. In order to effectively mitigate liquidity risk, Norske Skog'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. Norske Skog AS group had cash and cash equivalents of NOK 433 million at 31 December 2017 (NOK 371 million at 31 December 2016). Restricted bank deposits amounted to NOK 163 million at 31 December 2017, (NOK 130 million at 31 December 2016).

Coupon payments on the 2019 bond and the NSF was not paid in 2017. The non-payment of coupon constituted an event of default under the Notes. See further information in Note 23.

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 2017. 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 2017 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 2017.

Credit risk

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

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

9. DERIVATIVES

Fair value of derivatives

The table below classifies financial instruments within the scope of IAS 39 measured in the balance sheet at fair value, by valuation method. The different valuation methods are described as levels and are defined as follows:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability are not based on observable market data (i.e. unobservable inputs).

31.12.2017	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets at fair value through profit or loss				
Trading derivatives	0	1	0	1
Commodity contracts and embedded derivatives	0	0	67	67
Total	**0**	**1**	**67**	**67**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-23	0	-23
Commodity contracts and embedded derivatives	0	0	-315	-315
Total	**0**	**-23**	**-315**	**-338**

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**

The following table shows the changes in level 3 instruments at 31 December 2017.

	ASSETS	**LIABILITIES**
Opening balance	48	-268
Gains and losses recognised in profit or loss	-9	-12
Currency translation differences	28	-35
Closing balance	**67**	**-315**

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. 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 2017 (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		31.12.2017	31.12.2016
Assets			
Commodity contracts	Energy price -2%	66	42
Liabilities			
Commodity contracts	Energy price -2%	-310	-281

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 2017 would be a downwards parallel shift of the long end of the forward curve of 2% (downwards shift of 2% in 2016).

	31.12.2017		31.12.2016	
DERIVATIVES	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Commodity contracts	36	-83	34	-29
Embedded derivatives	32	-255	39	-240
Total	**67**	**-338**	**73**	**-268**

The table above includes only derivatives, and the total amount may differ compared to other tables showing financial assets and liabilities.

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	NOTE	31.12.2017	31.12.2016
Trade and other receivables			
Accounts receivable		1 127	998
Provision for bad debt		-63	-80
Current receivable group companies Norske Skogindustrier ASA*		0	434
VAT receivables		66	52
Prepaid expenses		132	125
Other receivables		235	204
Total		**1 497**	**1 732**
Other non-current assets			
Non-current receivables group companies Norske Skogindustrier ASA*		0	49
Long-term shareholdings	21	110	97
Derivatives	7	26	33
Commodity contracts	7	6	8
Pension plan assets	13	0	7
Loans to employees		1	1
Other non-current receivables		9	12
Total		**153**	**206**

Norske Skogindustrier ASA filed for bankruptcy in December 2017 and was not a group company as at 31 December 2017.

Norske Skog Bruck have a factoring facility agreement. The facility has a limit of EUR 25 million and no financial covenants. Accounts receivable that have been sold are deducted from accounts receivable in the balance sheet. The utilisation at 31 December 2017 was NOK 156 million (31 December 2016 was NOK 129 million).

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

AGEING OF THE GROUP'S CURRENT RECEIVABLES	31.12.2017	31.12.2016
Not due	1 402	1 627
0 to 3 months	102	112
3 to 6 months	4	0
Over 6 months	52	74
Total [1)]	**1 560**	**1 813**

[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 2019 bond is issued by Norske Skog AS and the maturity and coupon is shown in the table below. Overdue but unpaid interest amounts have been included in the outstanding amounts below.

MATURITY	CURRENCY	COUPON	NOMINAL VALUE AT DATE OF ISSUE	AMOUNT OUTSTANDING 31.12.2017
December 2019	EUR	11.75%	EUR 290 million	EUR 325 million

INTEREST-BEARING DEBT, OUTSTANDING AMOUNTS		31.12.2017	31.12.2016
Bonds		3 201	2 635
Debt to financial institutions		488	368
Securitisation/Factoring Facilities		1 443	1 201
Total		**5 132**	**4 204**

INTEREST-BEARING DEBT BY CURRENCY	CURRENCY AMOUNT 31.12.2017	NOK 31.12.2017	NOK 31.12.2016
EUR	493	4 846	3 950
AUD	27	172	180
Total interest-bearing debt in foreign currencies		**5 018**	**4 130**
Interest-bearing debt in NOK	114	114	73
Total interest-bearing debt		**5 132**	**4 204**

The average interest rate on par value of debt at 31 December 2017 was 10.5% (9.5% at 31 December 2016).

DEBT REPAYMENTS

SCHEDULED REPAYMENT OF THE GROUP'S FINANCIAL DEBT AT 31.12.2017	OTHER LOANS	BONDS	TOTAL
2018	604		604
2019	32	3 201	3 233
2020	1 119		1 119
2021	35		35
2022	37		37
2023	36		36
2024	31		31
2025-2033	38		38
Total	**1 931**	**3 201**	**5 132**

SCHEDULED REPAYMENT OF THE GROUP'S FINANCIAL DEBT AT 31.12.2016	OTHER LOANS	BONDS	TOTAL
2017	430		798
2018	48		414
2019	35	2 635	3 038
2020	949		963
2021	21		21
2022	22		22
2023	24		24
2024	21		21
2025-2033	20		20
Total	**1 569**	**2 635**	**5 321**

The table above shows the contractual scheduled repayment of the EUR 100 million Norwegian securitization facility (NSF) and the EUR 290 senior secured notes facility (SSN). Interest was not paid when due in the second quarter of 2017 for the NSF and the SSN. The non-payment constituted an event of default under the respective loan agreements. In addition, interest was not paid on the subsequent interest payment date in the fourth quarter of 2017. On 12 September 2017, Citibank, N.A., London Branch, in capacity as trustee under the indenture for the SSN, declared all monetary obligations under the SSN due and payable immediately. Following the event of default, the facilities have been classified as current liabilities.

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on issued bonds and other loans. At 31 December 2017, the financial statements included a discount of NOK 114 million (NOK 157 million at 31 December 2016). 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 mortgages. The facilities do not contain any material financial covenants.

Trade payables amounted to NOK 1 029 million at 31 December 2017.

Drawn amounts under factoring arrangements in France and Australia are classified as interest-bearing current liabilities.

As per 31 December 2017, Norske Skog AS and its subsidiaries had issued bank guarantees in an amount of NOK 227 million, and Norske Skog AS had issued guarantees in an amount of NOK 29 million.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				NON-CASH CHANGES			
	NOTE	31.12.2016	CASH FLOWS	RECLASSI-FICATION[2]	OTHER	FOREIGN EXCHANGE MOVEMENT	31.12.2017
Interest-bearing non-current liabilities[1]	18	3 617	-15	-3401	3[3]	41	245
Interest-bearing current liabilities[1]	18	430	135	3401	485[4]	322	4 773
Net liabilities former group companies	18	925	-89		477[5]	28	1 341
Other financing activities			-96				
Total liabilities from financing activities		**4 972**	**-65**		**966**	**391**	**6 360**

[1] Except for liabilities to former group companies
[2] Reclassification between non-current and current term liabilities
[3] New leases
[4] Amortization of transaction cost and accrue overdue interest on the EUR 290 million bond and the EUR 100 million securitiation facility(NSF)
[5] Loss on receivables see Note 5

12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2017	2016
Salaries including holiday pay		1 314	1 339
Social security contributions		285	294
Pension costs	13	66	68
Other employee benefit expenses		54	60
Total		**1 718**	**1 762**

NUMBER OF EMPLOYEES BY REGION	31.12.2017	31.12.2016
Europe	1 752	1 762
Australasia	662	664
Parent company	0	0
Total	**2 414**	**2 426**

The company has not paid any remuneration or other benefits, as there were no employees in 2017. See Note 23 for further information.

Norske Skogindustrier ASA managed the company up to the company filed for bankruptcy 19 December 2017. Management fee of NOK 8 million has been paid for the services.

Remuneration of NOK 1.2 million has been paid to the members of the Board of Directors for the period 12 September 2017 to 31 December 2017.

AUDITORS FEES
(in NOK 1 000, excluding VAT)

	PARENT COMPANY	NORWEGIAN SUBSIDIARIES AUDITED BY THE PARENT COMPANY AUDITOR	SUBSIDIARIES AUDITED BY GROUP AUDITORS	SUBSIDIARIES AUDITED BY OTHER AUDITORS	TOTAL
Audit fee	840	488	2 358	585	4 271
Audit-related assistance [1)]	0	429	217	24	669
Tax assistance	0	8	0	60	68
Other fees	0	17	422	499	938
Total	**840**	**941**	**2 997**	**1 168**	**5 946**

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

13. PENSION COSTS AND PENSION OBLIGATIONS

Norske Skog has various pension schemes in accordance with local conditions and practices in the countries in which the group operates. A total of 1 704 current and former employees are covered by such schemes. Of these, 237 people are covered by defined benefit plans and 1 467 people by defined contribution plans.

DESCRIPTION OF THE DEFINED BENEFIT PLANS
The key terms in Norske Skog's major defined benefit plans are shown in the table below.

	BENEFIT IN % OF PENSIONABLE EARNINGS	YEARS OF SERVICE	PENSIONABLE AGE	EARLY RETIREMENT AGE	NUMBER OF MEMBERS
Norske Skog Saugbrugs AS	65	30	70	62	72
Norske Skog Skogn AS	65	30	70	62	102
Norske Skog Deutschland GmbH		35	65	65	10

The defined benefit plan in Norske Skog Deutschland GmbH is closed.

The defined benefit schemes in Norway cover people between 59 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.

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

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

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

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

In addition to defined benefit plans, there are also various defined contribution plans.

ASSUMPTIONS MADE WHEN CALCULATING FUTURE BENEFIT OBLIGATIONS IN NORWAY	2017	2016
Discount rate/expected return on plan assets	2.3%	2.6%
Salary adjustment	2.0%	2.0%
Social security increase/inflation rate	2.0%	2.0%
Pension growth rate	0.4%	0.0%

The discount rate applied for the pension schemes in Norway for 2017 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 1.8% to 2.3% and salary adjustments vary from 2.0% to 2.6%. Norske Skog has used the mortality table in Norway (K2013BE) and Richttafeln 2005G in Germany.

NET PERIODIC PENSION COST	2017	2016
Current service cost	4	5
Pension cost defined contribution schemes	62	64
Accrued national insurance contributions	0	0
Recognised curtailment and settlement	-1	0
Net periodic pension cost	**66**	**68**
Net periodic interest cost	**4**	**5**

Estimated payments to the group's defined benefit pension schemes in 2018 amounts to NOK 11 million.

PENSION PLANS IN THE BALANCE SHEET

PARTLY OR FULLY FUNDED PENSION PLANS	31.12.2017	31.12.2016
Projected benefit obligations including national insurance contributions	-158	-158
Plan assets at fair value	152	165
Net plan assets/pension obligations (-) in the balance sheet	**-6**	**7**

UNFUNDED PENSION PLANS	31.12.2017	31.12.2016
Projected benefit obligations including national insurance contributions	-255	-226

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	31.12.2017	31.12.2016
Pension assets in the balance sheet	0	7
Pension liabilities in the balance sheet	-262	-226
Net pension obligations in the balance sheet	**-261**	**-219**
Net unfunded pension plans	-255	-226
Net partly or fully funded pension plans	-6	7

CHANGES IN PENSION OBLIGATIONS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2017	2016
Balance 1 January	158	183
Deconsolidated company	0	0
Current years’ service cost	4	5
Current years’ interest cost	4	4
Pension paid	-2	-2
Curtailments/settlements	-5	-3
Other changes	-1	-1
Currency translation differences	0	0
Re-measurements	1	-28
Balance 31 December	**158**	**158**

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	2017	2016
Balance 1 January	165	179
Divested companies	0	0
Return on plan assets	4	4
Curtailments/settlements	-5	-3
Other changes	0	-1
Employer contribution	7	7
Re-measurements	-17	-20
Currency translation differences	0	0
Balance 31 December	**152**	**165**

CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS	2017	2016
Balance 1 January	-226	-228
Current years' service cost	-9	-2
Current year's interest cost	-4	-1
Pension paid	7	1
Contributions to the plan assets	0	0
Curtailments/settlements	0	0
Other changes	0	0
Currency translation differences	-14	7
Re-measurements	-9	-4
Balance 31 December	**-255**	**-226**

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

SPESIFICATION OF RE-MEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2017	2016
Return on plan assets	0	0
Actuarial changes arising from changes in demographic assumptions	0	0
Actuarial changes arising from changes in financial assumptions	-23	-15
Experience adjustments + investment management costs	-3	4
Asset ceiling	0	0
Total	**-26**	**-11**

	2017		2016	
INVESTMENT PROFILE FOR PENSION FUNDS	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	23	15%	17	10%
Bonds	101	66%	120	73%
Properties and real estate	18	12%	24	14%
Money market	6	5%	0	0%
Other	3	2%	4	2%
Total	**152**	**100%**	**165**	**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%	-12	14
Salary adjustment - 0.5%	5	-4
Future national security - 1.0%	-5	5
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	2017	2016
Maintenance materials and services		457	450
Marketing expenses		9	10
Administration, insurance, travel expenses etc.		168	185
Operating leases	15	46	47
Internal services to group companies		122	106
Other expenses		135	109
Total		**937**	**907**
Specification of losses on accounts receivable included in other expenses			
Receivables written off during the period		14	8
Payments received on items previously written off		0	0
Change in provision for bad debt		-15	-13
Total		**-1**	**-5**

15. LEASES

OPERATING LEASES

The group recognised expenses of NOK 46 million in relation to operating leases in 2017. The equivalent expense in 2016 was NOK 47 million.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2017	31.12.2016
Not later than one year	19	19
Later than one year and not later than five years	38	38
Later than five years	6	10
Total	**63**	**67**

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	31.12.2017	31.12.2016
Not later than one year	30	26
Later than one year and not later than five years	103	93
Later than five years	41	60
Total	**174**	**179**
Future finance charges on finance leases	-49	-59
Present value of minimum lease payments	**125**	**120**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2017	31.12.2016
Not later than one year	28	24
Later than one year and not later than five years	77	68
Later than five years	20	28
Total	**125**	**120**
Capitalised value of leased machinery and equipment	**57**	**48**

16. OTHER GAINS AND LOSSES

	2017	2016
Gains and losses from divestments and deconsolidating of business activities, property, plant and equipment	0	-17
Changes in value – commodity contracts [1)]	-52	-181
Changes in value – embedded derivatives	-20	85
Changes in value – biological assets	-18	-12
Other realised gains and losses	1	-2
Total	**-88**	**-126**

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

Norske Skog's portfolio of commodity contracts consists mainly of physical energy contracts. The fair value of commodity contracts is especially sensitive to future changes in energy prices. The fair value of embedded derivatives in physical contracts is influenced by currency and price index fluctuations. A sensitivity analysis of the impact on profit after tax of fluctuations in energy prices, currency and price indices is given in Note 8. The valuation techniques used are described in Note 9. The loss on embedded derivatives in 2017 is due to that NOK has weakened against EUR during the year. The loss on commodity contracts in is due to lower expected future energy prices.

Other realised gains and losses of NOK 1 million in 2017 and NOK -2 million in 2016 primarily related to financial hedging of energy.

17. INCOME TAXES

TAX EXPENSE	2017	2016
Current tax expense	-13	-16
Change in deferred tax	-221	543
Total	**-234**	**527**

RECONCILIATION OF THE GROUP TAX EXPENSE	2017	2016
Profit/loss before income taxes	-3 317	-1 498
Computed tax at nominal tax rate of 24%/25%	796	375
Differences due to different tax rates	77	61
Result from associated companies	-	-2
Exempted income/non-deductible expenses	-94	-54
Reversal tax provision	0	0
Adjustment previous years	-75	-12
Change in tax rate	-6	56
Deferred tax asset not recognised	-883	83
Other items	-49	18
Total tax expense (-) income (+)	**-234**	**527**
Effective tax rate	**7%**	**35%**

CURRENT TAX LIABILITY	31.12.2017	31.12.2016
Norway	0	4
Rest of Europe	4	7
Outside Europe	0	0
Total	**4**	**11**

DEFERRED TAX - MOVEMENTS	2017	2016
Net deferred tax asset 1 January	-46	-619
Change in deferred tax in the income statement	-221	543
Deconsolidation of subsidiaries	0	0
Tax on other comprehensive income	-6	-1
Tax effect FX net investment hedge	0	0
Group tax allocation balance sheet	0	0
Currency translation differences	-11	30
Net deferred tax asset/liability (-) 31 December	**-284**	**-46**

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY	31.12.2017	31.12.2016
Norway	64	133
Rest of Europe	0	0
Outside Europe	0	125
Deferred tax asset	**64**	**257**
Norway	0	0
Rest of Europe	348	303
Outside Europe	0	0
Deferred tax liability	**-348**	**-303**
Net deferred tax asset/liability (-)	**-284**	**-46**

DEFERRED TAX DETAILS	31.12.2017	31.12.2016
Fixed assets, excess values and depreciation	123	-247
Pensions	3	0
Provisions and other liabilities	134	139
Currency translation differences and financial instruments	172	140
Deferred tax current items	6	20
Tax losses and tax credit to carry forward	1 306	1 138
Deferred tax asset not recognised [1]	-2 028	-1 236
Net deferred tax asset/liability (-)	**-284**	**-46**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2017	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2018	0	362[2]	0	362
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
2022 and later	0	0	0	0
Indefinite expiry	2 579	75	2 431	5 085
Tax losses to carry forward	**2 579**	**437**	**2 431**	**5 448**
Temporary differences	-1 947	0	-1 218	-3 166
Tax losses and temporary differences not recognised [1]	-4 247	-362	-3 650	-8 259
Total tax losses and tax credits to carry forward (recognised)	**280**	**75**	**0**	**355**
Deferred tax asset	**64**	**0**	**0**	**64**
Tax rate	**23%**	**19-33%**	**28-30%**	

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2016	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2017	0	118	0	118
2018	0	104	0	104
2019	0	43	0	43
2020	0	34	0	34
2021	0	33	0	33
2022 and later	0	0	0	0
Indefinite expiry	2 088	95	2 192	4 375
Tax losses to carry forward	**2 088**	**428**	**2 192**	**4 708**
Temporary differences	- 772	0	-491	-1 262
Tax losses and temporary differences not recognised	-2 306	-334	-2 268	-4 908
Total tax losses and tax credits to carry forward (recognised)	**554**	**94**	**415**	**1 063**
Deferred tax asset	**133**	**0**	**125**	**257**
Tax rate	**24%**	**17-34%**	**28-30%**	

[1] Basis for deferred tax asset not recognised amounted to NOK 8 516 million at 31 December 2017. NOK 5 093 million was related to tax losses to carry forward and NOK 3 166 million was related to other deductible temporary differences. Deferred tax asset not recognised amounted to NOK 2 028 million at 31 December 2017.

[2] The amount relates to loss carry forward in Norske Skog Holland BV that will be liquidated in 2018.

Deferred tax asset arising from the carry forward of unused tax losses is tested against expected future taxable profit on entity level. NOK 64 million is recognised as deferred tax assets in the consolidated financial statements as of 31 December 2017. NOK 26 million relates to Norske Skog Saugbrugs AS and NOK 38 million to Norske Skog Skogn AS. The judgement are made on basis of conservative estimates 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.

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	31.12.2017	31.12.2016
Inventories			
Raw materials and other production input		697	705
Semi-manufactured materials		9	9
Finished goods		441	447
Total	3	**1 148**	**1 161**
Other current assets			
Derivatives	7	5	4
Commodity contracts	7	30	28
Current investments	7	56	10
Interest-free assets former group Norske Skogindustrier ASA	7	0	7
Total	7	**92**	**49**
Trade and other payables			
Accounts payable	7	1 029	997
Accrued labour costs and taxes		505	490
Accrued expenses		303	246
Interest-free liabilities former group Norske Skogindustrier ASA		152	53
Norske Treindustrier AS		58	
Other interest-free liabilities		4	11
Total		**2 052**	**1 797**
Other current liabilities			
Derivatives	7	41	39
Commodity contracts	7	26	28
Accrued emission rights		14	10
Accrued financial costs		21	15
Restructuring provision	20	17	46
Total		**119**	**137**
Other non-current liabilities			
Derivatives	7	215	201
Commodity contracts	7	57	1
Dismantling provision	20	76	83
Environmental provision	20	200	191
Deferred recognition of emission rights		0	0
Deferred recognition of government grants		24	29
Other non interest-bearing debt		30	20
Total		**602**	**524**
Interest-bearing non-current liabilities			
Bond adjusted for amortization		0	2 478
Debt to financial institutions		245	1 139
Interest-bearing non-current liabilities former group Norske Skogindustrier ASA Lysaker Invest AS Norske Treindustrier AS		 449 64 590	 724 66 573
Total	**7**	**1 348**	**4 979**
Interest-bearing current liabilities			
Debt to financial institutions and bond adjusted for amortization		4 405	151
Securitisation / Factoring Facilities		368	278
Interest-bearing current liabilities former group Norske Skogindustrier ASA		28	
Total	**7**	**4 802**	**430**

19. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for in accordance with the equity method. The carrying value of associated companies are NOK 1 million at 31 December 2017 (NOK 151 million at 31 December 2016).

Malaysian Newsprint Industries Sdn. Bhd.

Malaysian Newsprint Industries Sdn. Bhd. (MNI) is incorporated in Kuala Lumpur, Malaysia, and is a producer of newsprint products. Norske Skog had a 33.7% ownership in MNI. The board of directors of MNI made a decision to file a voluntary liquidation of MNI at the end of July 2017. See note 23 for further information on the voluntary liquidation process/sale of the shares.

As a consequence of the financial position of the company in 2017, Norske Skog recognized an impairment of NOK 139 million on the investment in MNI in 2017. Cumulative translation differences of NOK 102 million were reclassified from equity to profit and loss and included in the net loss for 2017.

20. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2015	**51**	**71**	**200**
Changes and new provisions	64	11	-10
Utilised during the year	-69	0	0
Periodic unwinding of discount	0	2	6
Currency translation differences	0	-1	-5
Balance 31 December 2016	**46**	**83**	**191**
Changes and new provisions	9	-10	4
Utilised during the year	-38	0	-3
Periodic unwinding of discount	0	3	5
Currency translation differences	1	0	3
Balance 31 December 2017	**17**	**76**	**200**

Restructuring provision

The restructuring provision of NOK 17 million at 31 December 2017 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 (Publication paper Europe NOK 13 million and Publication paper Australasia NOK 4 million). The amount expensed in 2017 in relation to restructuring activities amounted to NOK 9 million.

The restructuring provision of NOK 46 million at 31 December 2016 is classified in the balance sheet line item Other current liabilities. The provision includes various restructuring activities included provision for severance payments and other costs (Publication paper Europe NOK 32 million and Publication paper Australasia NOK 14 million). The amount expensed in 2016 in relation to restructuring activities amounted to NOK 64 million.

Dismantling provision

Provisions related to future dismantling costs arising from a future closing down of production facilities amounted to NOK 76 million at 31 December 2017, compared to NOK 83 million at 31 December 2016.

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 9 million, with a corresponding increase in future depreciation on property, plant and equipment.

Environmental provision

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

Provisions for future environmental obligations amounted to NOK 200 million at 31 December 2017 compared to NOK 191 million at 31 December 2016. The increase is mainly due to change in discount rate. Resources spent on environmental activities during 2017 amounted to NOK 3 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 20 million. Changes in accounting estimates not related to assets are classified as operating items in the income statement, and the periodic unwinding of the discount is recognised within the income statement line Financial expenses.

21. SHARES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %
Shares in subsidiaries owned by the parent company			
Nornews AS, Oslo, Norway	NOK	100	100
Norske Skog Bruck GmbH, Bruck, Austria	EUR	10 000	100
Norske Skog Golbey SAS, Golbey, France	EUR	62 365	100
Norske Skog Industries Australia Ltd., Sydney, Australia	AUD	190 000	100
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	16	100
Norske Skog Saugbrugs AS Halden, Norway	NOK	1 152 300	100
Norske Skog Skogn AS, Levanger, Norway	NOK	1 152 300	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
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 Capital (Australia) Pty Ltd., Sydney, Australia	AUD	223 000	100
Norske Skog Capital (New Zealand) Ltd., Auckland, New Zealand	NZD	1	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 Holdings (No.1) Ltd., Auckland, New Zealand	NZD	0	100
Nature's Flame Ltd., Auckland, New Zealand	NZD	7 750	100
Norske Skog Holland B.V., Amsterdam, The Netherlands	EUR	245 105	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 Papier Recycling GmbH, Bruck, Austria	EUR	291	100
Norske Skog Tasman Ltd., Auckland, New Zealand	NZD	725 000	100
Norske Skog Österreich GmbH, Graz, Austria	EUR	35	100
Norske Skog (Schweiz) AG, Zürich, Switzerland	CHF	50	100
Norske Skog (UK) Ltd., London, United Kingdom	GBP	100	100
Panasia Paper Trading Co Pty Limited, Sydney, Australia	AUD	5 230	100
Saugbrugs Bioenergi AS, Halden, Norway	NOK	1 000	100
Topp1 Energy Limited, Auckland, New Zealand	NZD	16 391	100

SHARES INCLUDED AS FINANCIAL ASSETS	CURRENCY	SHARE CAPITAL (IN 1 000)	OWNERSHIP %	CARRYING VALUE [1] (IN NOK 1 000)
Shares owned by other group companies				
Circa Group Pty Ltd, Melbourne, Australia	AUD	2 847	9	7
Exeltium SAS, Paris, France	EUR	12 384	5	82
Exeltium 2 SAS, Paris, France	EUR	3 440	5	2
Ignite Energy Resources Ltd., Sydney, Australia	AUD	254 183	1	13
SEM, Golbey, France	EUR	3 440	10	4
Other shares, each with book value below NOK 1 million				3
Total				**110**

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

22. RELATED PARTIES

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

Norske Skog Holding AS, dets konkursbo (the "Estate") is as of the date hereof the owner of the shares in Norske Skog AS (thus a related party to Norske Skog AS). On 15 February 2018, Norske Skog AS entered into an agreement with the Estate, pursuant to which the Estate undertook certain duties in connection with the Sales Process, including to monitor the Sales Process (see Note 23) and take the requisite preparatory steps to potentially act as seller of the Shares in lieu of Citibank N.A., London Branch.

23. EVENTS AFTER THE BALANCE SHEET DATE

All employees (33 employees), including members of corporate management previously employed by Norske Skogindustrier ASA were employed by Norske Skog AS with effect from 1 January 2018.

On 24 January 2018, Norske Skog AS signed an agreement with Norske Skogindustrier ASA bankruptcy estate regarding purchase of certain assets and transfer of certain agreements from the bankruptcy estate to the new parent company of Norske Skog AS Group.

Citibank N.A., London Branch, is acting as security agent (the “Security Agent”) for the EUR 290 million senior secured notes due in 2019 issued by Norske Skog AS (the “2019 SSNs”). The Security Agent has conducted a forced sale of the Shares following the default by Norske Skog AS of the terms of indenture for the 2019 SSNs (the “Sales Process”).

On 3 May 2018, a wholly owned subsidiary of Oceanwood Opportunities Master Fund entered into a sale and purchase agreement with Citibank, N.A., London Branch, as security agent, for the acquisition of the shares in Norske Skog AS, along with its direct and indirect subsidiaries. The purchase price agreed in the sale and purchase agreement will not procure sufficient proceeds to fully discharge the company's financial and guarantee liabilities under the SSNs, the EUR 16 million liquidity facility and the EUR 159 million senior notes due 2021 and USD 61 million senior notes due 2023. Upon completion of the transaction, such financial and guarantee liabilities that are not fully discharged from the proceeds will be released. The transaction is subject to Oceanwood obtaining the relevant antitrust and other regulatory approvals in the countries concerned (including Australia and New Zealand), which is currently anticipated to be obtained in the second half of 2018.

Upon completion the release of the abovementioned liabilities will improve the company's equity with approximately NOK 3.5 billion. Following the release, Norske Skog AS will have significantly less debt and interest costs, which will improve both the solidity and liquidity of the company and group.

On 2 May 2018, Norske Skog entered into a shares sale agreement with Asia Honours (Hong Kong) Limited, for the sale of the shares in Malaysian Newsprint Industries Sdn. Bhd. (MNI). The transaction is expected to be completed in the second half of 2018.

There have been no other events after the balance sheet date with significant impact on the financial statements for 2017.

FINANCIAL STATEMENTS NORSKE SKOG AS

INCOME STATEMENT

NOK MILLION	NOTE	2017	2016
Operating revenue		**0**	**0**
Other operating expenses		-7	0
Gross operating earnings		**-7**	**0**
Operating earnings		**-7**	**0**
Financial income	5	78	110
Financial expenses	5	-2 975	-1 178
Net unrealised/realised gains/losses on foreign currency	5	-331	130
Loss before income taxes		**-3 234**	**-938**
Income taxes	8	-5	-4
Loss after tax		**-3 239**	**-942**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION		2017	2016
Loss after tax		-3 239	-942
Other comprehensive income		0	0
Comprehensive income		-3 239	-942

BALANCE SHEET

NOK MILLION	NOTE	31.12.2017	31.12.2016
Assets			
Investments in subsidiaries	4	3 513	5 809
Other non-current assets	9	735	698
Total non-current assets		**4 248**	**6 507**
Trade and other receivables	9	126	65
Cash and cash equivalents		100	0
Other current assets		29	**0**
Total current assets		**255**	**65**
Total assets		**4 503**	**6 572**
Shareholders' equity and liabilities			
Paid-in equity		300	2 319
Retained earnings and other reserves		-1 220	0
Total equity	3	**-920**	**2 319**
Interest-bearing non-current liabilities	6,9	297	3 799
Total non-current liabilities		**297**	**3 799**
Interest-bearing current liabilities	6, 9	5 105	435
Tax payable	8	0	4
Other current liabilities		21	15
Total current liabilities		**5 125**	**453**
Total liabilities		**5 422**	**4 252**
Total equity and liabilities		**4 503**	**6 572**

SKØYEN, 23 MAY 2018 – THE BOARD OF DIRECTORS AND CEO OF NORSKE SKOG AS

Sven Ombudstvedt
Chair

Nils Ingemund Hoff
Board member

Lars P. S. Sperre
President and CEO

STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2017	2016
Cash flow from operating activities			
Cash generated from operations		69	0
Cash used in operations		-8	0
Cash flow from financial items		3	-5
Interest payments received		78	110
Interest payments made		-21	-360
Taxes paid		-9	0
Net cash flow from operating activities		**112**	**-255**
Other financial payments		-6	0
Net cash flow from investing activities		**-6**	**0**
Cash flow from financing activities			
New loans raised		149	1 027
New equity		-213	0
Change in intercompany balance with group		64	-765
Net cash flow from financing activities		**0**	**255**
Foreign currency effects on cash and cash equivalents		-6	-7
Total change in cash and cash equivalents		**100**	**0**
Cash and cash equivalents 1 January		0	0
Cash and cash equivalents 31 December		100	0

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2016	3	**300**	**4 395**	**0**	**4 695**
Repayment of paid-in equity		0	-1 434	0	-1 434
Comprehensive income		0	0	-942	-942
Uncovered loss allocated other paid in equity		0	-942	942	0
Equity 31 December 2016	3	**300**	**2 019**	**0**	**2 319**
Comprehensive income		0	-2 019	-1 220	- 3 239
Equity 31 December 2017	3	**300**	**0**	**-1 220**	**-920**

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 23 May 2018.

2. ACCOUNTING POLICIES

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

Requirements related to recognition and measurement applied to the company financial statements of Norske Skog AS are identical to the ones described in Note 2 Accounting policies in the consolidated financial statements, with the exception of shares in subsidiaries which are recognised at lower of cost and net-realizable value in the company financial statements.

3. EQUITY

The share capital of Norske Skog AS at 31 December 2017 was NOK 300 000 000 and consisted of 30 000 shares, each with a nominal value of NOK 10 000.

The share capital was initially NOK 30 000 when the company was founded, 5 November 2014. The share capital was increased in a private in-kind placement against the company's shareholder, Norske Skog Holding AS, 14 January 2015. The capital increase was made by increasing the nominal amount of each share from NOK 1 to NOK 10 000. The increase in share capital amounted in total to NOK 299 970 000, in addition to an increase in share premium of NOK 6 293 030 000. The capital increase was registered at Brønnøysund Register Centre, 21 January 2015.

All shares in Norske Skog AS is held by Norske Skog Holding AS, dets konkursbo (the «Estate»). Norske Skog Holding AS has under a share pledge agreement dated 24 February 2015 granted a pledge in the shares in favour of Citibank N.A. London Branch as security for the EUR 290 million senior secured notes (SSN) issued by Norske Skog AS and the EUR 15.9 facility entered into by Norske Skog AS. Interest payment due under the SSN were not paid on 15 June 2017, and on 12 September 2017 Citibank, on instruction from holders of a majority of the SSN, declared all amount under the SSNs to be due and payable immediately, and delivered a notice of acceleration declaring the same to Norske Skog AS.

On 23 November 2017 Oceanwood, having accumulated the majority of the SSNs, announced that it was terminating the restructuring discussions and it was going to instruct the Security Agent to take enforcement action on the pledge over the entire issued share capital of Norske Skog AS, facilitating the sale of Norske Skog along with its direct and indirect subsidiaries, to the highest bidder for cash pursuant to a competitive public auction process.

The auction process, which was publicly launched on 13 December 2017, was ended on 3 May 2018 when a wholly owned subsidiary of Oceanwood Opportunities Master Fund entered into a sale and purchase agreement with Citibank, N.A., London Branch, as security agent for the shares of Norske Skog AS, along with its direct and indirect subsidiaries. See Note 23 Events after the balance sheet in the consolidated financial statements for further information.

Upon completion the release of the abovementioned liabilities will improve the company's equity with approximately NOK 3.5 billion. Following the release, Norske Skog AS will have significantly less debt and interest costs, which will improve both the solidity and liquidity of the company and group.

PRINCIPAL SHAREHOLDERS	OWNERSHIP %
Norske Skog Holding AS, dets konkursbo (the «Estate»)	100.00

4. SHARES IN SUBSIDIARIES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN MILLION)	OWNERSHIP %	CARRYING VALUE (IN NOK MILLION)
Norske Skog Skogn AS, Levanger, Norway	NOK	1 152.3	100	860
Norske Skog Saugbrugs AS, Halden, Norway	NOK	1 152.3	100	534
Nornews AS, Oslo, Norway	NOK	0.1	100	1
Norske Skog Bruck GmbH, Bruck, Austria	EUR	10.0	100	522
Norske Skog Golbey SAS, Golbey, France	EUR	137.4	100	1 595
Norske Skog Industries Australia Ltd., Sydney, Australia	AUD	190.0	100	1
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5.0	100	0
Total				**3 513**

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. Impairment of NOK 2 296 million related to investments in Norske Skog Skogn AS, Norske Skog Saugbrugs AS, Norske Skog Industries Australia Ltd. and Norske Skog Papers (Malaysia) are recognized in 2017. For further information with respect to impairment testing, see Note 4 Intangible assets and property, plant and equipment in the consolidated financial statements.

The investment in subsidiaries have decreased from NOK 5 809 million to NOK 3 513 million during 2017 due impairment of NOK 2 296 million.

5. FINANCIAL ITEMS

FINANCIAL ITEMS	NOTE	2017	2016
Financial income			
Interest income		1	0
Interest income from group companies [1)]		77	110
Total		**78**	**110**
Financial expenses			
External interest expense		-490	-421
Interest expense from group companies [1)]		-13	0
Impairment of investments in subsidiaries	4	-2 296	-752
Loss on receivable		-89	0
Refinancing costs		-74	0
Other financial expenses		-13	-5
Total		**-2 975**	**-1 178**
Gains / (losses) on foreign currency		**-331**	**130**
Financial items		**-3 228**	**-938**

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

Expected loss on receivables for 2017 are related receivables on the the former group entities Norske Skogindustrier ASA, Norske Skog Holding AS, Lysaker Invest AS and Norske Skog Eiendom AS which filed for bankruptcy in December 2017.

During 2017 the Norske Skog group worked hard to achieve a consensual recapitalization of the Norske Skogindustrier ASA group and thereby avoid bankruptcy proceedings for the parent company. The consensual recapitalization process could not be achieved and the accrued costs related to this process were expensed in 2017, is and included in the line refinancing costs.

6. MATURITY OF INTEREST-BEARING LIABILITIES

MATURITY OF THE COMPANY'S DEBT AT 31.12.2017	OTHER LOANS	BONDS	TOTAL
2018	164	0	164
2019	0	3 201	3 201
2020	1 083	0	1 083
2021	0	0	0
2022	0	0	0
Total	**1 247**	**3 201**	**4 448**

MATURITY OF THE COMPANY'S DEBT AT 31.12.2016	OTHER LOANS	BONDS	TOTAL
2017	0	0	0
2018	0	0	0
2019	0	2 635	2 635
2020	949	0	949
2021	0	0	0
Total	**949**	**2 635**	**3 584**

The table above shows contractual scheduled repayment of the EUR 100 million securitization facility (NSF) and the EUR 290 senior secured notes facility (SSN). Interest was not paid when due in the second quarter of 2017 for the NSF and the SSN. The non-payment constituted an event of default under the respective loan agreements. In addition, interest was not paid on the subsequent interest payment date in the fourth quarter of 2017. On 12 September 2017, Citibank, N.A., London Branch, in capacity as trustee under the indenture for the SSN, declared all monetary obligations under the SSN due and payable immediately. Following the event of default, the facilities have been classified as current liabilities.

Foreign currency debt is presented using exchange rate at 31 December 2017. Total debt listed in the repayment schedule may differ from booked debt due to interest, premiums or discounts on issued bonds.

For more information, see Note 11 Interest-bearing liabilities in the consolidated financial statements.

7. SALARY AND OTHER REMUNERATION FOR SENIOR EXECUTIVES

The company has not paid any remuneration or other benefits, as there were no employees in the company as at 31 December 2017. All employees (33 employees), including members of corporate management previously employed by Norske Skogindustrier ASA were employed by Norske Skog AS with effect from 1 January 2018.

See Note 12 Employee benefit expenses in the consolidated financial statements for further information.

8. INCOME TAXES

TAX EXPENSE	2017	2016
Current tax expense	-5	-4
Change in deferred tax	0	0
Total	**-5**	**-4**

INCOME TAX RECONCILIATION	2017	2016
Profit/loss before income taxes	-3 234	-938
Computed tax at nominal tax rate of 24% / 25%	776	235
Exempted income/non-deductible expenses	-18	-1
Impairment of investments in subsidiaries	-551	-188
Change tax loss not recognised	-208	-47
Withholding tax	-4	-3
Total tax expense(-)/income	**-5**	**-4**

TEMPORARY DIFFERENCES AND TAX LOSSES - DETAILS	31.12.2017	31.12.2016
Financial debt and currency translation	-328	91
Tax losses to carry forward	-1 286	-832
Tax losses and other tax credits not recognised [1)]	1 614	741
Basis for deferred tax	**0**	**0**

DEFERRED TAX	2017	2016
Net deferred tax asset/liability (-) 31 December	**0**	**0**

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

9. INTERCOMPANY RECEIVABLES/LIABILITIES

	31.12.2017	31.12.2016
NON-CURRENT INTERCOMPANY RECEIVABLES		
Norske Skog Skogn AS	119	109
Norske Skog Saugbrugs AS	138	125
Norske Skog Industries Australia Ltd.	478	464
Total	**735**	**698**
CURRENT INTERCOMPANY RECEIVABLES		
Norske Skog Nordic & Export Sales AS	2	0
Norske Skog Industries Australia Ltd.	83	42
Norske Skog Italia SrL	0	2
Norske Skog (Schweiz) AG	2	0
Norske Skog Skogn AS	0	21
Saugbrugs Bioenergi AS	21	0
Total	**108**	**65**
NON-CURRENT INTERCOMPANY LIABILITIES		
Norske Skogindustrier ASA (former group company)	0	187
Norske Skog Bruck GmbH	88	69
Norske Skog Golbey SA	209	142
Total	**297**	**398**
CURRENT INTERCOMPANY LIABILITIES		
Norske Skogindustrier ASA (former group company)	62	0
Norske Skog Skogn AS	213	23
Norske Skog Saugbrugs AS	42	74
Norske Skog Bruck GmbH	127	97
Norske Skog Golbey SA	134	112
Norske Skog Deutschland GmbH	40	38
Norske Skog (UK) Ltd.	4	0
Norske Skog Österreich GmbH	1	0
Norske Skog Tasman Ltd.	62	0
Total	**685**	**344**

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

10. GUARANTEES

The company has issued guarantees in an amount of NOK 29 million at 31 December 2017.

11. RELATED PARTIES

A description of transactions with related parties is given in Note 22 Related parties in the consolidated financial statements.

12. EVENTS AFTER THE BALANCE SHEET DATE

A description of events after the balance sheet date is given in Note 23 Events after the balance sheet date in the consolidated financial statements.

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Independent Auditor's Report

To the General Meeting of Norske Skog AS

Report on the Audit of the Financial Statements

Opinion

The financial statements comprise:	*In our opinion:*
• The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. • The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity and statement of 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. • The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, 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. • The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2017, 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.

Basis for Opinion

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 and the Group 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of key audit matter	*How the key audit matter was addressed in the audit*
Subsequent events and going concern	
In December 2017, the prior ultimate parent company of the group, Norske Skogindustrier ASA, and the intermediate holding companies Norske Treindustrier AS and Norske Skog Holding AS, filed for bankruptcy. As a result of this, Norske Skog AS became the ultimate parent company of the group. Citibank N.A., London Branch, is acting as security agent (the "Security Agent") for the EUR 290 million senior secured notes due in 2019 issued by Norske Skog AS (the "2019 SSNs"). The Security Agent has conducted a forced sale of the Shares of Norske Skog AS following the default by Norske Skog AS of the terms of indenture for the 2019 SSNs (the "Sales Process"). On 3 May 2018, a wholly owned subsidiary of Oceanwood Opportunities Master Fund (Oceanwood) entered into a sale and purchase agreement with Citibank, N.A., London Branch, as security agent, for the acquisition of the shares in Norske Skog AS, along with its direct and indirect subsidiaries. Upon completion of the transaction, liabilities and guarantees under the SSNs, the EUR 16 million liquidity facility and the EUR 159 million senior notes due 2021 and USD 61 million senior notes due will be released. The transaction is subject to Oceanwood obtaining the relevant antitrust and other regulatory approvals in the countries	As a part of our audit of subsequent events and the going concern assumptions, we performed, amongst others, the following audit procedures: • We obtained the sale and purchase agreement and reviewed the content of this agreement, specifically focusing on the effects on the assessment of the going concern assumption. • We made inquiries to, and had meetings with management to obtain a further, in-depth understanding of the agreement and the related assessment of the going concern assessment, including the conditions upon which the agreement depends. • We obtained legal representation from relevant legal advisers to confirm our obtained understanding of the agreement.

concerned (including Australia and New Zealand). Upon completion, the release of the above-mentioned liabilities will improve the company's equity with approximately NOK 3.5 billion. Following the release, Norske Skog AS will have significantly less debt and interest costs, which will improve both the solidity and liquidity of the company and group. Accordingly, the sale and purchase agreement significantly impacts management's assessment of the going concern assumption and thus, was identified as an important matter in connection with our audit. We refer to descriptions in note 23 to the consolidated financial statements and the report of the board of directors.	
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. The impairment test resulted in an impairment charge of the assets as at 31 December 2017 of NOK 1 699 million. We refer to the description in note 4 to the consolidated financial statements.	Our audit procedures included, amongst others, 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 2017 forecasts and the degree of accuracy reached when comparing actual results to plans and forecasts for prior periods. We also reviewed the results of valuations performed by an external party in connection with the sales and purchase

	agreement described above, and the values used as the basis for this agreement, to verify consistency between these estimated values and management conclusions.
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 2017, the group reported a tax expense (-income) of NOK 234 million, deferred tax asset of NOK 64 million and deferred tax liability of NOK 348 million. Deferred tax asset not recognized amounts to NOK 2 028 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, the statements on Corporate Governance and Corporate Social Responsibility.

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 in accordance with law and regulations, including 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 ISAs, 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 Company's and the Group'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 and the Group'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 and the Group 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 the Board of Directors 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 the Board of Directors 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 the Board of Directors, 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 coverage of the loss 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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 28 May 2018
BDO AS

Terje Tvedt
State Authorised Public Accountant

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 flow 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 restructuring expenses, depreciation and amortization and impairment charges, other gains and losses, determined on an entity, combined or consolidated basis

Gross operated 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)

RETURN ON CAPITAL EMPLOYED (ANNUALISED)	**2017**	**2016**
Gross operating earnings	702	1 097
Capital expenditure	296	325
Average capital employed	5 314	7 996
Return on capital employed (annualised)	**6.4%**	**9.0%**

CAPITAL EMPLOYED	**31.12.2017**	**31.12.2016**
Intangible assets	23	22
Tangible assets	4 698	6 548
Inventory	1 148	1 161
Trade and other receivables	1 497	1 732
Trade and other payables	-2 052	-1 797
Other liabilities	-119	-137
Capital employed	**5 195**	**7 529**

NET INTEREST BEARING DEBT	**31.12.2017**	**31.12.2016**
Interest bearing non-current liabilities	1 348	4 979
Interest bearing current liabilities	4 802	430
- Cash and cash equivalents	433	371
Net interest bearing debt	**5 717**	**5 038**

Norske Skog

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