Norske Skog

ANNUAL REPORT 2018

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REPORT OF THE BOARD OF DIRECTORS

Norske Skog is one of the leading producers of publication paper in the world, with an annual production capacity of 2.6 million tons. The group is geographically 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 1.9 million tons of capacity, of which 1.2 million tons is newsprint and 0.7 million tons is magazine paper. The production capacity in the Australasian segment is 0.6 million tons newsprint and 0.1 million tons magazine paper. Norske Skog is the only domestic producer in the Australasia region.

NORSKE SKOG IN 2018

2018 has been marked by a challenging operating environment despite high demand for the Group's products and increases in publication paper prices in all regions. Although gross operating earnings improved, cost pressure from higher recovered paper prices and wood prices as well as energy prices has impacted the profitability adversely both in Europe and Australasia.

The continuous efforts to address the unsustainable capital structure was finally resolved in 2018 when NS Norway Holding AS, a wholly owned subsidiary of Oceanwood Special Situations Malta Limited, acquired the shares in Norske Skog AS. On 23 November 2017, Oceanwood, having accumulated the majority of the Norske Skog AS' Senior Secured Notes ("SSNs") announced that it was terminating the restructuring discussions and they were instructing the security agent, Citibank, N.A., London Branch, to take enforcement action over the pledge on the entire issued share capital of Norske Skog AS. This would facilitate 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. The auction process for the sale of the shares in Norske Skog AS, which was publicly launched on 13 December 2017, ended when NS Norway Holding AS completed the sale and purchase agreement with Citibank, N.A., London Branch, as security agent for the shares of Norske Skog AS.

The completion marked a new beginning for Norske Skog with a significantly improved balance sheet following discharge of the SSNs debt and reduced interest costs.

Norske Skog has for many years worked to keep high standards within health and safety of its employees as a centrepiece of all its operations and commercial activities. Despite these efforts on May 24th two employees at the Albury (Australia) mill died in a gas leakage accident. We have taken measures to ensure that the families and relatives of the deceased have been supported and that all employees impacted by this tragic incident have received the highest level of support and counselling.

INCOME STATEMENT AND CASH FLOW

Norske Skog's operating revenue was NOK 12.6 billion in 2018 (NOK 11.5 billion). The increase reflected higher prices within most publication paper segments, both in Europe and Australasia. However, costs of materials went up due to higher fibre and energy prices thereby off-setting a large part of the price increases. Employee benefit expenses increased year-on-year, as Norske Skog AS from 1 January 2018 employed the employees of the former parent company. Gross operating earnings increased to NOK 1 031 million in 2018 (NOK 702 million).

Depreciation is NOK 446 million in 2018 (NOK 608 million). The reduction is due to the impairment charges recognised on property, plant and equipment in 2017. Restructuring expenses in 2018 amounted to NOK 15 million (NOK 9 million) and is mainly related to downsizing. Other gains and losses in 2018 ended at NOK 356 million (NOK -88 million), largely reflecting the effects of terminating energy contracts containing embedded derivatives, and a change in the value of embedded derivatives and certain energy contracts being accounted for at fair value.

Operating earnings ended at NOK 926 million in 2018 (NOK -1 702 million). The improvement reflects better market conditions in 2018 and that no impairment charges were recognised in 2018.

Net financial items in 2018 were NOK 686 million (NOK -1 554 million) due to gain from discharge of debt included in financial income of NOK 1 289 million (NOK 5 million). The discharge of debt was a consequence of the completion of the sale of the shares of Norske Skog AS. Financial expenses of NOK 804 million in 2018 (NOK 1 247 million) included accrued interest on SSNs up to completion. Accrued interest expenses on the SSNs were also discharged and included in the net gain following the completion of sale. Currency gains at NOK 201 million (NOK 312 million) mainly related to translation effects on debt denominated in EUR. The currency translation of the SSNs were also included in the net gain from the discharges.

Income taxes recognized in the income statement for 2018 amounted to NOK 78 million (NOK -234 million).

Profit for the period was NOK 1.5 billion in 2018 (NOK -3.6 billion). This reflects the operational improvement and the impact of the discharge of debt.

Net cash flow from operating activities ended at NOK 881 million in 2018 (NOK 404 million). Cash from operations was NOK 971 million (NOK 606 million) reflecting the improved operating environment in 2018. Cash from net financial items, primarily interest on loans and repayment of loans, amounted to NOK 70 million (NOK -184 million), while taxes paid was NOK 20 million (NOK 19 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 8.6 billion at 31 December 2018 (NOK 8.1 billion). Total non-current assets were NOK 4.8 billion at 31 December 2018 (NOK 4.9 billion). Investments in property, plant and equipment amounted to NOK 279 million in 2018 (NOK 276 million). Investments in 2018 included the construction and completion of the biogas facility in Golbey in France and biochemical pilot plant in Australia in addition to normal levels of operational capital expenditure.

Total current assets were NOK 3.8 billion at 31 December 2018 (NOK 3.2 billion), with cash and cash equivalents of NOK 912 million at 31 December 2018 (NOK 433 million).

Total non-current liabilities were NOK 3.7 billion at 31 December 2018 (NOK 2.6 billion). Total current liabilities were NOK 2.6 billion (NOK 7.0 billion). Part of the decrease reflected a reclassification of interest-bearing liabilities due amended terms of the EUR 100 million Norwegian Securitization Facility in 2018. The primary reason for the decrease is due to the discharge of obligation to repay the SSNs and accrued interest on the SSNs following the completion of the sale of shares in Norske Skog AS to NS Norway Holding AS. Net interest bearing at 31 December 2018 was NOK 2.3 billion.

Equity was NOK 2.4 billion at 31 December 2018 (NOK -1.4 billion). The increase reflected the impact of the financial restructuring and the discharge of SSNs debt as well as the operational improvement in 2018.

DIVIDEND PROPOSAL

The board does not recommend payment of dividend for the financial year 2018.

RISK MANAGEMENT

The main risk exposures for the Group follows a continued negative demand development in key sectors within public papers. Accordingly, price developments are pressured and volatile. In 2018 the Group's results were also challenged by adverse movements in the price of key input factors such as energy and fibre. Thus efforts to continue to improve efficiencies and develop purchasing strategies are key. The Group's revenues and costs are partly unmatched from a currency point of view; thus significant movements, particularly against the NOK, pose financial risk for the Group.

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 over time dependent on future closures of production capacity either permanently or through conversions to other paper grades. 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 efforts to develop new fibre based and bio-related products may gradually diversify the activities.

Norske Skog is not vertically integrated back into forest resources and therefore has to source input factors from third parties. The supply of these input factors is to a certain extent covered by long-term contracts which reduce cost fluctuations.

Financial risk management includes currency and liquidity planning. Currency volatility is to a certain extent mitigated by natural hedging where income and expenses are matched in the same currency. Norske Skog has loans predominantly denominated in EUR, replicating cash flows from the EUR based European market. The interest rates on these loans are fixed, providing predictability. Liquidity is ensured by maintaining sufficient cash balances and open credit lines linked to accounts receivables facilities. Norske Skog continuously assesses the most competitive funding sources for the Group.

Norske Skog performs credit evaluations of counterparties. The group’s insurance programme 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

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. Corporate governance and corporate social responsibility are described on www.norskeskog.com.

HEALTH AND SAFETY

Norske Skog aims to have zero injuries among employees. All near misses and injuries are reported in our global Health Safety and Environment system. Experiences from every single incident are shared with the entire organisation. Lost-time injuries per million working hours, was 0.9 in 2018 (0.9). Norske Skog had an absence rate due to sickness of 3.8% in 2018 (3.8%).

EMPLOYEES, GENDER EQUALITY, GENDER BALANCE AND DIVERSITY

The Norske Skog group had 2 444 employees at year end 2018 (2 414). 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 five members, all men. Norske Skog is working to encourage the Norwegian Discrimination Act's objective within our business. This include activities to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith.

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.

Investments into projects for alternative use of fibre and development of bio-chemicals are being done in the form of pilot plants that, if successful, can contribute to growth when commercialised. Norske Skog will continue to explore projects within bioenergy that support and develop the business.

GOING CONCERN

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. As at 31 December 2018 the equity of the company is approximately NOK 2.4 billion giving and equity ratio of approximately 28%. Following the discharge of debt and the significantly reduced interest cost the company has sufficient liquidity for its operations. The board of directors confirms that the assumption applies and that the financial statements have been prepared on a going concern basis.

OUTLOOK FOR 2019

The market balance for publication paper in Europe remains positive into 2019 due to capacity conversions/closures in the industry in 2017. The pricing environment for newsprint and magazine grades has remained favourable with continued high operating rates into 2019, and expected gross operating earnings in line with 2018.

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. Domestic decline in demand will need to be replaced with export sales The Asian export market for newsprint, constituting around 50% of the Australasian business for the group has seen pricing into 2019 drop off from higher levels 2018.

Group production and sales volumes in 2019 are expected to be on level with the previous year. Underlying costs for pulp, fibre and energy are expected to remain at a similar level into 2019 and impact on the cost levels in the business. Wood, particularly in the Nordic market, is expected to remain demand driven and availability as well as price increase is considered as a risks.

Following the completion of the sale of the shares in Norske Skog AS the Group's determination to further improve in business platform stands firm. 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 activities of Norske Skog AS consist of holding shares in the operating companies and carries out the head office functions of the Norske Skog group. The company had no employees in 2017, but from 1 January 2018 all employees from the former parent company were employed by Norske Skog AS. At 31 December 2018 the company had 30 employees.

Operating revenue NOK 97 million (NOK 0) is primarily from the services provided within the group. Employee benefit expenses NOK 81 million (NOK 0) and other operating expenses NOK 57 million (NOK -7) are related to the headquarter functions that were established in 2018.

Net financial items amounted to NOK 939 million (NOK -3 228 million) mainly reflecting derecognition of debt following the completion of the sale of shares of Norske Skog AS. The profit for the year for Norske Skog AS was NOK 882 million in 2018 (NOK -3 239 million).

Net cash flow from operating activities was NOK -121 million (NOK 112 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 5.7 billion at 31 December 2018 (NOK 4.5 billion). Total non-current assets were NOK 4.8 billion at 31 December 2018 (NOK 4.2 billion). Total non-current liabilities were NOK 2.2 billion at 31 December 2018 (NOK 0.3 billion) while current liabilities decreased from NOK 5.1 billion to 1.4 billion following derecognition of debt and amended terms for the NSF loan.

Equity was NOK 2.2 billion at 31 December 2018 (NOK -920 million). The increase is due to the sale of the shares in the company and derecognition of financial liabilities and discharge of guarantees described above.

Lost-time injuries per million working hours, was 0 in 2018 (0) in Norske Skog AS. The company had an absence rate due to sickness of 0.8% in 2018 (0.6%).

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 profit for the year for Norske Skog AS (the parent company) in 2018 was NOK 882 million (NOK - 3 239 million) whereof NOK 882 million has been allocated to retained earnings.

SKØYEN, 4 APRIL 2019
THE BOARD OF DIRECTORS OF NORSKE SKOG AS

Sven Ombudstvedt
Chair

Jen-Yue (John) Chiang
Board member

Arvid Grundekjøn
Board member

Svein Erik Veie
Board member

Paul Kristiansen
Board member

CONSOLIDATED INCOME STATEMENT

NOK MILLION	NOTE	2018	2017
Operating revenue	3	**12 641**	**11 527**
Distribution costs		-1 303	-1 255
Cost of materials		-7 605	-6 904
Change in inventories		85	-11
Employee benefit expenses	12	-1 856	-1 718
Other operating expenses	14	-931	-937
Gross operating earnings	3	**1 031**	**702**
Depreciation	4	-446	-608
Restructuring expenses	19	-15	-9
Other gains and losses	16	356	-88
Impairments	4	0	-1 699
Operating earnings	3	**926**	**-1 702**
Share of profit in associated companies		-9	-61
Financial income	5	1 289	5
Financial expenses	5	-804	-1 247
Net unrealised/realised gains/losses on foreign currency	5	201	-312
Profit/Loss before income taxes		**1 603**	**-3 317**
Income taxes	17	-78	-234
Profit/Loss after tax		**1 525**	**-3 551**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION		2018	2017
Profit/Loss after tax		**1 525**	**-3 551**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		24	155
Reclassified translation differences upon divestment of foreign operations		0	-102
Tax expense on translation differences		0	0
Total		**24**	**53**
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations		-8	-26
Tax effect on remeasurements of post employment benefit obligations		1	6
Total		**-7**	**-20**
Other comprehensive income		**17**	**34**
Total comprehensive income		**1 542**	**-3 517**

CONSOLIDATED BALANCE SHEET

NOK MILLION	NOTE	31.12.2018	31.12.2017
Assets			
Deferred tax asset	17	64	64
Intangible assets	4	30	23
Property, plant and equipment	3, 4	4 483	4 698
Other non-current assets	10, 20	211	154
Total non-current assets		**4 789**	**4 939**
Inventories	3, 18	1 304	1 148
Trade and other receivables	10	1 403	1 497
Cash and cash equivalents	8	912	433
Other current assets	18	157	92
Total current assets		**3 776**	**3 170**
Total assets		**8 565**	**8 109**
Shareholders' equity and liabilities			
Paid-in equity		7 409	5 160
Retained earnings and other reserves		-5 044	-6 586
Total equity		**2 365**	**-1 427**
Pension obligations	13	271	262
Deferred tax liability	17	328	348
Interest-bearing non-current liabilities	6, 11, 18	2 318	1 348
Other non-current liabilities	18	353	602
Total non-current liabilities		**3 270**	**2 560**
Interest-bearing current liabilities	6, 11, 18	862	4 802
Trade and other payables	18	1 864	2 052
Tax payable	17	87	4
Other current liabilities	18	118	119
Total current liabilities		**2 931**	**6 976**
Total liabilities		**6 200**	**9 535**
Total equity and liabilities		**8 565**	**8 109**

SKØYEN, 4 APRIL 2019
THE BOARD OF DIRECTORS OF NORSKE SKOG AS

Sven Ombudstvedt
Chair

Jen-Yue (John) Chiang
Board member

Arvid Grundekjøn
Board member

Svein Erik Veie
Board member

Paul Kristiansen
Board member

CONSOLIDATED STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2018	2017
Cash flow from operating activities			
Cash generated from operations		12 736	11 378
Cash used in operations		-11 765	-10 772
Cash flow from currency hedges and financial items		-43	-21
Interest payments received	5	8	4
Interest payments made	5	-35	-167
Taxes paid		-20	-19
Net cash flow from operating activities [1]	3	**881**	**404**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	3, 4	-279	-276
Sales of property, plant and equipment and intangible assets		1	5
Purchase of shares in companies and other financial payments		-31	-29
Sales of shares in companies and other financial payments		121	21
Net cash flow from investing activities		**-188**	**-279**
Cash flow from financing activities			
New loans raised		332	424
Repayments of loans		-370	-401
Other cash flow from financing activities		-178	-89
Net cash flow from financing activities		**-215**	**-65**
Foreign currency effects on cash and cash equivalents		3	2
Total change in cash and cash equivalents		**480**	**62**
Cash and cash equivalents 01 January		433	371
Cash and cash equivalents 31 December		912	433
[1] **Reconciliation of net cash flow from operating activities**			
Profit/loss before income taxes		1 603	-3 317
Depreciation and impairments	4	446	2 307
Share of profit in associated companies		9	61
Gains and losses from divestment of business activities and property, plant and equipment	16	-1	0
Taxes paid		-20	-19
Change in trade and other receivables		94	-148
Change in inventories		-165	48
Change in trade and other payables		66	42
Change in restructuring provision		-11	-30
Financial items with no cash impact		-756	1 370
Gains and losses on commodity contracts and embedded derivatives	16	-377	73
Value change biological assets	16	12	18
Disposal and repurchasing of renewable energy certificates		-4	-3
Change in environmental provisions with no cash impact		-4	2
Change in pension obligations and other long term employee benefits		-8	-6
Other		-3	8
Net cash flow from operating activities		**881**	**404**

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

NOK MILLION	NOTE	PAID-IN EQUITY	OTHER PAID-IN EQUITY	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2017		**5 160**	**0**	**-3 069**	**2 090**
Loss after tax		0	0	-3 551	-3 551
Other comprehensive income		0	0	34	34
Equity 31 December 2017		**5 160**	**0**	**-6 586**	**-1 427**
Derecognition of debt	5	0	2 249	0	2 249
Profit after tax		0	0	1 525	1 525
Other comprehensive income		0	0	17	17
Equity 31 December 2018		**5 160**	**2 249**	**-5 044**	**2 365**

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 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 4 April 2019.

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**	
	2018	**2017**	**31.12.2018**	**31.12.2017**
AUD	6.08	6.34	6.13	6.41
EUR	9.60	9.32	9.95	9.84
GBP	10.85	10.65	11.12	11.09
NZD	5.63	5.87	5.83	5.84
USD	8.13	8.27	8.69	8.21

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 2018. 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 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) 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.

b) 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 instruments

IFRS 9 replaced 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. Implementation of IFRS 9 had no effect on the reported figures except for classification of financial assets and liabilities as presented in Note 7.

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 have not result in a significant change in the provision for losses.

The new standard also introduces expanded disclosure requirements and has changed the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. Implementation of IFRS 9 has no significant impact on the income statements, balance sheet or cash flow statement for 2018.

The group classifies its financial assets and liabilities in the following three categories: at fair value through profit or loss, at amortised cost, and at fair value through other comprehensive income. 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

The group continued measuring at fair value the financial assets previously classified 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 IFRS 9 and such contracts are treated as derivatives. 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 IFRS 9 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) Amortised cost
Amortised cost includes cash, loans and receivables, and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Items classified as amortised cost are current items maturing less than 12 months after the balance sheet date, and are 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) Fair value through other comprehensive income
Investments in other shares not held for trade purpose, earlier classified as available for sale investments under IAS 39, are classified as fair value through other comprehensive income under IFRS 9. For the groups investments in other shares, there are no active market. Fair value for these investments is determined applying valuation technics in according to level three in the valuation hierarchy.

Derivatives and hedge activities
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 represent hedge activities. These 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 applied to liability positions, based on the groups own credit risk.

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. 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.

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

The group has adopted IFRS 15 Revenue from Contracts with Customers as of 1 January 2018 replacing IAS 11 and IAS 18, and are using the modified retrospective transition approach applying the new standard only to contracts that are not completed as of 1 January 2018. The adoption of the new standard has no effect on the reported figures. Regarding presentation and disclosure, the new standard will result in additional information to be included in the notes compared to previous standards when it comes to disaggregation of revenues by categories and cash flows.

IFRS 15 has established 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. Revenue is recognised by a vendor when control over the goods or services is transferred to the customer.

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. In the fifth step, we assess when each performance obligation is satisfied (point in time or over period) and revenue are recognized

Revenues in Norske Skog consists almost exclusively of the sale of goods. In practical terms, the timing of revenue recognition is based on the delivery terms for the different markets and customers, and where revenue is recognised at point in time. It is important to make sure that all performance obligations are fulfilled, and the customer can benefit on its own. If the customer cannot obtain control of the good or service, the revenue cannot be recognised.

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:

- 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 recognized if the customer has taken over a significant part of the gain and loss potential relating to the 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.

Norske Skog may deliver a product to another party, such as a dealer or retailer, for sale to end customers. In these circumstances, the company is required to assess whether the other party has obtained control of the product. If the other party has not obtained control, the product may be held in a consignment arrangement. In such case, the company does not recognise the revenue until the product is controlled by the end customer.

Variable considerations can arise for a wide range of reasons, including discounts, rebates, refunds, credits, performance bonuses, penalties or other similar items. Variable considerations are only included in the transaction price if it is probably that there will be a significant revenue reversal.

Pre-IFRS 15 (recognition principles in 2017)

Revenue was 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 was recognised when the significant risks and rewards of ownership of the goods was transferred to the buyer. This was depending 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.

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
IFRS 16 Leases will be implemented by Norske Skog on 1 January 2019, and are expected to have an impact on the consolidated financial statements as described out below:

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 (i.e. right-of-use asset) 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. Exceptions for short term leases, low value leases, non-lease components and intangible assets have been adapted. 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 new standard will be implemented using the modified retrospective method without restatement of comparatives. The standard will be applied to the leases retrospectively with the cumulative effect of initially applying IFRS 16 as an adjustment to the opening equity at the date of the initial application. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The new standard will affect primarily the accounting for the group's operating leases for leased assets like machinery and properties, and the implementation effect on the consolidated financial statement are estimated as follows:

- Carrying value of right-of-use assets and lease liability estimated to be approximately NOK 85 million higher as of 1 January 2019
- Operating expenses estimated to be approximately NOK 25 million lower for 2019
- Interest expenses estimated to be approximately NOK 6 million higher for 2019
- Depreciations estimated to be approximately NOK 19 million higher for 2019

Other amendments to IFRS are not expected to have a material impact on the financial statements for 2019.

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 40-52 g/m^2. Magazine paper encompasses the paper qualities super calendered (SC) 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.

Revenue from contracts with customers

Total revenues, cash flows and contract balances from contracts with customers has been disaggregated and presented in the segment tables below. Contract with customers are recognized upon satisfaction of a performance obligation by transferring the promised goods to a customer and measured at point in time for the sale of products to the customer. Sale of publication papers and other products are non-interest bearing receivables, generally on terms of 20-60 days.

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.

Major customers

Norske Skog had a total sales volume of newsprint and magazine paper of 2 485 000 tonnes in 2018, of which sales to the group's largest customer constituted approximately 249 000 tonnes. Total sales volume in 2018 of newsprint and magazine paper to the five largest customers in Europe and Australasia amounted to approximately 342 000 and 347 000 tonnes respectively.

OPERATING REVENUE AND EXPENSES PER OPERATING SEGMENT

2018	PUBLICATION PAPER EUROPE	PUBLICATION PAPER AUSTRALASIA	OTHER ACTIVITIES	ELIMINATIONS	NORSKE SKOG GROUP
Operating revenue	**9 199**	**3 398**	**148**	**-104**	**12 641**
Distribution costs	-909	-384	-11	0	-1 303
Cost of materials	-5 643	-1 938	-28	3	- 7 605
Change in inventories	99	-25	11	0	85
Employee benefit expenses	-1 245	-523	-88	0	-1 856
Other operating expenses	-689	-271	-72	101	-931
Gross operating earnings	**812**	**257**	**-39**	**0**	**1 031**
Depreciation	-322	-116	-9	0	-446
Restructuring expenses	-9	1	-6	0	-15
Other gains and losses	1	-22	377	0	356
Operating earnings	**482**	**121**	**323**	**0**	**926**
Share of operating revenue from external parties (%)	100	100	100		100

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

OPERATING REVENUE PER MARKET

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

	2018	**2017**
Norway	307	227
Rest of Europe	8 212	7 125
North America	487	386
South America	0	76
Australasia	2 093	2 495
Asia	1 402	1 059
Africa	141	158
Total	**12 641**	**11 527**

CASH FLOW FROM CONTRACTS WITH CUSTOMERS

	2018	2017
Publication paper Europe	9 356	7 898
Publication paper Australasia	3 343	3 446
Other activities	37	35
Total	**12 735**	**11 378**

NET CASH FLOW FROM OPERATING ACTIVITIES

	2018	2017
Publication paper Europe	955	270
Publication paper Australasia	172	285
Other activities	-155	51
Total cash flow allocated to segments	**971**	**607**
Cash from net financial items	-70	-184
Taxes paid	-20	-19
Net cash flow from operating activities	**881**	**404**

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2018	2017
Publication paper Europe	187	193
Publication paper Australasia	75	82
Other activities	16	0
Total	**279**	**276**

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.

	31.12.2018	31.12.2017
Publication paper Europe	3 235	3 350
Publication paper Australasia	1 248	1 348
Other activities	0	0
Total	**4 483**	**4 698**

INVENTORIES

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

	31.12.2018	31.12.2017
Publication paper Europe	924	740
Publication paper Australasia	371	400
Other activities	9	8
Total	**1 304**	**1 148**

TRADE RECEIVABLES

	31.12.2018	31.12.2017
Publication paper Europe	715	916
Publication paper Australasia	239	209
Other activities	46	3
Total	**1 001**	**1 127**

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The performance of the group's cash generating units has recently showed positive development with an increase in gross operating earnings and cash flows compared to previous period. For the group in total, the gross operating earnings increased from NOK 702 million in 2017 to NOK 1 031 million in 2018. The outlook for 2019 is positive, and the gross operating earnings are expected to be in line with 2018. No impairment indicators are identified as at 31 December 2018, and thus the cash generating units were not tested for fixed assets impairment in 2018.

Assumptions applied when calculating the recoverable amount

Intangible non-current assets and property, plant and equipment (PPE) 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. 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 16 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).

An impairment charge of the assets of NOK 1 699 million was recognised in 2017. The impairment charges related 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.

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. In relation to the assumptions made in a 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.

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 2018.

	MACHINERY AND EQUIPMENT	LAND AND BUILDINGS
Europe Newsprint	1 973	645
Australasia Newsprint	416	97
Magazine	260	198
Super calendared	255	214
Other	8	9
Carrying value 31 December 2018	**2 912**	**1 164**

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 2018, 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 in accordance with last year assumption. The reduction in useful life has a negative impact on the estimated recoverable amount of the mills. As the level of depreciation in 2018 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 2017	140	81	221
Additions	15	0	15
Disposals	-10	0	-10
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
Currency translation differences	3	4	7
Accumulated depreciation and impairments 31 December 2017	**135**	**76**	**211**
Carrying value 31 December 2017	**13**	**10**	**23**
Acquisition cost 1 January 2018	148	86	234
Additions	19	16	35
Disposals	-60	-1	-61
Currency translation differences	-4	0	-4
Acquisition cost 31 December 2018	**103**	**101**	**204**
Accumulated depreciation and impairments 1 January 2018	135	76	211
Depreciation	4	8	12
Disposals	-44	-1	-45
Currency translation differences	-4	0	-4
Accumulated depreciation and impairments 31 December 2018	**91**	**83**	**174**
Carrying value 31 December 2018	**12**	**18**	**30**

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 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 and impairments 1 January 2017	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**
Acquisition cost 1 January 2018	367	31 405	6 784	530	439	39 525
Additions	0	38		1	225	265
Disposals	0	-29	0	-15	0	-44
Reclassified from plant under construction	14	319	21	5	-359	0
Currency translation differences	-15	-272	-5	1	-5	-296
Acquisition cost 31 December 2018	**366**	**31 461**	**6 801**	**522**	**300**	**39 450**
Accumulated depreciation and impairments 1 January 2018	210	28 565	5 529	478	45	34 827
Depreciation	0	318	106	10	0	434
Impairment	0	0	0	0	0	0
Value changes	12	0	0	0	0	12
Disposals	0	-28	0	-15	0	-43
Currency translation differences	-7	-259	2	1	0	-263
Accumulated depreciation and impairments 31 December 2018	**215**	**28 596**	**5 637**	**474**	**45**	**34 967**
Carrying value 31 December 2018	**151**	**2 865**	**1 164**	**48**	**255**	**4 483**

Norske Skog owns forests in Australia reported as Biological assets. 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. Norske Skog has not capitalised borrowing costs in 2018. In 2017 NOK 2 million was capitalised, and the interest rate used in 2017 was 4.9%

Disposals in 2018 and 2017 were primarily related to scrapping of fully depreciated assets that no longer have any technical values.

Non-current assets held for sale

Norske Skog did not have any non-current assets held for sale at 31 December 2018.

5. FINANCIAL ITEMS

FINANCIAL ITEMS		2018	2017
Financial income			
Interest income		10	5
Gain from discharge of debt		1 115	0
Other financial income		164	0
Total		**1 289**	**5**
Financial expenses			
Interest expense		-735	-649
Loss on receivables to former group entities		0	-477
Other financial expenses		-69	-120
Total		**-804**	**-1 247**
Realised/unrealised gains / (losses) on foreign currency		**201**	**-312**
Financial items		**686**	**-1 554**

Norske Skog's efforts to address the unsustainable capital structure was resolved when NS Norway Holding AS, a wholly owned subsidiary of Oceanwood Special Situations Malta Limited, acquired the shares in Norske Skog AS. On 23 November 2017, Oceanwood, having accumulated the majority of the Norske Skog AS' Senior Secured Notes EUR 290 million ("SSNs"), announced that it was terminating the restructuring discussions and that it was instructing the security agent, Citibank, N.A., London Branch, to take enforcement action over the pledge on the entire issued share capital of Norske Skog AS. This would facilitate 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 for the sale of the shares in Norske Skog AS, which was publicly launched on 13 December 2017, ended when NS Norway Holding AS, completed the sale and purchase agreement with Citibank, N.A., London Branch, as security agent for the shares of Norske Skog AS. The proceeds from the public auction was distributed to the holders of the debt in Norske Skog AS. The outcome of the auction process resulted in that Norske Skog AS was discharged from all liabilities regarding the SSN and a EUR 15.9 Liquidity Facility. The process leading up to the discharge was in line with the creditor agreements prior to the bankruptcy in the prior parent. In the creditor agreements the prior parent, Norske Skog Holding AS, had pledged the shares in Norske Skog AS, thus the distribution to the creditor in Norske Skog AS of NOK 2 249 million was settled and recognised through equity. The remaining carrying amount of the discharged debt including transaction costs is included in the income statement as a financial gain of NOK 1 115 million.

Other financial income in 2018 includes gain from sale of 33.7% shares of Malaysian Newsprint Industries Sdn. Bhd. NOK 107 million.

Interest expense for 2018 include repayment fee for the EUR 290 million senior secured notes. Interest expenses also includes NOK 95 million (NOK 127 million) related to debt to former group companies.

Loss on receivables for 2017 are related to receivables on 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.

The costs related to attempted consensual recapitalization of the group in 2017 were expensed in 2017 and included in the line other financial expenses.

6. MORTGAGES

	31.12.2018	31.12.2017
Loans secured by mortgages on property		
2019 Senior Secured Notes (EUR 290 million)	0	3 201
Other secured debt	95	127

On 28 September 2018 Norske Skog AS' obligations under the Senior Secured Notes (SSNs) was discharged. From this date the obligation was derecognised. See description in Note 5.

The other secured debt includes facilities secured by property at Saugbrugs Bioenergi AS.

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2018 FINANCIAL ASSETS	NOTE	AMORTISED COST	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE THROGH OTHER COMPRENESIVE INCOME	NON-FINANCIAL ASSETS	TOTAL
Other non-current assets	10	11	87	112	1	211
Trade and other receivables	10	1 340	0	0	62	1 403
Cash and cash equivalents		912	0	0	0	912
Other current assets	18	52	104	0	0	157
Total		**2 317**	**191**	**112**	**63**	
FINANCIAL LIABILITIES	**NOTE**		**FAIR VALUE THROUGH PROFIT OR LOSS**	**AMORTISED COST**	**NON-FINANCIAL LIABILITIES**	**TOTAL**
Interest-bearing non-current liabilities	11, 18		0	2 318	0	2 318
Interest-bearing current liabilities	11, 18		0	862	0	862
Other non-current liabilities	18		24	0	330	353
Trade and other payables	18		0	1 864	0	1 864
Other current liabilities	18		66	6	47	118
Total			**90**	**5 049**	**337**	

31.12.2017 FINANCIAL ASSETS	NOTE	AMORTISED COST	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE THROGH OTHER COMPRENESIVE INCOME	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**	
FINANCIAL LIABILITIES	**NOTE**		**FAIR VALUE THROUGH PROFIT OR LOSS**	**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**	

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).

31.12.2018	CARRYING AMOUNT	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives	86	86	0	0	86
Commodity contracts	1	1	0	0	1
Miscellaneous other non-current assets	124	124	0	0	124
Other non-current assets	**211**	**211**	**0**	**0**	**211**
Accounts receivable	1 001	1 001	0	0	1 001
Other receivables	339	339	0	0	339
Prepaid VAT	62	62	0	0	62
Trade and other receivables	**1 403**	**1 403**	**0**	**0**	**1 403**
Cash and cash equivalents	**912**	**912**	**0**	**0**	**912**
Derivatives	6	6	0	0	6
Commodity contracts	98	98	0	0	98
Current investments	53	53	0	0	53
Other current assets	**157**	**157**	**0**	**0**	**157**
Interest-bearing non-current liabilities	2 318	2 318	0	0	2 318
Interest-bearing current liabilities	862	862	0	0	862
Total interest-bearing liabilities	**3 180**	**3 180**	**0**	**0**	**3 180**
Derivatives	0	0	0	0	0
Commodity contracts	24	24	0	14	10
Non-financial non-current liabilities	329	329	0	0	329
Other non-current liabilities	**353**	**353**	**0**	**14**	**339**
Accounts payable	1 026	1 026	0	0	1 026
Other payables	838	838	0	0	838
Trade and other payables	**1 864**	**1 864**	**0**	**0**	**1 864**
Derivatives	9	9	0	0	9
Commodity contracts	57	57	0	48	9
Non-financial current liabilities	52	52	0	0	52
Other current liabilities	**118**	**118**	**0**	**48**	**70**

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**

[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 the shareholder 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 affect 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, AUD and NZD. Currency movements between these currencies, as well as against NOK, may influence 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.

There is uncertainty about 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 affect future results. The factors are an inherent uncertainty when the board makes its assessments.

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.

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. 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	31.12.2018			31.12.2017		
	FLOATING	FIXED	TOTAL	FLOATING	FIXED	TOTAL
Interest-bearing liabilities	576	1 272	1 848	588	4 431	5 019
Interest-bearing assets	-725	0	-725	-433	0	-433
Net exposure	**-149**	**1 272**	**1 123**	**155**	**4 431**	**4 586**

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 22%.

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 2018 (NOK 1 million higher/lower at 31 December 2017). Change in net interest payments accounts for NOK 4 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 2018.

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".
- 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 IFRS 9.
- 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 2018, 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 151 million higher/lower (NOK 341 million higher/lower at 31 December 2017). 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, paper price 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 2018, 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 31.12.2018**	**NET PROFIT AFTER TAX - INCREASE**	**NET PROFIT AFTER TAX - DECREASE**
Energy price	change 10%	18	+103	-100
Currency	change 10%	18	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 31.12.2018	NET PROFIT AFTER TAX - INCREASE	NET PROFIT AFTER TAX - DECREASE
Currency	change 10%	83	398	-403
Price index	change 2.5%	83	2	-2
Spruce pulpwood	change 5,0%	83	55	-55
Paper prices	change 5,0%	83	-527	527

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 912 million at 31 December 2018 (NOK 433 million at 31 December 2018). Restricted bank deposits amounted to NOK 187 million at 31 December 2018, (NOK 163 million at 31 December 2018).

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 2018. These amounts consist of trade payables and interest payments. Variable rate interest cash flows are calculated using the forward yield curve. Projected interest payments are based on the maturity schedule at 31 December 2018 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 2018.

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).

31.12.2018	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets at fair value through profit or loss				
Trading derivatives	0	0	0	0
Commodity contracts and embedded derivatives	0	0	191	191
Total	**0**	**0**	**191**	**191**
Financial liabilities at fair value through profit or loss				
Trading derivatives	0	-62	0	-62
Commodity contracts and embedded derivatives	0	0	-28	-28
Total	**0**	**-62**	**-28**	**-90**

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**

The following table shows the changes in level 3 instruments at 31 December 2018.

	ASSETS	**LIABILITIES**
Opening balance	67	-315
Gains and losses recognised in profit or loss	126	289
Currency translation differences	-3	-2
Closing balance	**191**	**-28**

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, price indices and paper prices.

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 0% at 31 December 2018 (11% at 31 December 2017).

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		**31.12.2018**	**31.12.2017**
Assets			
Commodity contracts	Energy price -2%	191	66
Liabilities			
Commodity contracts	Energy price -2%	-31	-310

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 2018 would be a downwards parallel shift of the long end of the forward curve of 2% (downwards shift of 2% in 2017).

	31.12.2018		**31.12.2017**	
DERIVATIVES	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
Commodity contracts	92	-9	36	-83
Embedded derivatives	99	-81	32	-255
Total	**191**	**-90**	**67**	**-338**

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	31.12.2018	31.12.2017
Trade and other receivables			
Accounts receivable		1 001	1 127
Provision for bad debt		-57	-63
VAT receivables		62	66
Prepaid expenses		128	132
Other receivables		268	235
Total		**1 403**	**1 497**
Other non-current assets			
Long-term shareholdings	20	112	110
Derivatives	7	86	26
Commodity contracts	7	1	6
Pension plan assets	13	1	0
Loans to employees		1	1
Other non-current receivables		10	9
Total		**211**	**153**

The decrease in accounts receivables at 31 December 2018 compare to last year are due to the new factoring facilities.
Norske Skog Bruck, Norske Skog Skogn and Norske Skog Saugbrugs have factoring facility agreements where the future cash flow on certain accounts receivables are sold. The facility has a limit of EUR 25 million for Norske Skog Bruck and a combined limit of NOK 400 million for Norske Skog Skogn and Norske Saugbrugs. There are no financial covenants in these factoring facility agreements. Accounts receivable that have been sold are deducted from accounts receivable in the balance sheet. The utilisation at 31 December 2018 was NOK 404 million (31 December 2017 was NOK 156 million).

As of 31 December 2018 advances received from contracts with customers amounted to NOK 16 million and other revenue accruals for invoice not sent amounted to NOK 2 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	31.12.2018	31.12.2017
Not due	1 328	1 402
0 to 3 months	91	102
3 to 6 months	0	4
Over 6 months	40	52
Total [1]	**1 459**	**1 560**

[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

INTEREST-BEARING DEBT, OUTSTANDING AMOUNTS (MNOK)		**31.12.2018**	**31.12.2017**
Bonds		0	3 201
Debt to financial institutions		276	488
Debt to Oceanwood controlled entities		2 509	0
Factoring Facilities		395	1 443
Total		**3 180**	**5 132**

INTEREST-BEARING DEBT BY CURRENCY	**CURRENCY AMOUNT 31.12.2018**	**NOK 31.12.2018**	**NOK 31.12.2017**
EUR	264	2 625	4 846
AUD	63	385	172
Total interest-bearing debt in foreign currencies		**3 010**	**5 018**
Interest-bearing debt in NOK	170	170	114
Total interest-bearing debt		**3 180**	**5 132**

Loans from various Oceanwood controlled entities constitute the majority of Norske Skog's debt financing as of 31 December 2018. This includes a securitization facility (NSF) of EUR 100 million secured by inventory of the mill in France.

On 28 September 2018 Norske Skog AS' obligations under the Senior Secured Notes (SSNs) was discharged. From this date the obligation was derecognised. See description in the consolidated statement of changes in group equity.

The average interest rate at 31 December 2018 was 7.8% (10.5% at 31 December 2017).

DEBT REPAYMENTS

SCHEDULED REPAYMENT OF THE GROUP'S FINANCIAL DEBT AT 31.12.2018	**OTHER LOANS**	**BONDS**	**TOTAL**
2019	862	0	862
2020	282	0	282
2021	95	0	95
2022	1 831	0	1 831
2023	37	0	37
2024	33	0	33
2025	13	0	13
2026-	27	0	27
Total	**3 180**	**0**	**3 180**

SCHEDULED REPAYMENT OF THE GROUP'S FINANCIAL DEBT AT 31.12.2017	**OTHER LOANS**	**BONDS**	**TOTAL**
2018	604	0	604
2019	32	3 201	3 233
2020	1 119	0	1 119
2021	35	0	35
2022	37	0	37
2023	36	0	36
2024	31	0	31
2025-2033	38	0	38
Total	**1 931**	**3 201**	**5 132**

Total debt listed in the repayment schedule may differ from booked debt. This is due to premiums or discounts on loans.

At 31 December 2018, the financial statements included no discounts (NOK 114 million at 31 December 2017). The facilities do not contain any material financial covenants.

Trade payables amounted to NOK 1 026 million at 31 December 2018 (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 2018, Norske Skog AS and its subsidiaries had issued bank guarantees in an amount of 203 million, and Norske Skog AS had issued parent guarantees in an amount of NOK 115 million.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				NON-CASH CHANGES			
	NOTE	**31.12.2017**	**CASH FLOWS**	**RECLASSI-FICATION[2)]**	**OTHER**	**FOREIGN EXCHANGE MOVEMENT**	**31.12.2018**
Interest-bearing non-current liabilities[1)]	18	245	-44	779	0	13	994
Interest-bearing current liabilities[1)]	18	4 773	24	-779	-3 082[3)]	-81	854
Net liabilities group companies	18	1 341	-17	0	37[4)]	-29	1 332
Other financing activities			-178				
Total liabilities from financing activities		**6 360**					**3 180**

[1)] Except for liabilities to group companies
[2)] Reclassification between non-current and current term liabilities
[3)] Discharge of EUR 290 million Senior Secured Notes and the EUR 15.9 million Liquidity facility
[4)] Accrued interest added to principal

12. EMPLOYEE BENEFIT EXPENSES

EMPLOYEE BENEFIT EXPENSES	NOTE	2018	2017
Salaries including holiday pay		1 406	1 314
Social security contributions		322	285
Pension costs	13	70	66
Other employee benefit expenses		58	54
Total		**1 856**	**1 718**

NUMBER OF EMPLOYEES BY REGION	31.12.2018	31.12.2017
Europe	1 743	1 752
Australasia	671	662
Parent company	30	0
Total	**2 444**	**2 414**

The base salary for the president and chief executive officer (CEO) Niels Petter Wright 31 December 2018 was NOK 4 300 000. Niels Petter Wright was employed in the period from 1 December 2018 to 28 March 2019.

The CEO's retirement age is 70. The CEO is included in the company's general defined contribution pension plan. A supplementary defined contribution plan is established to cover pension entitlements for salaries exceeding 12 G (base amount in the Norwegian national insurance scheme).

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

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

There were no employees in Norske Skog AS in 2017. All employees were employed from 1 January 2018.

REMUNERATION FOR MEMBERS OF CORPORATE MANAGEMENT
(in NOK 1 000)

2018	SALARY	BENIFITS IN KIND ETC. [1)]	BONUS [2)]	CONTRIBUTION TO DEFINED CONTRIBUTION SCHEMES
Lars P. Sperre (from 1 January to 30 November 2018)	3 931	243	5 299	702
Niels Petter Wright (from 1 December 2018)	358	14	0	59
Other corporate management	5 633	596	4 452	704

[1)] Includes car allowance, insurance, free telephone, etc.
[2)] Based on results achieved in the financial year, partly paid in 2018 and 2019.

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

2018	SUCCESS FEE	DIRECTORS FEE
Board of Directors	4 000	4 815

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	2 540	612	2 377	417	5 946
Audit-related assistance [1)]	0	37	0	0	37
Tax assistance	0	18	0	390	408
Other fees	65	0	169	282	516
Total	**2 605**	**666**	**2 546**	**1 088**	**6 906**

[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 1 725 current and former employees are covered by such schemes. Of these, 210 people are covered by defined benefit plans and 1 515 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	68
Norske Skog Skogn AS	65	30	70	62	89
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 60 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 up to 7.1 G and 10% between 7.1 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	2018	2017
Discount rate/expected return on plan assets	2.6%	2.3%
Salary adjustment	2.0%	2.0%
Social security increase/inflation rate	2.0%	2.0%
Pension growth rate	0.8%	0.4%

The discount rate applied for the pension schemes in Norway for 2018 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 1.9% to 2.6% and salary adjustments vary from 2.0% to 3.3%. Norske Skog has used the mortality table in Norway (K2013BE) and Richttafeln 2005G in Germany.

NET PERIODIC PENSION COST	2018	2017
Current service cost	4	4
Pension cost defined contribution schemes	66	62
Accrued national insurance contributions	0	0
Recognised curtailment and settlement	0	-1
Net periodic pension cost	**70**	**66**
Net periodic interest cost	**4**	**4**

Estimated payments to the group's defined benefit pension schemes in 2019 amounts to NOK 11 million.

PENSION PLANS IN THE BALANCE SHEET

PARTLY OR FULLY FUNDED PENSION PLANS	**31.12.2018**	**31.12.2017**
Projected benefit obligations including national insurance contributions	-161	-158
Plan assets at fair value	157	152
Net plan assets/pension obligations (-) in the balance sheet	**-4**	**-6**

UNFUNDED PENSION PLANS	**31.12.2018**	**31.12.2017**
Projected benefit obligations including national insurance contributions	-265	-255

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

SPECIFICATION OF PENSION PLANS IN THE BALANCE SHEET	**31.12.2018**	**31.12.2017**
Pension assets in the balance sheet	1	0
Pension liabilities in the balance sheet	-271	-262
Net pension obligations in the balance sheet	**-270**	**-261**
Net unfunded pension plans	-265	-255
Net partly or fully funded pension plans	-4	-6

CHANGES IN PENSION OBLIGATIONS FOR PARTLY OR FULLY FUNDED PENSION PLANS	**2018**	**2017**
Balance 1 January	158	158
Deconsolidated company	-5	0
Current years’ service cost	4	4
Current years’ interest cost	4	4
Pension paid	-2	-2
Curtailments/settlements	0	-5
Other changes	19	-1
Re-measurements	-16	1
Balance 31 December	**161**	**158**

CHANGES IN PLAN ASSETS FOR PARTLY OR FULLY FUNDED PENSION PLANS	**2018**	**2017**
Balance 1 January	152	165
Divested companies	-5	0
Return on plan assets	4	4
Pension paid	-1	0
Curtailments/settlements	0	-5
Other changes	24	0
Employer contribution	7	7
Re-measurements	-24	-17
Balance 31 December	**157**	**152**

CHANGES IN PENSION OBLIGATIONS FOR UNFUNDED PENSION PLANS	2018	2017
Balance 1 January	-255	-226
Current years' service cost	-9	-9
Current year's interest cost	-3	-4
Pension paid	1	7
Contributions to the plan assets	0	0
Curtailments/settlements	0	0
Other changes	0	0
Currency translation differences	5	-14
Re-measurements	-4	-9
Balance 31 December	**-265**	**-255**

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

SPESIFICATION OF RE-MEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	2018	2017
Return on plan assets	0	0
Actuarial changes arising from changes in demographic assumptions	0	0
Actuarial changes arising from changes in financial assumptions	-3	-23
Experience adjustments + investment management costs	-7	-3
Asset ceiling	2	0
Total	**-8**	**-26**

	2018		2017	
INVESTMENT PROFILE FOR PENSION FUNDS	FUNDS	DISTRIBUTION	FUNDS	DISTRIBUTION
Shares	24	15%	23	15%
Bonds	96	61%	101	66%
Properties and real estate	21	14%	18	12%
Money market	13	8%	6	5%
Other	1	1%	3	2%
Total	**157**	**100%**	**152**	**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%	-11	13
Salary adjustment - 0.5%	2	-2
Future national security - 1.0%	-4	4
Future pension – 1.0%	2	-1

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	2018	2017
Maintenance materials and services		498	457
Marketing expenses		9	9
Administration, insurance, travel expenses etc.		206	168
Operating leases	15	48	46
Internal services to group companies		0	122
Other expenses		171	135
Total		**931**	**937**
Specification of losses on accounts receivable included in other expenses			
Receivables written off during the period		4	14
Payments received on items previously written off		0	0
Change in provision for bad debt		9	-15
Total		**13**	**-1**

15. LEASES

OPERATING LEASES

The group recognised expenses of NOK 48 million in relation to operating leases in 2018. The equivalent expense in 2017 was NOK 46 million.

MINIMUM LEASE PAYMENTS RELATING TO OPERATING LEASES	31.12.2018	31.12.2017
Not later than one year	31	19
Later than one year and not later than five years	102	38
Later than five years	23	6
Total	**156**	**63**

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	31.12.2018	31.12.2017
Not later than one year	23	30
Later than one year and not later than five years	90	103
Later than five years	16	41
Total	**129**	**174**
Future finance charges on finance leases	-35	-49
Present value of minimum lease payments	**94**	**125**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS	31.12.2018	31.12.2017
Not later than one year	22	28
Later than one year and not later than five years	64	77
Later than five years	8	20
Total	**94**	**125**
Capitalised value of leased machinery and equipment	**27**	**57**

16. OTHER GAINS AND LOSSES

	2018	2017
Gains and losses from divestments and deconsolidating of business activities, property, plant and equipment	1	0
Changes in value – commodity contracts [1)]	69	-52
Changes in value – embedded derivatives	308	-20
Changes in value – biological assets	-12	-18
Other realised gains and losses	-10	1
Total	**356**	**-88**

[1)] Long-term financial contracts and commodity contracts that no longer meet the requirement in IFRS 9 related to own use are measured at fair value.

The gain on commodity contracts is due to higher forecasted future energy prices in New Zealand over the contract period.

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, sales prices, pulpwood prices 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.

In December 2018 two Norwegian energy contracts containing currency embedded derivatives were terminated, and replaced with new contracts which also includes embedded derivatives. The liability on embedded derivatives in the old contracts was derecognized. Total gain recognized on the embedded derivatives in 2018 amounts to NOK 308 million.

Other realised gains and losses of NOK -10 million in 2018 and NOK 1 million in 2017 primarily related to financial hedging of energy.

17. INCOME TAXES

TAX EXPENSE	2018	2017
Current tax expense	-101	-13
Change in deferred tax	23	-221
Total	**-78**	**-234**

RECONCILIATION OF THE GROUP TAX EXPENSE	2018	2017
Profit/loss before income taxes	1 603	-3 317
Computed tax at nominal tax rate of 23%/24%	-369	796
Differences due to different tax rates	-11	77
Exempted income/non-deductible expenses	-9	-94
Reversal tax provision	0	0
Adjustment previous years	-5	-75
Change in tax rate	29	-6
Deferred tax asset not recognised	288	-883
Other items	-1	-49
Total tax expense (-) income (+)	**-78**	**-234**
Effective tax rate	**5%**	**7%**

CURRENT TAX LIABILITY	31.12.2018	31.12.2017
Norway	0	0
Rest of Europe	71	4
Outside Europe	16	0
Total	**87**	**4**

DEFERRED TAX - MOVEMENTS	2018	2017
Net deferred tax asset 1 January	-284	-46
Change in deferred tax in the income statement	23	-221
Deconsolidation of subsidiaries	0	0
Tax on other comprehensive income	-1	-6
Tax effect FX net investment hedge	0	0
Group tax allocation balance sheet	0	0
Currency translation differences	-2	-11
Net deferred tax asset/liability (-) 31 December	**-264**	**-284**

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY	31.12.2018	31.12.2017
Norway	64	64
Rest of Europe	0	0
Outside Europe	0	0
Deferred tax asset	**64**	**64**
Norway	0	0
Rest of Europe	328	348
Outside Europe	0	0
Deferred tax liability	**-328**	**-348**
Net deferred tax asset/liability (-)	**-264**	**-284**

DEFERRED TAX DETAILS	31.12.2018	31.12.2017
Fixed assets, excess values and depreciation	139	123
Pensions	3	3
Provisions and other liabilities	128	134
Currency translation differences and financial instruments	-1	172
Deferred tax current items	9	6
Tax losses and tax credit to carry forward	523	1 306
Deferred tax asset not recognised [1]	-1 064	-2 028
Net deferred tax asset/liability (-)	**-264**	**-284**

LOSSES TO CARRY FORWARD BY REGION AND EXPIRY DATE 31.12.2018	NORWAY	REST OF EUROPE	OUTSIDE EUROPE	TOTAL
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
202	0	0	0	0
2023 and later	0	0	0	0
Indefinite expiry	1 503	62	597	2 163
Tax losses to carry forward	**1 503**	**62**	**597**	**2 163**
Temporary differences	-1 422	0	-1 047	-2 469
Tax losses and temporary differences not recognised [1]	-2 633	-2	-1 644	-4 279
Total tax losses and tax credits to carry forward (recognised)	**293**	**60**	**0**	**353**
Deferred tax asset	**64**	**0**	**0**	**64**
Tax rate	**22%**	**19-33%**	**28-30%**	

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%**	

[1] Basis for deferred tax asset not recognised amounted to NOK 4 632 million at 31 December 2018. NOK 1 810 million was related to tax losses to carry forward and NOK 2 469 million was related to other deductible temporary differences. Deferred tax asset not recognised amounted to NOK 1 064 million at 31 December 2018.

[2] The amount relates to loss carry forward in Norske Skog Holland BV that was 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 2018. 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	31.12.2018	31.12.2017
Inventories			
Raw materials and other production input		784	697
Semi-manufactured materials		8	9
Finished goods		512	441
Total	3	**1 304**	**1 148**
Other current assets			
Derivatives	7	6	5
Commodity contracts	7	98	30
Current investments	7	53	56
Total	7	**157**	**92**
Trade and other payables			
Accounts payable	7	1 026	1 029
Accrued labour costs and taxes		516	505
Accrued expenses		316	303
Other interest-free liabilities		6	215
Total		**1 864**	**2 052**
Other current liabilities			
Derivatives	7	9	41
Commodity contracts	7	57	26
Accrued emission rights		47	14
Accrued financial costs		0	21
Restructuring provision	19	6	17
Total		**118**	**119**
Other non-current liabilities			
Derivatives	7	0	215
Commodity contracts	7	24	57
Dismantling provision	19	81	76
Environmental provision	19	195	200
Deferred recognition of government grants		23	24
Other non interest-bearing debt		30	30
Total		**353**	**602**
Interest-bearing non-current liabilities			
Debt to financial institutions		994	245
Interest-bearing non-current liabilities		1 324	1 103
Total	7	**2 318**	**1 348**
Interest-bearing current liabilities			
Debt to financial institutions and bond adjusted for amortization		459	4 405
Securitisation / factoring facilities		395	368
Interest-bearing current liabilities		8	28
Total	7	**862**	**4 802**

19. PROVISIONS

	RESTRUCTURING PROVISION	DISMANTLING PROVISION	ENVIRONMENTAL PROVISION
Balance 1 January 2017	**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**
Changes and new provisions	15	5	-4
Utilised during the year	-26	0	0
Periodic unwinding of discount	0	2	5
Currency translation differences	0	-1	-6
Balance 31 December 2018	**6**	**81**	**195**

Restructuring provision

Restructuring provision is included in the balance sheet line Other current liabilities. The restructuring provision of NOK 6 million at 31 December 2018 includes various restructuring activities included provision for severance payments and other costs (Publication paper Europe). The amount expensed in 2018 in relation to restructuring activities amounted to NOK 14 million.

The restructuring provision of NOK 17 million at 31 December 2017 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.

Dismantling provision

Provisions related to future dismantling costs arising from a future closing down of production facilities amounted to NOK 81 million at 31 December 2018, compared to NOK 76 million at 31 December 2017.

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 195 million at 31 December 2018 compared to NOK 200 million at 31 December 2017. Resources spent on environmental activities during 2018 amounted to NOK 0.

The carrying value of the provision is the best estimate made by measuring the expected value of the specific obligations, discounted to present value using a long-term risk-free interest rate when the time value of money is material. Changes in factors included in the expected value will impact the carrying value of the obligation. To illustrate the sensitivity, a reduction in the future discount rate by one percentage point would increase the provision by approximately NOK 24 million. Changes in accounting estimates not related to assets are classified as operating items in the income statement, and the periodic unwinding of the discount is recognised within the income statement line Financial expenses.

Contingent liabilities

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

20. 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	340 000	100
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5 011	100
Norske Skog Saugbrugs AS Halden, Norway	NOK	115 230	100
Norske Skog Skogn AS, Levanger, Norway	NOK	115 230	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
Green Valley Energie, France	EUR	50	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 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 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
Norske Skog Paper Mills (Albury) Pty Limited, Sydney, Australia	AUD	5 230	100
Saugbrugs Bioenergi AS, Halden, Norway	NOK	3 000	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)]
Shares owned by parent				
Shelterwood AS, Oslo, Norway	NOK	2 400	3	1
Shares owned by other group companies				
Circa Group Pty Ltd, Melbourne, Australia	AUD	3 087	10	7
Exeltium SAS, Paris, France	EUR	12 384	5	83
Exeltium 2 SAS, Paris, France	EUR	3 440	5	2
Ignite Energy Resources Ltd., Sydney, Australia	AUD	255 433	1	12
SEM, Golbey, France	EUR	3 440	10	4
Other shares, each with book value below NOK 1 million				4
Total				**112**

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

21. RELATED PARTIES

Balances and transactions between the group and subsidiaries, as listed in Note 20, have been eliminated on consolidation and are not disclosed in this note.

Remuneration for corporate management and Board of Director’s is presented in Note 12.

Oceanwood Special Situations Malta Limited, acquired the shares in Norske Skog AS on 28 September 2018. As of 31 December 2018 the group had debt to entities controlled by Oceanwood as described in Note 11.

22. EVENTS AFTER THE BALANCE SHEET DATE

On 28 March 2019 Niels Petter Wright decided, in full agreement with the board and with immediate effect, to step down as the CEO of Norske Skog AS. The Chair of the Board, Sven Ombudstvedt, will fill the interim CEO role until a permanent replacement is in place.

There have been no other events after the balance sheet date with significant impact on the financial statements for 2018.

FINANCIAL STATEMENTS NORSKE SKOG AS

INCOME STATEMENT

NOK MILLION	NOTE	2018	2017
Operating revenue	3	**97**	**0**
Employee benefit expenses		-81	0
Other operating expenses		-57	-7
Gross operating earnings		**-40**	**-7**
Depreciation		-5	0
Restructuring expenses		-6	0
Operating earnings		**-52**	**-7**
Financial income	7	1 405	78
Financial expenses	7	-646	-2 975
Net unrealised/realised gains/losses on foreign currency	7	181	-331
Financial items		**939**	**- 3 228**
Profit/Loss before income taxes		**887**	**-3 234**
Income taxes	10	-5	-5
Profit/Loss after tax		**882**	**-3 239**

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION		2018	2017
Loss after tax		**882**	**-3 239**
Remeasurements of post employment benefit obligations		-5	0
Tax effect on remeasurements of post employment benefit obligations		1	0
Other comprehensive income		**-4**	**0**
Comprehensive income		**878**	**-3 239**

BALANCE SHEET

NOK MILLION	NOTE	31.12.2018	31.12.2017
Assets			
Intangible assets	4	11	0
Investments in subsidiaries	6	4 062	3 513
Other non-current assets	11	760	735
Total non-current assets		**4 833**	**4 248**
Trade and other receivables	11	335	126
Cash and cash equivalents		568	100
Other current assets		8	29
Total current assets		**911**	**255**
Total assets		**5 745**	**4 503**
Shareholders' equity and liabilities			
Paid-in equity		2 549	300
Retained earnings and other reserves		-342	-1 220
Total equity	5	**2 207**	**-920**
Interest-bearing non-current liabilities	8,11	2 179	297
Total non-current liabilities		**2 179**	**297**
Interest-bearing current liabilities	8, 11	1 333	5 105
Tax payable	10	0	0
Other current liabilities		25	21
Total current liabilities		**1 358**	**5 125**
Total liabilities		**3 537**	**5 422**
Total equity and liabilities		**5 745**	**4 503**

SKØYEN, 4 APRIL 2019
THE BOARD OF DIRECTORS OF NORSKE SKOG AS

Sven Ombudstvedt
Chair

Jen-Yue (John) Chiang
Board member

Arvid Grundekjøn
Board member

Svein Erik Veie
Board member

Paul Kristiansen
Board member

STATEMENT OF CASH FLOWS

NOK MILLION	NOTE	2018	2017
Cash flow from operating activities			
Cash generated from operations		55	69
Cash used in operations		-210	-8
Cash flow from financial items		-10	3
Interest payments received		66	78
Interest payments made		-16	-21
Taxes paid		-5	-9
Net cash flow from operating activities		**-121**	**112**
Purchases of equipment and intangible assets	4	-16	0
Other financial payments		-2	-6
Net cash flow from investing activities		**-18**	**-6**
Cash flow from financing activities			
New loans raised		0	149
Repayments of loans		-187	-213
Change in intercompany balance with group		790	64
Net cash flow from financing activities		**603**	**0**
Foreign currency effects on cash and cash equivalents		5	-6
Total change in cash and cash equivalents		**468**	**100**
Cash and cash equivalents 1 January		100	0
Cash and cash equivalents 31 December		568	100

STATEMENT OF CHANGES IN EQUITY

NOK MILLION	NOTE	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2017		**300**	**2 019**	**0**	**0**	**2 319**
Comprehensive income		0	-2 019	0	-1 220	- 3 239
Equity 31 December 2017		**300**	**0**	**0**	**-1 220**	**-920**
Derecognition of debt	7	0	0	2 249	0	2 249
Comprehensive income		0	0	0	878	878
Equity 31 December 2018	5	**300**	**0**	**2 249**	**-342**	**2 207**

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 4 April 2019.

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. OPERATING REVENUE BY GEOGRAPHICAL MARKET

Norske Skog AS's operating revenue consists mainly of the sale of services to other entities in the group.

OPERATING REVENUE BY GEOGRAPHICAL MARKET	**2018**	**2017**
Norway	36	0
Europe excluding Norway	44	0
Australasia	16	0
Total	**97**	**0**

Operating revenue arising from sales of internal services to other entities in the group amounted to NOK 97 million in 2018. The corresponding figure for 2017 was NOK 0 as Norske Skog AS did not provide services in 2017.

4. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS	LICENSES AND PATENTS
Acquisition cost 1 January 2018	0
Additions	16
Reclassified from plant under construction	0
Acquisition cost 31 December 2018	**16**
Accumulated depreciation and impairments 1 January 2018	0
Depreciation	5
Accumulated depreciation and impairments 31 December 2018	**5**
Carrying value 31 December 2018	**11**

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

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

PROPERTY, PLANT AND EQUIPMENT	FIXTURES AND FITTINGS	PLANT UNDER CONSTRUCTION	TOTAL
Acquisition cost 1 January 2018	0	0	0
Additions	0	1	1
Reclassified from plant under construction	0	0	0
Acquisition cost 31 December 2018	**0**	**1**	**1**
Accumulated depreciation and impairments 1 January 2018	0	0	0
Accumulated depreciation and impairments 31 December 2018	**0**	**0**	**0**
Carrying value 31 December 2018	**0**	**1**	**1**

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

5. EQUITY

The share capital of Norske Skog AS at 31 December 2018 was NOK 300 million and consisted of 30 000 shares, each with a nominal value of NOK 10 000.

NS Norway Holding AS acquired 100% of the shares in Norske Skog AS on 28 September 2018. For further information on the change of ownership, see description in Statement of changes in equity in the consolidated financial statement.

PRINCIPAL SHAREHOLDERS	**OWNERSHIP %**
NS Norway Holding AS	100.00

6. SHARES IN SUBSIDIARIES

SHARES IN SUBSIDIARIES	CURRENCY	SHARE CAPITAL (IN MILLION)	OWNERSHIP %	CARRYING VALUE (IN NOK MILLION)
Norske Skog Skogn AS, Levanger, Norway	NOK	115.2	100	560
Norske Skog Saugbrugs AS, Halden, Norway	NOK	115.2	100	334
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	340.0	100	940
Norske Skog Papers (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	MYR	5.0	100	111
Total				**4 062**

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.

The investment in subsidiaries have increased from NOK 3 513 million to NOK 4 062 million during 2018 due to:

- increase of new share capital in Norske Skog Industries Australia Ltd of NOK 939 million
- reversal of impairment of NOK 111 million on the shares in Norske Skog Papers (Malaysia) Sdn. Bhd
- repayment of paid-in capital from Norske Skog Skogn AS of NOK 300 million
- repayment of paid-in capital from Norske Skog Saugbrugs AS of NOK 200 million

7. FINANCIAL ITEMS

FINANCIAL ITEMS	NOTE	2018	2017
Financial income			
Dividends		55	0
Interest income		2	1
Interest income from group companies		64	77
Reversal of impairment of investments in subsidiaries	6	111	0
Gains from discharge of debt		1 115	0
Other financial income		58	0
Total		**1 405**	**78**
Financial expenses			
External interest expense		-608	-490
Interest expense from group companies [1)]		-15	-13
Impairment of investments in subsidiaries	6	0	-2 296
Loss on receivable		0	-89
Refinancing costs		0	-74
Other financial expenses		-23	-13
Total		**-646**	**-2 975**
Gains / (losses) on foreign currency		**181**	**-331**
Financial items		**939**	**-3 228**

Norske Skog's efforts to address the unsustainable capital structure was resolved when NS Norway Holding AS, a wholly owned subsidiary of Oceanwood Special Situations Malta Limited, acquired the shares in Norske Skog AS. On 23 November 2017, Oceanwood, having accumulated the majority of the Norske Skog AS' Senior Secured Notes EUR 290 million ("SSNs"), announced that it was terminating the restructuring discussions and that it was instructing the security agent, Citibank, N.A., London Branch, to take enforcement action over the pledge on the entire issued share capital of Norske Skog AS. This would facilitate 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 for the sale of the shares in Norske Skog AS, which was publicly launched on 13 December 2017, ended when NS Norway Holding AS, completed the sale and purchase agreement with Citibank, N.A., London Branch, as security agent for the shares of Norske Skog AS. The proceeds from the public auction was distributed to the holders of the debt in Norske Skog AS. The outcome of the auction process resulted in that Norske Skog AS was discharged from all liabilities regarding the SSN and a EUR 15.9 Liquidity Facility. The process leading up to the discharge was in line with the creditor agreements prior to the bankruptcy in the prior parent. In the creditor agreements the prior parent, Norske Skog Holding AS, had pledged the shares in Norske Skog AS, thus the distribution to the creditor in Norske Skog AS of NOK 2 249 million was settled and recognised through equity. The remaining carrying amount of the discharged debt including transaction costs is included in the income statement as a financial gain of NOK 1 115 million.

External interest expense for 2018 include repayment fee for the EUR 290 million senior secured notes.

Loss on receivables for 2017 are related receivables on 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 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, and included in the line refinancing costs.

8. MATURITY OF INTEREST-BEARING LIABILITIES

MATURITY OF THE COMPANY'S DEBT AT 31.12.2018	OTHER LOANS	BONDS	TOTAL
2019	406	0	406
2020	0	0	0
2021	61	0	61
2022	1 796	0	1 796
Total	**2 262**	**0**	**2 262**

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**

The table above shows contractual scheduled repayments. Foreign currency debt is presented using exchange rate at 31 December.
For more information, see Note 11 Interest-bearing liabilities in the consolidated financial statements.

9. PAYROLL COSTS, PENSION COSTS AND OBLIGATIONS

EMPLOYEE BENEFIT EXPENSES	**2018**	**2017**
Salaries including holiday pay	62	0
Social security contributions	11	0
Pension costs	2	0
Other employee benefit expenses	6	0
Total	**81**	**0**

The company is required by law to have a pension scheme for all employees. The company's pension plan is compliant with the requirements in the Norwegian Act relating to mandatory occupational pension. See also Note 12 Employee benefit expenses in the consolidated financial statements for further information.

The company did not pay any remuneration or other benefits in 2017, 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.

	31.12.2018	**31.12.2017**
Employees	30	0

NET PERIODIC PENSION/INTEREST COST	**2018**	**2017**
Current service cost	0	0
Pension cost defined contribution schemes	2	0
Net periodic pension cost	**2**	**0**
Net periodic interest cost	**0**	**0**

PENSION ASSET IN THE BALANCE SHEET	**31.12.2018**	**31.12.2017**
Net pension asset in the balance sheet	**1**	**0**
PENSION OBLIGATION IN THE BALANCE SHEET	**31.12.2018**	**31.12.2017**
Projected benefit obligations	-23	0
Plan assets at fair value	24	0
Net pension obligation in the balance sheet	**1**	**0**
SPECIFICATION OF REMEASUREMENT GAINS/LOSSES IN OTHER COMPREHENSIVE INCOME (OCI)	**2018**	**2017**
Actuarial changes arising from changes in demographic assumptions	0	0
Experience adjustments and investment management costs	6	0
Asset ceiling – asset adjustment	-2	0
Total	**4**	**0**
SENSITIVITY ANALYSIS	**Increase**	**Decrease**
Discount rate – 0.5%	-2	0
Salary adjustment – 0.5%	0	0

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

10. INCOME TAXES

TAX EXPENSE	2018	2017
Current tax expense	-5	-5
Change in deferred tax	0	0
Total	**-5**	**-5**

INCOME TAX RECONCILIATION	2018	2017
Profit/loss before income taxes	887	-3 234
Computed tax at nominal tax rate of 23%/24%	-204	776
Exempted income/non-deductible expenses	-16	-18
Discharge of debt (exempted income)	314	0
Impairment of investments in subsidiaries	0	-551
Reversal of impairment of investments in subsidiaries	26	0
Debt forgiveness	-314	0
Adjustments previous years	-5	0
Change tax loss not recognised	199	-208
Withholding tax	-5	-4
Total tax expense(-)/income	**-5**	**-5**

TEMPORARY DIFFERENCES AND TAX LOSSES - DETAILS	31.12.2018	31.12.2017
Financial debt and currency translation	-84	-328
Pensions	1	0
Tax losses to carry forward	-663	-1 286
Tax losses and other tax credits not recognised [1)]	747	1 614
Basis for deferred tax	**0**	**0**

DEFERRED TAX	2018	2017
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.*

11. INTERCOMPANY RECEIVABLES/LIABILITIES

	31.12.2018	31.12.2017
NON-CURRENT INTERCOMPANY RECEIVABLES		
Norske Skog Skogn AS	129	119
Norske Skog Saugbrugs AS	149	138
Norske Skog Industries Australia Ltd.	457	478
Norske Skog Tasman Ltd.	24	0
Total	**760**	**735**
CURRENT INTERCOMPANY RECEIVABLES		
Norske Skog Nordic & Export Sales AS	2	2
Norske Skog Skogn AS	40	0
Norske Skog Saugbrugs AS	57	0
Norske Skog (Australasia) Pty Ltd	145	0
Norske Skog Industries Australia Ltd.	0	83
Norske Skog Italia SrL	4	0
Norske Skog (Schweiz) AG	0	2
Nornews AS	12	0
Saugbrugs Bioenergi AS	14	21
Total	**274**	**108**
NON-CURRENT INTERCOMPANY LIABILITIES		
Norske Skog Bruck GmbH	116	88
Norske Skog Golbey SA	207	209
NS Norway Holding AS	1 077	0
Total	**1 400**	**297**
CURRENT INTERCOMPANY LIABILITIES		
Norske Skog Skogn AS	7	213
Norske Skog Saugbrugs AS	11	42
Norske Skog Bruck GmbH	131	127
Norske Skog Golbey SA	618	134
Norske Skog Deutschland GmbH	41	40
Norske Skog (UK) Ltd.	1	4
Norske Skog France SARL	1	0
Norske Skog Österreich GmbH	2	1
Norske Skog Tasman Ltd.	3	62
Norske Skog Papers (Malaysia) SDN	112	0
NS Norway Holding AS	8	0
Total	**936**	**623**

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.

In addition, Norske Skog AS had current liabilities to Norske Skogindustrier ASA (former group company).

12. GUARANTEES

The company has issued guarantees in an amount of NOK 115 million at 31 December 2018 (NOK 29 million at 31 December 2017) on behalf of Norske Skog Saugbrugs AS, Norske Skog Skogn AS and Norske Skog Bruck GmbH.

13. RELATED PARTIES

A description of transactions with related parties is given in Note 21 Related parties in the consolidated financial statements.

14. EVENTS AFTER THE BALANCE SHEET DATE

On 28 March 2019 Niels Petter Wright decided, in full agreement with the board and with immediate effect, to step down as the CEO of Norske Skog AS. The Chair of the Board, Sven Ombudstvedt, will fill the interim CEO role until a permanent replacement is in place.

There have been no other events after the balance sheet date with significant impact on the financial statements for 2018.

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Postbox 1704 Vika
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Norway

Independent Auditor's Report

To the General Meeting in Norske Skog AS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norske Skog AS.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2018, and income statement, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of Norske Skog AS as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.
- The accompanying financial statements give a true and fair view of the financial position of the group Norske Skog AS as at 31 December 2018, 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.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements for the parent company in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act, and for the preparation 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 Company or 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to:
https://revisorforeningen.no/revisjonsberetninger

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

The Register of Business Enterprises: NO 993 606 650 VAT.

Opinion on Registration and Documentation

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

Oslo, 12 April 2019
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)	**2018**	**2017**
Gross operating earnings	1 031	702
Capital expenditure	279	276
Average capital employed	5 335	6 490
Return on capital employed (annualised)	**14.1%**	**6.6%**

CAPITAL EMPLOYED	**31.12.2018**	**31.12.2017**
Intangible assets	30	23
Tangible assets	4 483	4 698
Inventory	1 304	1 148
Trade and other receivables	1 403	1 497
Trade and other payables	-1 864	-2 052
Capital employed	**5 356**	**5 314**

NET INTEREST BEARING DEBT	**31.12.2018**	**31.12.2017**
Interest bearing non-current liabilities	2 318	1 348
Interest bearing current liabilities	862	4 802
- Cash and cash equivalents	912	433
Net interest bearing debt	**2 268**	**5 717**

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