Arctic Paper SA

Annual Report

2017

ARCTIC PAPER

Translator's Explanatory Note
The following document is a free translation of the report of the above-mentioned Company. In the event of any discrepancy in interpreting the terminology in Polish version is binding.

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Management Board's Report

Arctic Paper SA 2017

Letter from the President of the Management Board of Arctic Paper S.A

Dear Ladies and Gentlemen,

2017 was a challenging year with rapidly increased pulp prices. Despite, we managed to control that by internal measures, gaining market shares and increased prices on paper. We made under these circumstances a very good year with a stable EBITDA. Besides we have developed a new strategy, "A Future in Paper - Strategic agenda 2022", which will be implemented in order to achieve a sustainably higher profitability of the Group.

Sincerely yours,
Per Skoglund
President of the Management Board of Arctic Paper S.A.

Description of the business of Arctic Paper

General information

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Trebruk AB (formerly Arctic Paper AB), the parent company of the Issuer In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in December 2008 and the Paper Mill Grycksbo (Sweden) in March 2010.

In 2012 and 2013 Arctic Paper S.A. acquired shares in Rottneros AB, a company listed at NASDAQ in Stockholm, Sweden, holding 100% shares in two Pulp Companies, Procurement Office and a company manufacturing food packaging.

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations are conducted through Paper Mills and Pulp Mills as well as Sales Offices and Procurement Office. The description of the Arctic Paper Capital Group was provided in the Management Board's Report from operations of the Arctic Paper S.A. Capital Group, published in the consolidated annual report for the year ended on 31 December 2017.

The Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.The Company has a Branch office, which is located in Sweden, Gothenburg.

Group Profile

The core business of Arctic Paper S.A. covers holding activities.

Subsidiaries

Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 on the NASDAQ stock exchange in Stockholm, Sweden. The Company now operates through its paper mills and pulp mills as well as its Sales Offices and Procurement Office.

In September and October 2008, the Issuer acquired Paper Mills in Poland and in Sweden, and Distribution Companies and Sales Offices involved in distribution and sale of paper manufactured by the Group in Europe. Three Distribution Companies – in Sweden, Norway and Denmark – were involved in distribution activities, offering our products as well as products of other paper manufacturers on a small scale.

Arctic Paper S.A. acquired shares and interests in Arctic Paper Kostrzyn, Arctic Paper Munkedals and the Distribution Companies and Sales Offices from Trebruk AB (formerly Arctic Paper AB) and Nemus Holding AB, now a majority shareholder of the Issuer.

In its expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in December 2008 and the Paper Mill Arctic Paper Grycksbo (Sweden) in March 2010.

In 2012 and 2013 Arctic Paper S.A. acquired shares in Rottneros AB, a company listed at NASDAQ in Stockholm, Sweden, holding 100% shares in two Pulp Companies, Procurement Office and a company manufacturing food packaging. The acquisition of Rottneros was partly effected by a swap of shares in Rottneros AB into shares in Arctic Paper S.A. Arctic Paper S.A. assumed control over the Rottneros Group on 20 December 2012. Since that day the stock of Arctic Paper has been listed at NASDAQ in Stockholm.

In connection with the Profitability Improvement Programme implemented in the Arctic Paper Group, the Distribution Companies in Sweden, Norway and Denmark discontinued their distribution activities by the end of December 2015 and since 2016 they have been acting as Sales Offices. Distribution functions have been transferred to factories.

As at 31 December 2017, Arctic Paper S.A. held investments in the following subsidiary companies:
- Arctic Paper Kostrzyn S.A. – Paper Mill in Kostrzyn nad Odrą (Poland);
- Arctic Paper Munkedals AB – Paper Mill in Munkedal (Sweden);
- Arctic Paper Sverige AB – a distribution company/sales office operating in Sweden;
- Arctic Paper Norge AS – a distribution company/sales office operating in Norway;
- Arctic Paper Danmark A/S – a distribution company/sales office operating in Denmark;
- Arctic Paper UK Limited – a sales office in the United Kingdom;
- Arctic Paper Baltic States SIA – a sales office covering the Baltic States;
- Arctic Paper Benelux S.A. – a sales office covering the Benelux countries;
- Arctic Paper Schweiz AG – a sales office in Switzerland;
- Arctic Paper Italia srl – a sales office in Italy;
- Arctic Paper France SAS – a sales office in France;
- Arctic Paper Espana SL – a sales office in Spain;
- Arctic Paper Papierhandels GmbH – a sales office in Austria;
- Arctic Paper Deutschland GmbH – a sales office in Germany;
- Arctic Paper Polska Sp. z o.o. – a sales office in Poland;
- Arctic Paper East Sp. z o.o. – a sales office in Ukraine;
- Arctic Paper Investment GmbH – a holding company established to acquire shares in the Paper Mill in Mochenwangen;
- Arctic Paper Investment AB – a holding company established for the purpose of acquisition of Grycksbo Paper Holding AB;
- Rottneros AB – a holding company with shares in the Paper Mills of Rottneros Bruk AB and Rottneros Vallvik AB, in the procurement office and in the company manufacturing food packaging
- Arctic Paper Finance AB – a holding company involved in attracting financing.

Information on percentage holdings in each subsidiary company is provided in the Company’s financial statements (note 5).

Changes in the capital structure of the Arctic Paper Group

In 2017 there were no changes to the capital structure of the Group.

Provided services

As a holding company, Arctic Paper S.A. receives dividend, interest on loans granted and revenues for the management services it provides for related entities operating within the Arctic Paper S.A. Capital Group.

Additionally, the company provides intermediation services in purchases of pulp for Group companies. The services are provided in two ways:
- by negotiating terms and conditions of pulp supplies to the Group and individual factories
- by direct pulp purchases by Arctic Paper S.A. and further re-sale to factories

In connection with restructuring activities in the Arctic Paper Group, at the beginning of 2016 a centralised logistics department started to operate within the structures of Arctic Paper S.A. The logistics department provides services in planning and coordinating transport to the paper mills in Kostrzyn, Grycksbo and Munkedals.

The assortment of products manufactured at the Paper Mills of the Arctic Paper Group was described in the consolidated annual report for 2017.

Modifications to the core management principles

In 2017 there were no material modifications to the core management principles.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 December 2017) 40.381.449 shares of the Group's Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Company. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2017 was 68.13% and has not changed until the date hereof.

as at 09.04.2018

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	*40 381 449*	*58,28%*
other entity	600 000	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

as at 31.12.2017

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
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	as at 13.11.2017			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
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The data in the above tables is provided as of the date of approval hereof and as of the publication date of the quarterly report for Q3 2017.

Market environment

The Company provides no services directly to external entities. The Company's financial condition and its ability to distribute dividend is primarily affected by the market environment in which the Paper and Pulp Mills controlled by the Company operate.

Information on the core products offered by the Group with details of their value and quantities and the share of each product in total sales of the Group as well as information on markets with a split into domestic and foreign markets and information on procurement sources of materials for production and services, are all provided in the consolidated annual report.

Development directions and strategy

The core objectives of the strategy of the Capital Group of which the Company is the Parent Entity are as follows:

Development in the Central and East European markets while maintaining a leading position in core markets
Our strategic objective for the coming years is to maintain our leading position in fine paper for West European markets while benefiting from the anticipated growth of the paper market in the Central and East European markets. The West European markets remain our strategic objective due to their size; however, we are of the opinion that the paper market in Central and Eastern Europe will grow faster than Western Europe. We expect the growth to rely on long-term growth of the low paper consumption per inhabitant and the anticipated transfer of printing capacities from Western Europe to Central and Eastern Europe. The core elements of the strategy cover the use of our competitive advantages resulting from the location and effective performance of our Paper Mill in Kostrzyn nad Odrą and the expansion of our sales network in Central and Eastern Europe.

In the near future we will be reviewing possibilities to increase sales by adding new products and an increase in new markets of specialist papers and design papers.

Continued improvement of production performance and distribution
A core element underlying the success of our business will be the ability to maintain cost effectiveness. In this connection we pursue, inter alia, the following initiatives:
- maximisation of energy effectiveness,
- careful HR management,

- use of our strong bargaining position to negotiate lower prices of pulp and for Paper Mills and other materials.
- maximisation of performance of our production lines and effectiveness of logistics systems.

Sales structure

In 2017, the sales structure by main sources of the Company's revenues was as follows:

PLN thousands	2017	share %	2016	share %
Services	40 799	44%	43 283	44%
Dividend	48 412	52%	54 643	55%
Interest on loans	4 420	5%	985	1%
Total	**93 632**	**100%**	**98 911**	**100%**

The Company provides management services to companies pursuant to agreements signed with those entities.

PLN thousand	2017	share %	2016	share %
Arctic Paper Kostrzyn S.A.	52 808	56%	56 014	57%
Rottneros AB	13 440	14%	18 560	19%
Arctic Paper Munkedals AB	11 296	12%	11 301	11%
Arctic Paper Grycksbo AB	12 000	13%	10 570	11%
Other	4 087	4%	2 466	2%
Total	**93 632**	**100%**	**98 911**	**100%**

Information on the seasonal or cyclical nature of business

The demand for the Group's products is subject to slight variations throughout the year. Decrease in demand for paper occurs each year during summer holidays and around Christmas when some printing houses, in particular in Western Europe are closed. Changes in the demand for paper are not material versus the demand for paper in other periods of the year. Changes in the demand for paper affect largely changes in demand for pulp.

Research and development

The Company has no direct expenses on research and development.

The Arctic Paper Group conducts primarily development works aimed at enhancing and modernising production processes and improving the quality of products on offer and the expanding the assortment thereof. In the period covered with this report, the Paper Mills carried out development works to improve production processes, in particular to shorten the idle time of paper machines as well as works aimed at improving the paper quality and extending the assortment and to improve paper quality properties.

New product development was an important aspect of the development works in 2017.

Environment

The description of the impact of environmental regulations on the operations of the Paper and Pulp Mills controlled by the Company is provided in the consolidated annual report.

Summary of financial results

Selected standalone income statement

PLN thousands	2017	2016	Change % 2017/2016
Sales revenues:	**93 632**	**98 911**	**(5,3)**
of which:			
Revenues from sales of services	*40 799*	*43 283*	*(5,74)*
Interest on loans	*4 420*	*985*	*348,56*
Dividend income	*48 412*	*54 643*	*(11,40)*
Profit on sales	90 725	89 021	1,9
% of sales revenues	*96,90*	*90,00*	*6,9 p.p.*
Selling and distribution costs	(2 855)	(4 072)	(29,9)
Administrative expenses	(39 171)	(34 571)	13,3
Other operating income	524	197	165,9
Other operating expenses	(77 764)	(70 000)	11,1
EBIT	**(28 541)**	**(19 425)**	**46,9**
% of sales revenues	*(30,48)*	*(19,64)*	*(10,8) p.p.*
EBITDA	**(28 077)**	**(19 023)**	**47,6**
% of sales revenues	*(29,99)*	*(19,23)*	*(10,8) p.p.*
Financial income	6 738	575	1 071,3
Financial expenses	(17 463)	(13 452)	29,8
Gross profit	**(39 266)**	**(32 302)**	**21,6**
Income tax	(396)	(214)	84,5
Net profit	**(39 662)**	**(32 516)**	**22,0**
% of sales revenues	*(42,36)*	*(32,87)*	*(9,5) p.p.*

Revenues, costs of sales and profit on sales

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations of the Group are conducted through Paper Mills and Pulp Mills as well as Distribution Companies, Sales Offices and Procurement Office. In 2017 the Company's standalone revenues amounted to PLN 93,632 thousand and included: dividend income (PLN 48,412 thousand), services provided to Group companies (PLN 40,799 thousand) and interest income on loans (PLN 4,420 thousand). In 2016, the standalone sales revenues amounted to PLN 98,911 thousand and included: dividend income (PLN 54,643 thousand), services provided to Group companies (PLN 43,283 thousand) and interest income on loans (PLN 985 thousand).

In 2017 and in 2016, the Company did not render services to the Pulp Mills of the Rottneros Group.

The internal costs of sales cover internal costs of providing logistics services (PLN 2,907 thousand).

Administrative expenses

In 2017 the general overheads amounted to PLN 39,171 thousand. They cover costs of the administration of the Company operation, costs of services provided to the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. The above costs include a group of costs that are related solely to statutory activities and cover, inter alia: audit costs of financial statements, functioning costs of the Supervisory Board, costs of periodic owners' inspections in the Company, etc.

Selling and distribution costs

In 2017 the Company recognised the amount of PLN 2.855 thousand of selling and distribution costs which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Other operating income and expenses

Other operating income amounted to PLN 524 thousand in 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 197 thousand. At the same time there was an increase of other operating expenses that reached the level of PLN 77,764 thousand (in 2016 it was PLN 70,000 thousand). The increase of other operating expenses was due primarily to the recognition in 2017 of impairment charges to the shares in Arctic Paper Investment AB (PLN 70,057 thousand).

Financial income and financial expenses

In 2017, the financial income amounted to PLN 6,738 thousand and was by PLN 6,163 thousand higher than generated in the equivalent period last year. At the same time, there was an increase of financial expenses from PLN 13,452 thousand in 2016 up to PLN 17,463 thousand.

The changes to financial income and expenses result also from FX differences which are disclosed as a net amount – as the difference between FX profit and loss which is presented as financial income in case of net FX profit or as financial expenses in case of FX losses. In 2016 the Company recorded net FX losses disclosed as financial expenses while in 2017 the situation was opposite – the Company disclosed FX surplus as financial income.

Profitability analysis

EBITDA in 2017 was PLN -28,077 thousand while in 2016 it was PLN -19,023 thousand.
EBIT in 2017 amounted to PLN -28,541 thousand as compared to PLN -19,425 thousand in the previous year.
The net loss in 2017 amounted to PLN -39,662 thousand as compared to the net loss of PLN -32,516 thousand in 2016.

PLN thousand	2017	2016	Change % 2017/2016
Profit on sales	90 725	89 021	1,9
% of sales revenues	*96,90*	*90,00*	*6,9 p.p.*
EBITDA	(28 077)	(19 023)	47,6
% of sales revenues	*(29,99)*	*(19,23)*	*(10,8) p.p.*
EBIT	(28 541)	(19 425)	46,9
% of sales revenues	*(30,48)*	*(19,64)*	*(10,8) p.p.*
Net profit	(39 662)	(32 516)	22,0
% of sales revenues	*(42,36)*	*(32,87)*	*(9,5) p.p.*
Return on equity / ROE (%)	(7,5)	(5,7)	(1,8) p.p.
Return on assets / ROA (%)	(4,2)	(3,3)	(0,9) p.p.

In 2017, return on equity was -7.5% while in 2016 it was -5.7%. Return on assets fell from -3.3% in 2016 to -4.2% in 2017.

Selected items of statement of financial position

PLN thousands	31/gru/17	31/gru/16	Change % 2017/2016
Fixed assets	751 157	809 158	(58 001)
Receivables	75 287	77 058	(1 771)
Other current assets	80 675	84 096	(3 422)
Cash and cash equivalents	36 943	10 863	26 080
Total assets	**944 061**	**981 176**	**(37 115)**
Equity	531 032	570 026	(38 994)
Short-term liabilities	205 815	133 979	71 836
Long-term liabilities	207 214	277 171	(69 958)
Total equity and liabilities	**944 061**	**981 176**	**(37 116)**

As at 31 December 2017 total assets amounted to PLN 944,061 thousand as compared to PLN 981,176 thousand at the end of 2016.

Fixed assets
At the end of December 2017 fixed assets accounted for about 79.6% of total assets and their share it total assets decreased versus December 2016 (83.5%).

Current assets
As at the end of December 2017, current assets amounted to PLN 192,904 thousand as compared to PLN 172,017 thousand at the end of 2016.

Equity
At the end of December 2017, the equity amounted to PLN 531,032 thousand as compared to PLN 570,026 thousand at the end of 2016.

The decrease of equity was primarily due to the net loss generated in 2017.

Short-term liabilities
As at the end of December 2017, short-term liabilities amounted to PLN 205,815 thousand (21.8 % of balance sheet total) as compared to PLN 133,979 thousand as at the end of 2016 (13.7 % of balance sheet total).

The material increase of short-term liabilities was primarily due to an increase of liabilities under loans resulting from the new financing contracted by the Group.

Long-term liabilities
As at the end of December 2017, long-term liabilities amounted to PLN 207,214 thousand (21.9 % of balance sheet total) as compared to PLN 277,171 thousand as at the end of 2016 (28.2 % of balance sheet total). The decrease of long-term liabilities was primarily due to a drop of the long-term portion of interest payable.

Debt analysis

	2017	2016	Change % 2017/2016
Debt-to-equity ratio (%)	77,8	72,1	5,7 p.p.
Equity to fixed assets ratio (%)	70,7	70,4	0,2 p.p.
Interest-bearing debt-to-equity ratio (%)	42,7	39,7	2,9 p.p.

As at the end of December 2017, the debt to equity ratio was 77.8% and was higher by 5.7 p.p. versus the end of December 2016.

The equity to asset ratio slightly grew from 70.4 % as at the end of 2016 to 70.7% as at the end of December 2017. The interest bearing debt to equity ratio was 42.7% as at the end of 2017 and was at the higher level as compared to the end of December 2016.
The changes to the Company's debt ratios are primarily due to the changed funding structure of the Group as described in section "Obtaining of new funding" of the Management Report in the Annual Report 2016.

Liquidity analysis

	2017	2016	Change % 2017/2016
Current ratio	0,94x	1,28x	(0,3)
Quick ratio	0,94x	1,28x	(0,3)
Acid test ratio	0,18x	0,08x	0,1

The current liquidity ratio and the fast liquidity ratio at the end of December 2017 amounted to 0.94x and were by 0.3 lower than at the end of December 2016. The cash liquidity ratio was 0.18x at the end of December 2017 and was slightly higher than in December 2016.

Selected items of standalone cash flow statement

PLN thousands	2017	2016	Change % 2017/2016
Cash flows from operating activities	114 289	(253 361)	(145,1)
of which:			
Gross profit	*(39 266)*	*(32 429)*	*21,1*
Depreciation/amortisation	*464*	*402*	*15,5*
Changes to working capital	*(9 609)*	*6 230*	*(254,2)*
Net interest and dividends	*14 474*	*6 182*	*134,1*
Increase / decrease of loans granted to subsidiaries	*78 129*	*(270 120)*	*(128,9)*
Other adjustments	*70 097*	*36 374*	*92,7*
Cash flows from investing activities	(12 582)	(3 122)	303,0
Cash flows from financing activities	(75 628)	257 911	(129,3)
Total cash flows	**26 080**	**1 428**	**1 726,7**

Cash flows from operating activities

In 2017, net cash flows from operating activities amounted to PLN 114,289 thousand as compared to PLN -253,361 thousand in 2016. The high flows from operating activities in 2017 were primarily affected by the change of payables under cash pooling.

Cash flows from investing activities

In 2017, cash flows from investing activities amounted to PLN -12,582 thousand as compared to PLN -3,122 thousand in 2016. The negative cash flows from investing activities in 2017 were primarily related to increased interests in subsidiary companies.

Cash flows from financing activities

In 2017 cash flows from financing activities amounted to PLN -75,628 thousand as compared to PLN 257,911 in 2016. In 2017 flows from financing activities were related to changing balances of working capital loans and repayment of borrowings.

Relevant information and factors affecting the financial results and the assessment of the financial standing

Key factors affecting the performance results

The operations of the Company are indirectly affected by factors that have direct impact on the business of the Group's operational units – Paper Mills and the factors include:
- macroeconomic and other economic factors;
- fine paper prices;
- prices of pulp, wood and energy;
- FX rate fluctuations.

The impact of the factors on the Group's business was described in detail in the consolidated annual report for 2017.

Unusual events and factors

In the period under the report there were no unusual events and/or other factors affecting Arctic Paper S.A.

Other material information

Factoring contract by Arctic Paper Munkedals AB
On 8 February 2017 Arctic Paper Munkedals AB as the seller and the Company as the guarantor entered into a factoring contract with assignment of receivables under the insurance contract with BGŻ BNP Paribas Faktoring sp. z o.o. as the factor. The contract provides for the provisions by the Factor of factoring services for AP Munkedals covering the acquisition of cash receivables due to AP Munkedals from its counterparties with the maximum factoring limit granted to AP Munkedals of PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP Munkedals fails to perform such obligations in whole in part within the time specified in the Factoring Contract. The Company's liability remains valid until compliance with all obligations under the Factoring Contract, however no longer than 36 months of its termination and is capped to the amount of PLN 52.5 million.

Cash – pooling with BGŻ BNP Paribas and BZWBK
On 1 June 2017, cash pooling in EUR was activated in EUR within the Arctic Paper Group with BGŻ BNP Paribas, followed by cash-pooling in PLN in August 2017 with BZWBK. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

Repayment of the loan from Mr Thomas Onstad
On 7 July 2017, Arctic Paper SA repaid the loan from the owner Mr Thomas Onstad of EUR 4,000 thousand with interest.

Repayment of debt under lease contracts at Arctic Paper Grycksbo AB
On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. In the same time th Company applied to the current consortium of the financing banks (Bank Zachodni WBK S.A. oraz Bank BGŻ BNP Paribas S.A.) to grant consent to contract financial indebtedness in the form of a term facility of up to PLN 25,820 thousand as an additional tranche under the facilities agreement of 9 September 2016, in order to finance or refinance repayment of Arctic Paper Grycksbo AB's indebtedness under a lease granted by Svenska Handelsbanken AB. Such consent was alredy granted as at 20 February 2018 by the Bondholders' Meeting. Currently the Company is completing the documentation regarding the abovementioned additional tranche.

Announcement of the strategic plan for the paper business

The Management Board of Arctic Paper has adopted a long term financial target of EBIT 10 percent. The Management Board has also adopted a new strategy for its paper business – A Future in Paper - Strategic Agenda 2022 – showing the way to a growing and more profitable business. The new general business strategy consists of six strategic initiatives:

- Growth by focusing on selected profitable segments and markets, among them speciality & premium products, Eastern Europe and new markets.
- New innovative products and grades developed in close collaboration with customers.
- Building stronger brands for premium and other segments, leading to higher revenue per ton paper.
- Optimization of all processes with the aim to reduce costs.
- Nurturing a performance culture among all employees built on clear targets and continuous measurement.
- A sustainable business built on recyclable products and renewable materials.

Implementation of the strategy has already begun, which means that different entities and functions are working with action plans based on these strategic initiatives.

Factors affecting the development of the Company

Information on market trends and on factors affecting the Company's financial results over the next year is provided in the consolidated annual report. Herebelow, there is a description of risk factors that directly affect the Company's business, other risk factors affecting the Company via its subsidiary companies, are described in detail in the consolidated annual report.

Risk factors

Risk factors related to the environment in which the Company operates
The sequence in which the risk factors are presented below does not reflect the likelihood of occurrence, extent or materiality of the risks.

Risk of changing legal regulations

The Company operates in a legal environment characterised with a high level of uncertainty. The regulations affecting our business have been frequently amended and there are no consistent interpretations which generates a risk of violating the existing regulations and the resultant consequences even if such breach was unintentional.

Risk related to disadvantageous global economic situation

The global economic situation is affected by the effects of the recent financial crisis, in particular the continued loss of trust on the part of consumers and entrepreneurs, concerns related to the availability and increasing costs of loans, decrease in consumer and investment spending, volatility and strength of capital markets. We anticipate that the difficult global economic conditions may continue to contribute to an overall decrease in demand and average prices of fine paper which may in turn adversely affect the dividend payable by subsidiary companies.

FX risk

The Company's revenues, expenses and results are exposed to the FX risk, in particular of PLN to EUR, SEK and other currencies since the Company has been paid dividend partly in EUR and in SEK. Thus FX rate fluctuations may have an adverse effect on the results, financial conditions and prospects of the Group.

Interest rate risk

The Company is exposed to interest rate risk in view of the existing interest-bearing debt. The risk is due to fluctuations of the reference interest rates WIBOR for debt in PLN. Unfavourable changes of interest rates may adversely affect the results, financial condition and prospects of the Company.

Risk factors relating to the business of the Company
The sequence in which the risk factors are presented below does not reflect the likelihood of occurrence, extent or materiality of the risks.

Risk related to retention and attraction of managerial staff and qualified personnel

The achievement of strategic objectives by the Company is subject to the know-how and experience of the professional managing staff and the ability to hire and retain qualified specialists. The Company may not be able to retain its managerial staff and other key specialists or to attract new specialists. If the Company is not able to attract and retain managerial staff and personnel, this may adversely affect its business, operational results and financial condition.

Risk related to the debt of the Company

In connection with the loan agreements signed on 9 September 2017 with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas SA) and the bond issue agreement, the Company has interest payable under the agreements.

Failure by the Group to comply with its obligations, including the agreed levels of financial ratios (covenants) resulting from the agreements, will result in default under those agreements. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

Risk related to the capacity of the Company to pay dividend

The Issuer is a holding company and therefore its capacity to pay dividend is subject to the level of potential disbursements from its subsidiary companies involved in operational activity, and the level of cash balances. Certain subsidiaries of the Group involved in operational activity may be subject to certain restrictions concerning disbursements to the Issuer. No certainty exists that such restrictions will have no material impact on the business, results on operations and capacity of the Group to distribute dividend.

In connection with the term and revolving loan agreements signed on 9 September 2017, agreements related to the bond issue pursuant to which on 30 September 2017 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 "Obtaining of new financing" of the Anuual Report 2016), the possibility of the Company to pay dividend is subject to satisfying certain financial ratios by the Group in two periods preceding such distribution (as the term is defined in the term and revolving loan agreements) and no occurrence of any events of default (as defined in the term and revolving loan agreements).

Supplementary information

Management Board position on the possibility to achieve the projected financial results published earlier

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2017 and has not published and does not intend to publish projections of financial results for 2017.

Dividend information

The Company did not distribute dividend in 2017.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2017, the Company's Supervisory Board was composed of:
- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016;

Until the date hereof, there were no changes to the composition of the Supervisory Board of the Parent Company.

The Management Board of the Parent Entity as at the publication hereof was composed as follows:
- Per Skoglund – President of the Management Board
- Göran Eklund – Member of the Management Board

At its meeting on 19 April 2017, the Supervisory Board did not extend the term of office expiring on 29 May 2017, for the following members of the Management Board: Mr Wolfgang Lübbert, Mr Jacek Łoś and Mr Michał Sawka.

At its meeting on 30 August 2017, the Supervisory Board dismissed Ms Małgorzata Majewska-Śliwa from the position of a Member of the Management Board effective on 1 September 2017 and appointed Mr Göran Eklund to that position.

Changes to the share capital of Arctic Paper S.A.

In 2017 there were no changes to the Company's share capital.

Information on purchase of treasury shares

In 2017 and 2016 the Company did not buy any treasury shares.

Remuneration paid to Members of the Management Board and the Supervisory Board

The table below presents information on the total amount of remuneration and other benefits paid or payable to members of the Management Board and of the Supervisory Board of the Parent Entity in the period from 1 January 2017 to 31 December 2017 (data in PLN thousand).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Other	Total
Management Board				
Per Skoglund	1 789	388	396	2 572
Göran Eklund*	416	75	6	497
Małgorzata Majewska-Śliwa**	721	-	370	1 091
Wolfgang Lübbert***	513	-	695	1 208
Jacek Łoś***	350	-	370	720
Michał Sawka***	380	-	500	879
Supervisory Board				
Per Lundeen	324	-	-	324
Roger Mattsson	207	-	-	207
Thomas Onstad	150	-	-	150
Mariusz Grendowicz	180	-	-	180
Maciej Georg	150	-	-	150

*for the period from 2017-09-01 until 2017-12-31
**for the period from 2017-01-01 until 2016-08-31
***for the period from 2017-01-01 until 2017-05-29

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2017 and as at the approval date of this annual report, Members of the Management Board are entitled to compensation in case of their resignation or dismissal from their respective positions with no valid reason or when they are dismissed or their employment is terminated as a result of a merger of the Issuer by take-over. The amount of such compensation will correspond to their remuneration for 6 to 24 months.

Changes in holdings of the Issuer's shares or rights to shares by persons managing and supervising Arctic Paper S.A.

Managing and supervising persons	Number of shares or rights to shares as at 09.04.2018	Number of shares or rights to shares as at 31.12.2017	Number of shares or rights to shares as at 13.11.2017	Change
Management Board				
Per Skoglund	20 000	20 000	10 000	10 000
Göran Eklund	-	-	-	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Maciej Georg	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Management of financial resources

As of the date hereof, the Company held sufficient funds and creditworthiness to ensure financial liquidity of Arctic Paper S.A.

Capital investments

In 2017 the Company invested its funds solely in standard short-term deposits, including overnight deposits.

Information on sureties, guarantees and contingent liabilities

In connection with the term and revolving loan agreements, agreements relating to the bond issue and the intercreditor agreement (described in more detail in the note "Obtaining new financing") on the annual report for 2016 signed on 9 September 2017, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims was established in favour of Bank BGŻ BNP Paribas S.A., acting as the Collateral Agent, that is

1. under Polish law – Collateral Documents establishing the following Collateral:
- financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
- mortgages on all properties located in Poland and owned by the Company and the Guarantors;
- registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
- powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
- subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

2. under Swedish law – Collateral Documents establishing the following Collateral:
- pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
- mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
- corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

In the period covered with this report, Arctic Paper S.A. and its subsidiary companies did not grant or receive any guarantee to loans or borrowings, and did not grant – totally to one entity or a subsidiary of such entity – guarantees with the total value exceeding equivalent of 10% of the Company's equity.

Material off-balance sheet items

Information on off-balance sheet items is provided in the Company's standalone financial statements for 2017 in note 27.

Assessment of the feasibility of investment plans

Arctic Paper S.A. plans no material investments to be made in 2017. Material investments are carried out by the Issuer's subsidiary entities, in particular the Paper Mills as described in the Consolidated Annual Report.

Information on court and arbitration proceedings and proceedings pending before public administrative authorities

During the period under report, Arctic Paper S.A. and its subsidiaries were not a party to any proceedings pending before a court, arbitration or public administrative authority, the individual or joint value of which would equal or exceed 10% of the Company's equity.

Information on transactions with related parties executed on non-market terms and conditions

During the period under report, Arctic Paper S.A. and its subsidiaries did not execute any material transactions with related entities on non-market terms and conditions.

Information on agreements resulting in changes to the proportions of share holdings

The Issue is not aware of any agreements that may in the future generate changes to the proportions of shareholdings by the existing shareholders and bond holders.

Information on remuneration of the entity authorised to audit the financial statements

As at 19 June 2017 the Company concluded an agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. regarding the review of the interim abbreviated standalone and consolidated financial statements of the Company and the Group for the period ended on 30 June 2017 and the audits of the financial statements and consolidated financial statements of the Group for the period ended on 31 December 2017. The contract has been concluded for the period of rendering the aforementioned services.

Other information on the entity authorised to audit the financial statements is provided in note 29 to the standalone financial statements for 2017.

Headcount

Information on the headcount is provided in note 33 to the standalone financial statements for 2017.

Non-financial information report

Apart from this Management Report the Company published a separate report - disclosure on non-financial information of Arctic Paper Capital Group.

Statement on the application of the Corporate Governance Rules

Corporate Governance Rules

On 1 January 2016 the new set of corporate governance rules became effective under the name of "Best Practice of WSE Listed Companies 2016", attached to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015.

The text of the "Best Practice of GPW Listed Companies 2016" is available at:
https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

Pursuant to Art. 29.3 of the Warsaw Stock Exchange Rules, the Management Board of ARCTIC PAPER S.A. on 4 January 2018 published an EBI report concerning the exclusion of certain rules of the Best Practice.

Information on the extent the Issuer waived the provisions of the Corporate Governance Rules

Arctic Paper S.A. was striving at applying corporate governance rules as set forth in the document Best Practices of GPW Listed Companies. In 2017 Arctic Paper S.A. did not apply the following rules:

Good practices – Information Policy, Communication with Investors
Principle No. 1.Z.1.10
"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: financial projections, if the company has decided to publish them – published at least in the last 5 years, including information about the degree of their implementation"

Explanation:
According to a decision by the Management Board, the Company does not publish projections.

Principle No. I.Z.1.15:
"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website"

Explanation:
The Company has not drafted a diversity policy; however, the Issuer's Management Board has been striving to employ competent, creative people, holding appropriate qualifications, professional experience and education, compliant with the Company's needs.

Principle No. 1.Z.1.16
"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting".

Explanation:
The Company does not plan to broadcast its General Meetings.

Principle No. I.Z.1.20
"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: audio or video record of the debates of the general meeting".

Explanation:
The Company does not plan to broadcast its General Meetings.

Good practices – Management Board and Supervisory Board
Recommendation II.R.2:
"Persons taking decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience".

Explanation:
Now the Company does not follow this recommendation which is due to the fact that the functions of members of the management board or the supervisory board have been entrusted to specific persons, irrespective of their gender, and on the basis of their professional background and experience. Nevertheless, the composition of the Issuer's bodies is largely subject to the decisions of the Company's shareholders and the recommendation may be complied with in the future.

Good practices – Systems and internal functions
Recommendation III.R.1
"The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity".

Explanation:
The recommendation is not followed due to the size of the Company. The Management Board is responsible for controlling the Company's operations, including controlling its internal operational processes along with risk management processes. However, the Company has no formalised procedures, instructions or specialised units managing internal processes, managing risks, compliance. The external entities that provide consultancy services, including legal consulting and performing audits, have regular and direct contact with the Company's Management Board. However, the Company does not exclude that the rule may be applied in the future.

Principle No. III.Z.1.
"The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function".

Explanation:
The rule is not followed due to the size of the Company. Now The Management Board is responsible for controlling the Company's operations, including controlling its internal operational processes along with risk management processes. However, the Company has no formalised procedures, instructions or specialised units managing internal processes, managing risks, compliance. The external entities that provide consultancy services, including legal consulting and performing audits, have regular and direct contact with the Company's Management Board. However, the Company does not exclude that the rule may be applied in the future.

Principle No. III.Z.2
Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee".

Explanation:
The Company has not established dedicated units involved in risk management, internal

audit and compliance. However, the Company states that managers of each division of the Company report directly to the relevant members of the Management Board. External entities providing consulting services, including legal consulting services and auditing companies, have direct and indirect contact with the Company's Management Board.

Principle No. III.Z.3.
"The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks".

Explanation:
The Company has no dedicated internal audit unit and there is no identified position of a person heading the function. An audit committee operates within the Supervisory Board. Minimum two members of the Supervisory Board meet the independence criteria as specified in the Company's Articles of Association and in the Regulations of the Supervisory Board. Additionally, persons performing audits and statutory auditors are independent of the Company.

Principle No. III.Z.4.
"The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and submit a relevant report".

Explanation:
An Audit Committee operates within the Supervisory Board. Members of the Supervisory Board are elected by the General Meeting.

Good practices – General Meeting and Relations with Shareholders
Recommendation IV.R.2
"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) real-life broadcast of the general meeting,
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
3) exercise, either in person or through a proxy, the right to vote at the General Shareholders Meeting".

Explanation:
Considering the need of multiple technical and organisational operations and the related costs and risks, the Company has not decided for the time being to hold electronic general meetings. With a gradual popularisation of the technical solution and ensuring appropriate security, the Company will re-consider implementing the recommendation.

Principle No. IV.Z.2.
"If there is justification due to the shareholding structure, the company ensures the public broadcast of the General Shareholders Meeting in real time".

Explanation:
Considering the need of multiple technical and organisational operations and the related costs and risks, the Company has not decided for the time being to organise electronic general meetings. With a gradual popularisation of the technical solution and ensuring appropriate security, the Company will re-consider implementing the recommendation.

Good practices – Remuneration
Recommendation VI.R.1
"The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy".

Explanation:
The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.
The remuneration of members of the Management Board is subject to negotiations. The remuneration of members of the Supervisory Board fall within the competences of the General Meeting. The amounts of remuneration should be subject to the scope of duties and responsibilities entrusted to individual members of the Company's supervisory and management bodies. Information on amounts of remuneration of members of the Company's bodies is disclosed in annual reports.

Recommendation VI.R.2
"The remuneration policy should be closely tied to the company's strategy, its short-and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds".

Explanation:
The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.
The remuneration of members of the Management Board is subject to negotiations. The remuneration of members of the Supervisory Board fall within the competences of the General Meeting. The amounts of remuneration should be subject to the scope of duties and responsibilities entrusted to individual members of the Company's supervisory and management bodies. Information on amounts of remuneration of members of the Company's bodies is disclosed in annual reports.

Principle No. VI.Z.4.
In its report from operations, the company should report on the remuneration policy including at least the following:
1) general information on remuneration system adopted by the Company,
2) information on conditions and amount of remuneration granted to each member of the Management Board, split into fixed and variable components, specifying key parameters used to determine variable components of remuneration and rules for the payment of retirement allowance and other payments related to termination of the employment contract, commission or other legal relationship of similar nature – separately for the Company and for entity belonging to the capital group,
3) information on non-financial components of remuneration assigned to individual members of the Management Board and key managers,
4) significant amendments of the remuneration policy in the last financial year or information about their absence,
5) assessment of the functioning of the remuneration policy from the viewpoint of implementation of its objectives, in particular long-term growth of value for shareholders and sustainability of the company.

Explanation:
The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.
The remuneration of members of the Management Board is subject to negotiations. The remuneration of members of the Supervisory Board fall within the competences of the General Meeting. The amounts of remuneration should be subject to the scope of duties and responsibilities entrusted to individual members of the Company's supervisory and management bodies. Information on amounts of remuneration of members of the Company's bodies is disclosed in annual reports.

Internal control and risk management systems with reference to the development processes of financial statements

The Management Board of Arctic Paper S.A. is responsible for the internal control system in the Company and in the Group and for its efficiency in the development process of consolidated financial statements and interim reports, prepared and published in compliance with the rules of the Regulation of the Minister of Finance on current and periodical disclosure by issuers of securities and conditions to recognise as equivalent the information that is required by the law in Non-Member States of 19 February 2009. The Company's financial division headed by the Financial Director is responsible for the preparation of the Group's consolidated financial statements and interim reports. The financial data underlying the Group's consolidated financial statements comes from monthly reporting packages and extended quarterly packages sent to the Issuer by Group member companies. After closing of the books for each calendar month, top management of the Group member companies analyse the financial results of the companies versus their budgets and the results generated in the previous reporting period.

The Group performs an annual review of its strategy and development prospects. The budgeting process is supported by medium- and top-level management of the Group member companies. The budget drafted for the year is accepted by the Company's Management Board and approved by the Supervisory Board. During the year, the Company's Management Board compares the generated financial results to the adopted budget.

The Company's Management Board systematically assesses the quality of internal control and risk management systems with reference to the preparation process of consolidated financial statements. On the basis of such review, the Company's Management Board found that as at 31 December 2017 there were no weaknesses that could materially affect the effectiveness of internal control with respect to financial reporting.

Shareholders that directly or indirectly hold significant packages of shares

Information on the shareholders that directly or indirectly hold large packets of shares is presented in the table below – the table presents the situation as of the publication date of the annual report.

					as at 09.04.2018
Shareholder		Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Thomas Onstad		**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via		40 981 449	59,36%	40 981 449	59,36%
	Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*
	other subsidiary	*600 000*	*0,87%*	*600 000*	*0,87%*
- directly		6 223 658	8,98%	6 223 658	8,98%
Others		**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total		22 082 676	31,87%	22 082 676	31,87%
Own shares		-	0,00%	-	0,00%
Total		**22 082 676**	**31,87%**	**22 082 676**	**31,87%**

Securities with special control rights

There are no securities in the Company with special control rights – in particular, no shares in the Company are privileged.

Information on major restrictions on transfer of title to the Issuer's securities and all restrictions concerning the exercising of voting rights

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. Such restrictions are specified in law, including in Chapter 4 of the Act on public offering and on conditions governing the introduction of financial instruments to organised trading and on public companies of 29 July 2005, Art. 11 and Art. 19 and Section VI of the Act on trading in financial instruments of 29 July 2005, the Act on Protection of Competition and Consumers of 16 February 2007 and the Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings of 20 January 2004.

Each share in Arctic Paper S.A. authorises to one vote at General Meetings. The Company's Articles of Association provide for no restrictions as to the exercising of voting rights of shares in Arctic Paper S.A., such as any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

A ban on voting rights by shareholders may result from Art. 89 of the Act on Offering of 29 July 2005 if such shareholder breaches the regulations provided in Chapter 4 of the Act on Offering. According to Art. 6 § 1 of the Code of Commercial Companies, if the parent company fails to notify its capital subsidiary company of the occurrence of a domination relationship within two weeks of the occurrence thereof, the voting rights will be suspended with respect to the shares held by the parent company representing more than 33% of the subsidiary's share capital.

Description of the principles of amending the Issuer's Articles of Association

Amendments to the Company's Articles of Association fall within the sole competences of the General Meeting.

Unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise, resolutions of the General Meeting require an absolute majority of votes.

Description of the functioning of the General Meeting

The rules of procedure of the General Meeting and its core competences result straight from applicable laws and are partly incorporated in the Company's Articles of Association.

The Company's Articles of Association are available at:
http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/Statut%20tekst%20jednolity_aktualny_2016_PL%2014.09.2016.pdf

General Meetings are held in accordance with the following basic rules:
- General Meetings are held in the Company's offices or in Warsaw;
- General Meetings may be ordinary or extraordinary;
- Ordinary General Meetings shall be held within six months after the end of the financial year;
- General Meetings are opened by the Chairperson of the Supervisory Board or a person designated by him/her which is followed by election of the Chair of the General Meeting;
- Voting shall be open unless a Shareholder demands a secret ballot or a secret ballot is required by the provisions of the Code of Commercial Companies;
- Unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise, resolutions of the General Meeting require an absolute majority of votes;
- In compliance with the Company's Articles of Association, the following matters fall within the exclusive competences of the General Meeting:
  - review and approval of the Management Board's report from operations of the Company and financial statements of the Company for the previous financial year;
  - granting a vote of approval to members of the Management Board and members of the Supervisory Board for the performance of their duties;
  - decisions concerning distribution of profit or coverage of losses;
  - changes to the business objects of the Company;
  - changes to the Articles of Association of the Company;
  - increase or decrease in the Company's share capital;
  - merger of the Company with another company or other companies, split of the Company or transformation of the Company;
  - dissolution and liquidation of the Company;
  - issues of convertible bonds or pre-emption bonds and issues of subscription warrants;

- purchase and sale of properties;
- sale and lease of the entire enterprise or an organised part thereof or establishment of limited rights in rem thereon;
- all other issues for which these Articles of Association or the Code of Commercial Companies require a resolution of the General Meeting.

General Meetings may approve resolutions in the attendance of minimum one half of the Company's share capital.

General Meetings approve resolutions with an absolute majority of votes unless the Articles of Association or applicable regulations require a qualified majority.

The shareholders' rights and the way to enforce them result explicitly from law that has been partly incorporated in the Company's Articles of Association.

Operation of the Issuer's managing and supervising bodies and its committees as well as information on the composition of those bodies

Management Board

Composition of the Management Board

- The Management Board is composed of one to five members, including President of the Management Board;
- The Management Board is appointed and dismissed by the Supervisory Board for a joint term of office;
- The term of office of members of the Management Board is 3 (three) years;
- When the Management Board is composed of more than one person, the Supervisory Board – upon a proposal by the President – may appoint up to three Deputy Presidents from among members of the Management Board. Deputy Presidents may be dismissed subject to a resolution of the Supervisory Board;
- A member of the Management Board may be dismissed by the Supervisory Board at any time;
- A member of the Management Board may be dismissed or suspended in their duties at any time by the General Meeting.

Core competences of the Management Board

- The Management Board directs the affairs of the Company and represents the Company.
- If the Management Board is composed of more than one person, declarations of intent on the Company's behalf shall be made by the President of the Management Board individually or two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a Proxy;
- The Management Board is obliged to exercise their duties with due diligence and comply with law, the Company's Articles of Association, approved regulations and resolutions of the Company's bodies; decisions shall be taken in line with reasonable economic risk with a view to the interests of the Company and its shareholders;
- The Management Board is obliged to manage the assets and business of the Company and perform its duties subject to due diligence required in business operations and subject to strict compliance with applicable laws, provisions of the Articles of Association and internal regulations as well as resolutions approved by the General Meeting and the Supervisory Board;
- The Company's Management Board shall not be entitled to take decisions on share issues and redemption.
- Each member of the Management Board shall be liable for any damage inflicted upon the Company as a result of their actions or omissions breaching the provisions of law or the Company's Articles of Association;
- The responsibilities of the Management Board include – in compliance with the Code of Commercial Companies – all affairs of the Company not reserved to the General Meeting of the Supervisory Board;
- Guided with the interests of the Company, the Management Board defines the strategy and core objectives of the Company's business;
- The Management Board shall comply with the regulations relating to confidential information within the meaning of the Act on Trading and to comply with all the duties resulting therefrom.

Otherwise, the individual members of the Management Board shall be responsible for their running of the affairs of the Company as resulting from the internal delegation of duties and functions approved by a decision of the Management Board. The Management Board may approve resolutions at meetings or outside meetings in writing or with the use of direct means of remote telecommunications. The Management Board approves resolutions with a majority of votes cast. Resolutions shall be valid if minimum one half of members of the Management Board are present at the meeting. In case of equal number of votes, the President of the Management Board shall have the casting vote.

The detailed mode of operation of the Management Board is set forth in the Regulations of the Management Board with its updated version available at:
http://www.arcticpaper.com/Global/IR%20Documents/Cororate%20Documents/Regulamin%20Zarzadu%20AP%20SA.pdf

The Management Board of the Company as at the publication hereof was composed as follows:
- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011).
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

Supervisory Board

Composition and organisation of the Supervisory Board

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a joint three-year term of office. A member of the Supervisory Board may be dismissed at any time;
- The Supervisory Board is composed of the Chairperson, Deputy Chairpersons and other members. The Chairperson of the Supervisory Board and Deputy Chairperson are elected by the Supervisory Board from among its members at the first meeting and – if so required – during the term of office in by-elections;
- Since the General Meeting approved resolutions on the first public issue of shares and having them listed, two members of the Supervisory Board have to be independent;
- When an independent member of the Supervisory Board is nominated, resolutions on the following matters require consent of minimum one independent member of the Supervisory Board:
  - any benefits to be provided by the Company and any entity related to the Company for members of the Management Board;
  - consent to the Company or its subsidiary entity to enter into a material agreement with a member of the Supervisory Board or of the Management Board and with their related entities, other than agreements concluded in the normal course of the Company's business subject to normal terms and conditions applied by the Company;
  - election of auditor to perform audits of the Company's financial statements;
- For the avoidance of any doubts, it is assumed that loss of the independent status by a member of the Supervisory Board and failure to appoint an independent member of the Supervisory Board shall not invalidate the decisions approved by the Supervisory Board. Loss by an Independent Member of their independent status during the performance of their function of a member of the Supervisory Board shall not affect the validity or expiry of their mandate;
- In case of expiry of the mandate of a Member of the Supervisory Board before the term of office, the other Members of the Supervisory Board shall be entitled to co-opt a new Member of the Supervisory Board is such vacated position by way of a resolution approved with an absolute majority of the other Members of the Supervisory Board. The mandate of such co-opted Member of the Supervisory Board shall expire if the first Ordinary General Meeting to be held after such Member has been co-opted, fails to approve such Member. At any time, only two persons elected as Members of the Supervisory Board in the co-option procedure and who were not approved as candidates by the Ordinary General Meeting, may act as Members of the Supervisory Board. Expiry of the mandate of a co-opted Member of the Supervisory Board as a result of failure to approve such candidate by the Ordinary General Meeting may not be treated as finding any resolution approved with the participation of such Member as invalid or ineffective.
- Chairperson and Deputy Chairperson of the Supervisory Board:
  - maintain contact with the Company's Management Board;
  - manage the operations of the Supervisory Board;
  - represent the Supervisory Board in external contacts and in contacts with the other bodies of the Company, including in contacts with members of the Company's Management Board;

  - › approve the presentation of initiatives and proposals submitted for meetings of the Supervisory Board;
  - › take other actions as specified in the Company's Regulations and Articles of Association;
- Members of the Supervisory Board should not resign from their function during the term of office if that could prevent the operation of the Supervisory Board, in particular prevent timely approval of major resolutions;
- Members of the Supervisory Board shall be loyal to the Company. Should a conflict of interests arise, members of the Supervisory Board shall report it to the other members of the Supervisory Board and refrain from participating in discussions and from voting on the issue to which the conflict of interests is related;
- Members of the Supervisory Board shall comply with law, the Company's Articles of Association and Regulations of the Supervisory Board.

Competences of the Supervisory Board:

- The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation;
- The Supervisory Board approves resolutions, issues recommendations and opinions and submits proposals to the General Meeting;
- The Supervisory Board may not issue binding instructions to the Management Board concerning the management of the Company's affairs;
- Disputes between the Supervisory Board and the Management Board shall be resolved by the General Meeting;
- In order to exercise their rights, the Supervisory Board may review the business of the Company in any respect, request the presentation of any documents, reports and clarification from the Management Board and issue opinions on issues related to the Company and submit proposals and initiatives to the Management Board;
- Apart from other issues specified in law or in the Company's Articles of Association, the competences of the Supervisory Board include, inter alia:
  - › review of the financial statements of the Company;
  - › review of the Management Board's report from operations of the Company and proposals of the Management Board concerning profit distribution and coverage of losses;
  - › submission to the General Meeting of an annual report from results of the above reviews;
  - › appointment and dismissal of members of the Management Board, including the President and Deputy Presidents, and setting the remuneration of members of the Management Board;
  - › appointment of the auditor of the Company;
  - › suspension of Members of the Management Board in their functions for valid reasons;
  - › approval of annual financial plans for the capital group of which the Company and its subsidiary companies are members;
  - › approving terms and conditions of bond issues by the Company (other than convertible bonds or bonds with priority rights, referred to in Art. 393.5 of the Code of Commercial Companies) and issues of other debt securities, provision of consent to contract financial liabilities or taking actions resulting in contracting any financial liabilities, such as borrowings, loans, overdraft facilities, conclusion of factoring, forfaiting, lease contracts and other generating liabilities in excess of PLN 10,000,000;
  - › approving the principles and amounts of remuneration of members of the Management Board and other persons in key managerial functions in the Company as well as approval of any incentive programme, including incentive programmes for members of the Management Board, persons in key managerial functions in the Company or any persons cooperating with or related to the Company, including incentive programmes for employees of the Company;
- Annually the Supervisory Board submits to the General Meeting a brief assessment of the Company's condition ensuring that it is made available to all shareholders at a time that they are able to review it before the Ordinary General Meeting;
- The Supervisory Board concludes contracts with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. The Supervisory Board may authorise by way of a resolution one or more of its members to perform such legal actions.

The Supervisory Board may approve resolutions in writing or with the use of direct means of remote telecommunications. Resolutions approved as specified above shall be valid if all members of the Supervisory Board were notified of the content of the draft resolution. The approval date of the resolution approved as above shall be equivalent to the date of signing by the last member of the Supervisory Board.

Resolutions of the Supervisory Board may be approved when all members have been notified by registered letter, fax or e-mail message, sent minimum 15 days in advance and the meeting is attended by a majority of members of the Supervisory Board. Resolutions may be approved without formal convening a meeting when all members of the Supervisory Board agreed to vote on the specific issue or to the content of the resolution to be approved.

Resolutions of the Supervisory Board require a simple majority of votes; in case of equal votes, the Chairperson of the Supervisory Board shall have the casting vote.

The detailed mode of operation of the Supervisory Board is set forth in the Regulations of the Supervisory Board with its updated version available at:
http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/1_11_2016_appendix%20PL_AP%20SA%20-%20Regulamin%20Rady%20Nadzorczej_fin.pdf

The Supervisory Board of the Company as at the publication hereof was composed as follows:
- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent member).

Audit Committee

Composition and organisation of the Audit Committee

- The Audit Committee is composed of minimum three members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members in compliance with the Articles of Association and Regulations of the Supervisory Board. Minimum one member of the Audit Committee shall hold qualifications and experience in the sphere of accounting and finances;
- Members of the Audit Committee shall be appointed for three-year terms of office, however not longer than the term of office of the Supervisory Board;
- The Chairperson of the Audit Committee, elected with a majority of votes from among its members, shall be an independent member;
- The Audit Committee operates on the basis of the Act on Statutory Auditors, Best Practice of GPW Listed Companies, Regulations of the Supervisory Board and the Regulations of the Audit Committee;
- The Audit Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
- The Audit Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions;

Competences of the audit committee

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues of proper implementation and control of the financial reporting processes in the Company, effectiveness of the internal control and risk management systems and cooperation with statutory auditors;
- The tasks of the Audit Committee resulting from supervising the Company's financial reporting process, ensuring the effectiveness of the Company's internal control systems and monitoring of internal audit operations, include in particular:
  - › control if the financial information provided by the Company is correct, including the accuracy and consistency of the accounting principles applied in the Company and its Capital Group as well as the consolidation principles of financial statements;
  - › assessment minimum once a year of the internal control and management systems in the Company and its Capital Group in order to ensure adequate recognition and management of the Company;
  - › ensuring the effective functioning of internal control, in particular by providing recommendations to the Supervisory Board with respect to:

  - › strategic and operational internal audit plans and material modifications to such plans;
  - › internal audit policies, strategy and procedures, developed in compliance with the approved internal audit standards;
  - › audits of specific areas of the Company's operations;
- The tasks of the Audit Committee resulting from monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, include in particular:
  - › issue of recommendations to the Supervisory Board relating to the election, appointment and re-appointment and dismissal of the entity acting as the statutory auditor;
  - › control of independence and impartiality of the statutory auditor, in particular with a view to replacing the statutory auditor, the level of its remuneration and other relationships with the Company;
  - › verification of the effectiveness of the works performed by the statutory auditor;
  - › review of reasons of resignation by the statutory auditor;
- The Audit Committee may resort to advisory services and assistance by external legal, accounting or other advisers if it finds it necessary to perform its duties;
- The Audit Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

Meetings of the Audit Committee shall be held minimum twice a year.

As at 18 September 2017, the Audit Committee was composed of:
- Mariusz Grendowicz
- Roger Mattsson,
- Maciej Georg.

The detailed mode of operation of the Audit Committee is set forth in the Regulations of the Audit Committee.

Remuneration Committee

Composition and organisation of the Remuneration Committee

- The Remuneration Committee is composed of minimum two members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members in compliance with the Articles of Association and Regulations of the Supervisory Board.
- Members of the Remuneration Committee shall be appointed for three-year terms of office, however not longer than the term of office of the Supervisory Board;
- The Chairperson of the Remuneration Committee shall be elected with a majority of votes of its members;
- The Remuneration Committee operates pursuant to the Regulations of the Supervisory Board and the Regulations of the Remuneration Committee;
- The Remuneration Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
- The Remuneration Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions.

Competences of the Remuneration Committee

- The basic task of the Remuneration Committee is advisory support to the Supervisory Board on issues related to remuneration policy, bonus policy and other issues related to the remuneration of the employees, members of the Company's authorities and the authorities of Capital Group companies;
- The tasks of the Remuneration Committee resulting from supervision over the Company's remuneration policy and ensuring the effective functioning of the Company's remuneration policy, is to provide recommendations to the Supervisory Board in particular with respect to:
  - › approval and modifications to the remuneration principles of member of the Company's bodies;
  - › the amount of total remuneration to members of the Company's Management Board;
  - › legal disputes between the Company and Members of the Management Board with respect to the tasks of the Committee;

  - › proposing remuneration and approving additional benefits to individual members of the Company's bodies, in particular under managerial option plans (convertible into shares of the Company);
  - › strategy of the Company's remuneration and bonus policies and HR policies;
- The Remuneration Committee may resort to advisory services and assistance by external legal or other advisers if it finds it necessary to perform its duties;
- The Remuneration Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

Meetings of the Remuneration Committee shall be held minimum twice a year, on dates designated by its Chairperson.
From 9 February 2017 the Remuneration Committee was operating in the following composition:
- Per Lundeen
- Thomas Onstad
- Roger Mattsson

The detailed mode of operation of the Remuneration Committee is set forth in the Regulations of the Remuneration Committee.

Risk Committee

Composition and organisation of the Risk Committee

- The Risk Committee is composed of minimum three members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members. Minimum one member of the Risk Committee shall be independent and hold qualifications and experience in the sphere of finances;
- Members of the Risk Committee shall be appointed for three-year terms of office, however not longer than the term of office of the Supervisory Board;
- The Chairperson of the Risk Committee shall be elected with a majority of votes of its members;
- The Risk Committee operates on the basis of commonly accepted corporate risk management models (e.g. COSO-ERM);
- The Risk Committee performs advisory and consulting functions, operates as a collective body within the Company’s Supervisory Board;
- The Risk Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions;

Competences of the Risk Committee

- The basic task of the Risk Committee is advisory support to the Supervisory Board on issues related to the proper identification, assessment and control of potential risks, i.e. opportunities and threats to realization of the Company’s strategic goals, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts);
- The tasks of the Risk Committee resulting from the supervision over the risk management process, include in particular:
  - › Supervision over correct identification, analysis and assigning priority to types of risk inherent in the operational strategy and business pursued;
  - › Confirmation to the identified risk appetite of the Company;
  - › Verification if actions used to mitigate risk are planned and implemented so that the risk is mitigated to a level acceptable by the Company;
  - › Monitoring verifying correct risk assessment by the Management Board and the effectiveness of control tools;
  - › Supervision over correct notification of stakeholders on the risks, risk strategies and control tools.
- The Risk Committee may resort to advisory services and assistance by external advisers if it finds it necessary to perform its duties;

Meetings of the Risk Committee shall be held minimum twice a year.
From 22 September 2016 the Risk Committee was operating in the following composition:
- Per Lundeen

- Mariusz Grendowicz
- Roger Mattsson

Information compliant with the requirements of Swedish regulations concerning corporate governance.

Arctic Paper S.A. is a company registered in Poland which stock has been admitted to trading at the Warsaw Stock Exchange and at NASDAQ in Stockholm. The Company's primary market is in Warsaw with a parallel market in Stockholm. Companies not registered in Sweden which shares have been admitted to trading at NASDAQ in Stockholm are obliged to comply with

- the corporate governance rules in force in the country of their registration or
- the corporate governance rules in force in the country where they have their primary trading market, or
- the Swedish the corporate governance code (hereinafter the "Swedish Code").

Arctic Paper S.A. follows the principles set forth in the "Best Practice of GPW Listed Companies 2016" (hereinafter the "Good Practice") that may be applied by companies listed at the Warsaw Stock Exchange and not the Swedish Code. As a result, the conduct of Arctic Paper S.A. is different from the one set forth in the Swedish Code in the following material aspects.

General Meeting of Shareholders

The core documents related to General Meetings of Shareholders, such as notices, reports and approved resolutions, are made in Polish and in English instead of Swedish.

Appointment of the Company's bodies and auditors

The Polish corporate governance model provides for a two-tier system of the company's bodies which is composed of the Management Board being the executive body appointed by the Supervisory Board which in turns supervises the company's operations and is appointed by the General Meeting of Shareholders. Auditors are selected by the Supervisory Board.

Neither the Good practice, nor any other Polish regulations require the establishment of a commission in the company to elect candidates and therefore such commission does not exist among the bodies of the company. Each shareholder may propose candidates to the Supervisory Board. Appropriate information on candidates proposed to the Supervisory Board is published on the company's website with appropriate advance so that all shareholders could take an informed decision when voting on the resolution appointing a new member of the Supervisory Board.

Tasks of the bodies of the Company

In compliance with the two-tier system of the company's bodies, the tasks usually performed by the management of Swedish-registered companies are performed by the Management Board or the Supervisory Board of companies subject to Polish law.

In accordance with the Polish applicable regulations, members of the Management Board, including its General Director who is the President of the Management Board, may not get involved in competitive activities outside the company. Pursuing of other business outside the company is not regulated either in the Good Practice or other Polish regulations; however, certain restrictions are usually incorporated in individual employment contracts.

Size and composition of the Company's bodies

The composition of the Supervisory Board should reflect the independence criteria, just like those specified in the Swedish Code. However, the Management Board being the executive body is composed of persons in executive positions at Arctic

Paper S.A., and these members may not be treated as independent of the Company. The terms of office of members of the Management Board – just like the members of the Supervisory Board – lasts three years.

Chairpersons of the bodies of the Company

It is the Supervisory Board and not the General Meeting that elects the chairperson and the deputy chairperson from its members.

Procedures of the bodies of the Company

The Regulations of the Management Board are approved by the Supervisory Board, and the Regulations of the Supervisory Board are approved by the Supervisory Board. The Regulations are not reviewed each year – they are reviewed and modified as need arises. The same principles apply to regulations of committees operating within the Supervisory Board that are approved by the Supervisory Board. The operation of the General Director is not regulated separately since he/she also acts as the president of the Management Board.

Remuneration of members of the bodies of the Company and managerial staff

The rules of remuneration and the amount of remuneration of members of the Management Board are set by the Supervisory Board and the Remuneration Committee acting with the Supervisory Board. The remuneration of members of the Supervisory Board fall within the competences of the General Meeting of Shareholders. Incentive programmes are set up by the Supervisory Board. Members of the Supervisory Board are entitled to participate in such programmes established for the managerial staff. There are no restrictions as to the amount of remuneration during the employment contract notice period or to the amount of severance pay.

Information on corporate governance

The Polish corporate governance principles do not require the same detail as to the disclosed information as required by the Swedish Code. However, information on members of the company's bodies, company’s Articles of Association, internal regulations and a summary of material differences between the Swedish and Polish approach to corporate governance and shareholders’ rights is published on the company’s website.

Statements of the Management Board

Accuracy and reliability of the presented reports

Members of the Management Board of Arctic Paper S.A. represent that to the best of their knowledge:
The financial statements of Arctic Paper S.A. for the year ended on 31 December 2017 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect Company's economic and financial condition and its financial result for 2017 in a true, reliable and clear manner.

The Management Board's Report from operations of Arctic Paper S.A. in 2017 contains a true image of the development, achievements and condition of Arctic Paper S.A., including a description of core hazards and risks.

Appointment of the entity authorized to audit financial statements

Members of the Management Board of Arctic Paper S.A. represent that Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. – the entity authorised to audit financial statements that reviewed the annual financial statements of Arctic Paper S.A., was selected in compliance with applicable laws and that the entity and the auditors that performed the audit complied with the criteria to issue an impartial and independent opinion on the audited annual financial statements, in compliance with the applicable regulations and professional standards.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	9 April 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	9 April 2018	

Financial statement

for the year ended on 31 December 2017
together with independent auditor's report

Selected standalone financial data

	For the period from 01.01.2017 to 31.12.2017 000'PLN	For the period from 01.01.2016 to 31.12.2016 000'PLN	For the period from 01.01.2017 to 31.12.2017 000'EUR	For the period from 01.01.2016 to 31.12.2016 000'EUR
Sales revenues	93 632	98 911	21 988	22 666
Operating profit (loss)	(28 541)	(19 425)	(6 702)	(4 451)
Gross profit (loss)	(39 266)	(32 302)	(9 221)	(7 402)
Net profit (loss) from continuing operations	(39 662)	(32 516)	(9 314)	(7 451)
Net profit (loss) for the financial year	(39 662)	(32 516)	(9 314)	(7 451)
Net cash flows from operating activities	114 289	(253 361)	26 839	(58 059)
Net cash flows from investing activities	(12 582)	(3 122)	(2 955)	(715)
Net cash flows from financing activities	(75 628)	257 911	(17 760)	59 102
Change in cash and cash equivalents	26 080	1 428	6 124	327
	-	-	-	-
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	(0,57)	(0,47)	(0,13)	(0,11)
Diluted EPS (in PLN/EUR)	(0,57)	(0,47)	(0,13)	(0,11)
Mean PLN/EUR exchange rate*			4,2583	4,3638

	As at 31 December 2016 000'PLN	As at 31 December 2015 000'PLN	As at 31 December 2016 000'EUR	As at 31 December 2015 000'EUR
Total assets (as at 31/12/2016 and 31/12/2015)	944 061	981 176	226 345	221 785
Long-term liabilities (as at 31/12/2016 and 31/12/2015)	207 214	277 171	49 681	62 652
Short-term liabilities (as at 31/12/2016 and 31/12/2015)	205 815	133 979	49 345	30 285
Equity (as at 31/12/2016 and 31/12/2015)	531 032	570 026	127 318	128 849
Share capital (as at 31/12/2016 and 31/12/2015)	69 288	69 288	16 612	15 662
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	7,66	8,23	1,84	1,86
Diluted book value per share (in PLN/EUR)	7,66	8,23	1,84	1,86
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**			4,1709	4,4240

* - Profit and loss and cash flow statement items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing in the period that the presented data refers to.

** - Balance sheet items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Standalone financial statements

Profit and loss account

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Continuing operations			
Revenues from sales of services	*28*	40 799	43 283
Interest income on loans	*28*	4 420	985
Dividend income	*28*	48 412	54 643
Sales revenues	*11*	93 632	98 911
Interest expense to related entities and internal costs of sale of logistics services		(2 907)	(9 890)
Profit (loss) on sales		**90 725**	**89 021**
Other operating income	*12.1*	524	197
Selling and distribution costs	*12.4*	(2 855)	(4 072)
Administrative expenses	*12.5*	(39 171)	(34 571)
Impairment allowance to assets		(77 057)	(69 949)
Other operating expenses	*12.2*	(707)	(51)
		31 December 2016 (revised)	1 January 2016 (revised)
Operating profit (loss)		**(28 541)**	**(19 425)**
Financial income	*12.3*	6 738	575
Financial expenses	*12.4*	(17 463)	(13 452)
Gross profit (loss)		**(39 266)**	**(32 302)**
Income tax	*13.1*	(396)	(214)
Net profit (loss) from continuing operations		**(39 662)**	**(32 516)**
Discontinued operations		-	-
Profit (loss) for the financial year from discontinued operations		-	-
Net profit (loss) for the reporting period		**(39 662)**	**(32 516)**
Profit (loss) per share in PLN:			
– basic earnings from the profit (loss) for the period	*14*	(0,57)	(0,47)
– basic earnings from the profit (loss) from continuing operations for the period		(0,57)	(0,47)
– diluted earnings from the profit (loss) for the period	*14*	(0,57)	(0,47)
– diluted earnings from the profit (loss) from the continuing operations for the period		(0,57)	(0,47)

Statement of total comprehensive income

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Net profit (loss) for the reporting period		(39 662)	(32 516)
Items to be reclassified to profit/loss in future reporting periods:			
Measurement of hedging instruments	*31.3*	744	(4 580)
FX differences on translation of foreign operations	*22.2*	817	(60)
Other total comprehensive income		1 561	(4 520)
Total comprehensive income		**(38 101)**	**(37 036)**

Balance sheet

	Note	As at 31 December 2017	As at 31 December 2016 (revised)	As at 1 January 2016 (revised)
ASSETS				
Fixed assets				
Fixed assets	*16*	1 940	1 979	2 108
Intangible assets	*17*	1 614	1 332	1 322
Shares in subsidiaries	*18.1*	678 313	741 674	777 605
Other financial assets	*18.2*	68 042	62 905	0
Other non-financial assets	*18.3*	1 248	1 268	1 103
		751 157	809 158	782 138
Current assets				
Trade and other receivables	*20*	75 118	76 687	81 928
Income tax receivables		168	371	193
Other financial assets	*18.2*	74 157	77 332	12 683
Other non-financial assets	*18.3*	6 518	6 765	2 689
Cash and cash equivalents	*21*	36 943	10 863	9 435
		192 904	172 017	106 928
TOTAL ASSETS		944 061	981 176	889 066

Balance sheet cont.

	Note	As at 31 December 2017	As at 31 December 2016 (revised)	As at 1 January 2016 (revised)
EQUITY AND LIABILITIES				
Equity				
Share capital	*22.1*	69 288	69 288	69 288
Reserve capital	*22.3*	447 641	447 641	447 641
Other reserves	*22.4*	116 300	148 200	147 871
FX differences on translation	*22.2*	1 167	350	290
Retained earnings / Accumulated losses		(103 364)	(95 453)	(57 266)
Total equity		**531 032**	**570 026**	**607 823**
Long-term liabilities				
Interest-bearing loans, borrowings and bonds	*24*	205 339	275 514	203 357
Provisions	*25*	1 551	1 357	1 151
Other financial liabilities		323	300	390
Accruals and deferred income	*26.2*	-	-	103
		207 214	**277 171**	**205 001**
Short-term liabilities				
Interest-bearing loans, borrowings and bonds	*24*	132 477	48 894	788
Trade payables	*26.1*	59 237	73 472	69 593
Other financial liabilities		4 258	4 486	187
Other short-term liabilities	*26.1*	1 631	2 072	1 688
Income tax liability		128	-	-
Accruals and deferred income	*26.2*	8 084	5 056	3 985
		205 815	**133 979**	**76 241**
Total liabilities		**413 029**	**411 151**	**281 242**
TOTAL EQUITY AND LIABILITIES		**944 061**	**981 176**	**889 065**

Cash flow statement

	Note	Year ended 31 December 2017	Year ended 31 December 2016 (revised)
Cash flows from operating activities			
Gross profit (loss)		**(39 266)**	**(32 302)**
Adjustments for:			
Depreciation/amortisation	*12.6*	464	402
Loss on exchange rate differences		(4 195)	2 688
Impairment of assets	*34*	75 236	38 768
Net interest and dividends	*34*	14 474	6 182
Increase / decrease in receivables and other non-financial assets		1 771	1 001
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities		(14 675)	4 262
Change in accruals and prepayments		3 295	967
Change in provisions		194	206
Income tax paid	*34*	(268)	(392)
Change to liabilities due to cash-pooling		82 978	-
Increase / decrease of loans granted to subsidiaries	*34*	(4 850)	(270 120)
Other		(869)	(5 022)
Net cash flows from operating activities		**114 289**	**(253 361)**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		38	-
Purchase of tangible fixed and intangible assets		(745)	(283)
Increase of interests in subsidiaries		(11 875)	(2 839)
Net cash flows from investing activities		**(12 582)**	**(3 122)**
Cash flows from financing activities			
Repayment of leasing liabilities		(58)	-
Repayment of loans		(30 575)	-
Increase / decrease in overdrafts		(48 023)	-
Loans, bonds received	*34*	16 216	263 446
Interest paid		(13 187)	(5 536)
Net cash flows from financing activities		**(75 628)**	**257 911**
Cash and cash equivalents at the beginning of the period	*21*	**10 863**	**9 435**
Change in cash and cash equivalents		26 080	1 428
Cash and cash equivalents at the end of the period	*21*	**36 942**	**10 863**

Statement of changes in equity

	Note	Share capital	Reserve capital	Translation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2017		69 288	447 641	350	148 200	(95 452)	570 026
Net profit / (loss) for the period		-	-	-	-	(39 662)	(39 662)
Other comprehensive income for the period	*22.2*	-	-	817	744	-	1 561
Total comprehensive income for the period		-	-	817	744	(39 662)	(38 101)
Profit distribution	*22.4*	-	-	-	(32 644)	32 644	-
Settlement of the tax group in Sweden		-	-	-	-	(894)	(894)
As at 31 December 2017		69 288	447 641	1 167	116 300	(103 364)	531 032

	Note	Share capital	Reserve capital	Translation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2016		69 288	447 641	290	147 871	3 870	668 958
Adjustment for previous years' errors						(61 136)	(61 136)
Net profit / (loss) for the period		-	-	-	-	(32 516)	(32 516)
Other comprehensive income for the period		-	-	60	(4 580)	-	(4 520)
Total comprehensive income for the period		-	-	60	(4 580)	(32 516)	(37 036)
Profit distribution		-	-	-	4 909)	(4 909)	-
Settlement of the tax group in Sweden		-	-	-	-	(761)	(761)
As at 31 December 2016		69 288	447 641	350	148 200	(95 452)	570 026

Accounting principles (policies) and additional explanatory notes

1. General information

The financial statements of Arctic Paper S.A cover the year ended on 31 December 2017 and contain comparative data for the year ended on 31 December 2016.

Arctic Paper S.A. (hereinafter: ("Company", "Entity") is a joint stock company established with Notary deed on 30 April 2008 with its stock publicly listed.

The Company's registered office is located in Poznań at ul. Jana Henryka Dąbrowskiego 334A. The Company has a Branch office, which is located in Sweden, Gothenburg.

The Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944.

The Company holds statistical number REGON 080262255.

The duration of the Company is indefinite.

The main area of the Company's business activity is holding activity for the benefit of the Arctic Paper Capital Group.

Nemus Holding AB is the direct parent entity to the Company. The ultimate parent company of Arctic Paper Group is Incarta Development SA.

2. Identification of the consolidated financial statements

The Company prepared its consolidated financial statements for the year ended on 31 December 2017 which were approved for publishing on 9 April 2018.

3. Composition of the Company's Management Board

As on 31 December 2017, the Management Board of the Company consisted of:
- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

At its meeting on 19 April 2017, the Supervisory Board did not extend the term of office expiring on 29 May 2017, for the following members of the Management Board: Mr Wolfgang Lübbert, Mr Jacek Łoś and Mr Michał Sawka.

At its meeting on 30 August 2017, the Supervisory Board dismissed Ms Małgorzata Majewska-Śliwa from the position of a Member of the Management Board effective on 1 September 2017 and appointed Mr Göran Eklund to that position.

From 31 December 2017 until the publication date of the financial statements no changes in the composition of the Management Board of the Company occurred.

4. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 9 April 2018.

5. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Group profile	Share	
			31.12.2017	31.12.2016
Arctic Paper Kostrzyn S.A.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%
Arctic Paper Italia srl	Italy,Via Cavriana 7, 20 134 Milano	Trading company	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Trading company	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading company	100%	100%
Arctic Paper Finance AB (previous Arctic Ene	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Rottneros AB	Sweden, Sunne	Pulp production	51,27%	51,27%

As at 31 December 2017 and as at 31 December 2016 the share in the overall number of votes held by the Company in its subsidiary entities was equal to the share of the Company in the share capital of those entities.

6. Material values based on professional judgement and estimates

In the process of applying accounting policies to the areas presented below, professional judgement of the management staff had the most significant effect, apart from accounting estimations.

6.1. Deferred income tax asset

Due to the uncertainty regarding utilisation in future periods of tax losses recorded in 2012-2017, the Management Board decided not to create a deferred income tax asset for tax losses. Furthermore, the Management Board decided to create a deferred income tax asset up to the amount of the deferred tax provision.

6.2. Impairment of assets in subsidiaries

The Management Board follows a prudent policy of investments in subsidiaries related to the Mochenwangen Paper Mill and for that reason all investments in those companies were written-off when incurred. The greatest amount was connected with receivables in the amount of PLN 1,822 thousand.

As at 31 December 2017 impairment tests were held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The tests were performed with the discounted cash flow method with reference to investments in both companies.

The tests were due to a revision of assumptions underlying stress tests held in previous years, primarily with reference to sales prices, production volumes and investment plans.

The impairment test of Arctic Paper grucksbo AB resulted in the establishment of an impairment charge to assets of PLN 77,236 thousand as at 31 December 2017, which was resulting from the test prepared as at 30 June 2017 and as at 31 Decemebr 2017. Details of the impairment test of that investment are presented in note 18.2.

6.3. Impairment of intangible assets

In accordance with IAS 36, the Company performs ongoing analyses of impairment indications of the trademarks which were acquired from Trebruk AB in 2009. As a result of the analysis performed, it has been confirmed that the trademarks are not impaired and there is no need for a write-off.

6.4. Uncertainties related to tax settlements

Regulations related to VAT, corporate income tax and charges related to social insurance are subject to frequent modifications. Those frequent modifications result in unavailability of appropriate points of reference, inconsistent interpretations and few precedents that could apply. Additionally, the applicable regulations contain also certain ambiguities that result in differences of opinion as to legal interpretations of tax regulations – among public authorities and between public authorities and enterprises.

Tax settlements and other areas of operations (for instance customs or foreign exchange issues) may be inspected by the authorities that are entitled to impose high penalties and fines as well additional tax liabilities resulting from inspections that have to be paid along with high interest. As a result, tax risk in Poland is higher than in countries with more mature tax systems.

Therefore, the amounts presented and disclosed in the financial statements may change in the future as a result of final decisions by tax inspection authorities.

On 15 July 2017 the Tax Code was amended to incorporate the provisions of the General Anti-Avoidance Rule (GAAR).
GAAR is to prevent the development and use of artificial legal structures to avoid tax payments in Poland. GAAR defines tax avoidance as an activity pursued primarily to accomplish tax benefits that under the circumstances would be contradictory to the subject and purpose of the tax regulations. In accordance with GAAR, such activity would not generate tax benefits if the mode of operation was artificial. Any occurrence of (i) unjustified split to operations, (ii) involvement of intermediaries despite no economic justification, (iii) mutually exclusive of compensating elements, and (iv) other similar activities, may be treated as a premise to the existence of artificial activities subject to GAAR. The new regulations will require more accurate judgements in the assessment of tax effects of each transaction.

GAAR is to be applied to transactions executed after its effective date and to transactions that were executed before the effective date of GAAR but with respect to which benefits were obtained or continue to be obtained after its effective date. The transposition of the above regulations would support Polish fiscal inspection authorities in questioning arrangements and agreements made by taxpayers such as current and deferred income tax, group restructuring or reorganisation.

The Company recognises and measures assets or liabilities applying the requirements of IAS 12 Income Taxes, on the basis of profit (tax loss), taxation base, carried forward tax losses, unutilised tax credits and applicable tax rates, and further subject to uncertainties related to tax settlements. When an uncertainty exists if and to what extent the tax authority accepts tax settlements to specific transactions, the Company recognises those settlements subject to uncertainty assessment.

7. Basis of preparation of the financial statements

The financial statements have been prepared on a historical cost basis (except for the financial instruments).

These financial statements are presented in Polish zloty ("PLN") and all values are disclosed in PLN thousand unless specified otherwise.

These financial statements have been prepared based on the assumption that the Company will continue as a going concern in the foreseeable future.

Accarding to the data presented in the balance sheet, the value of current liabilities exceeds the value of current assets., Having analysed this situation, the Management Board considered that this fact does not threaten the going concern of the Company due to significant unused limits of overdrafts.

As at the publication date hereof, no circumstances were identified that would pose a threat to the Company continuing as a going concern.

7.1. Compliance statement

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), endorsed by the European Union. As at the balance sheet date, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, there is no difference between the IFRS applied by the Company and the IFRS endorsed by the European Union.

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB).

7.2. Functional currency and presentation currency

The Polish zloty (PLN) is the functional currency and the presentation currency of the Company in these financial statements.

8. Modifications to the applied accounting principles

The accounting principles (policies) applied to prepare the financial statements are compliant with those applied to the annual financial statements of the Company for the year ended on 31 31 December 2016, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2017:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  The changes clarify issues related to deductible temporary differences associated with debt instruments measured at fair value, estimation of probable future taxable profits and assessment of whether taxable profits will be available against which the deductible temporary differences can be utilised. The changes are applied retrospectively.
- Amendments to IAS 7 Disclosure Initiative

The changes require the entity to disclose information that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities need not provide comparative information when they first apply the amendments.

- Amendments to IFRS 12 Disclosure of Interests in Other Entities which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle
  The changes clarify that the requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operation.

The Company and the Arctic Paper Group have not earlier adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

8.1. Adjustment of previous years' errors

During the work on the Issuer's semi-annual standalone financial statements for H1 2017, the Company's Management Board decided to adjust the approved financial data for H1 2016 and for 2016.

The adjustments result from a modified method to calculate impairment allowances at Arctic Paper Investment AB (holding 100% of shares in Arctic Paper Grycksbo AB, "APG"), and cover an adjustment to the realisable value calculated in a test, with the value of financial liabilities (previous approach did not adjust value in use with the value of financial liabilities).

The Company's adjusted financial data refers to the following financial statements and periods:

- in the annual report for 2016, in the financial statements – the adjustment to the opening balance sheet as at 1 January 2016 – covers an increase of the impairment allowance to the investment by PLN 61,136 thousand;
- in the annual report for 2016, in the financial statements – the adjustment to the profit and loss account for 2016 – covers an decrease of the impairment allowance to the investment by PLN 128 thousand (the impairment allowance to the investment was decreased in H2 2016 by PLN 26,765 thousand which – combined with the above adjustment to H1 2016 – results in a net adjustment for 2016 of PLN 128 thousand.

The Company's adjusted financial statements for the above periods are presented in the tables below:

- Adjustment to the annual report for 2016, in the financial statements – adjustment to opening balance sheet as at 1 January 2016:

	As at 1 January 2016 approved	adjustment	adjusted
ASSETS			
Property, plant and equipment	2 108		2 108
Intangible assets	1 322		1 322
Investment in subsidiaries	838 741	(61 136)	777 605
Other non-financial assets	1 103		1 103
Non-current assets	843 274		782 138
Current assets	106 927		106 927
TOTAL ASSETS	950 202		889 066
	-		-
EQUITY AND LIABILITIES			
Share capital	69 288		69 288
Share premium	447 641		447 641
Other reserves	147 871		147 871
Foreign currency translation	290		290
Retained earnings / Accumulated (unabsorbed) losse	3 870	(61 136)	(57 266)
Total equity	668 959		607 823
Non-current liabilities	205 001		205 001
Current liabilities	76 242		76 242
TOTAL LIABILITIES	76 242		76 242
TOTAL EQUITY AND LIABILITIES	950 202		889 066

— Adjustment to the annual report for 2016;

Standalone income statement

	Year ended 31 December 2016		
	approved	adjustment	adjusted
Continuing operations			
Sales revenues	98 911		98 911
Gross profit on sales	89 021		89 021
Other operating income	197		197
Selling and distribution costs	(4 072)		(4 072)
Administrative expenses	(34 571)		(34 571)
Other operating expenses	(70 128)	128	(70 000)
Operating profit / (loss)	(19 553)		(19 425)
Profit / (loss) before tax	(32 430)		(32 302)
Net profit (loss) from continuing operations	(32 644)		(32 516)
Net profit (loss) for the period	(32 644)		(32 516)
Earnings per share:			
attributable to equity holders of the parent	(0,47)		(0,47)
period	(0,47)		(0,47)

Standalone statement of comprehensive income

	Year ended 31 December 2016		
	approved	adjustment	adjusted
Net profit (loss) for the period	(32 644)	128	(32 516)
Other comprehensive income			
Items to be recognised in profit/loss in future periods:			
Hedge accounting	(4 580)		(4 580)
Exchange difference on translation of foreign operations	60		60
Other comprehensive income	(4 520)		(4 520)
Total comprehensive income	(37 164)		(37 036)

Standalone balance sheet

	As at 31 December 2016				
	approved	adjustment of opening balance as at 1 January 2016	adjustment for 1H2016	adjustment for 2H2016	adjusted
ASSETS					
Property, plant and equipment	1 979				1 979
Intangible assets	1 332				1 332
Investment in subsidiaries	802 682	(61 136)	(26 637)	26 765	741 674
Other financial assets	62 905				62 905
Other non-financial assets	1 268				1 268
Non-current assets	870 166				809 158
Current assets	172 017				172 017
TOTAL ASSETS	1 042 184				981 176
EQUITY AND LIABILITIES					
Share capital	69 288				69 288
Share premium	447 641				447 641
Other reserves	148 200				148 200
Foreign currency translation	350				350
Retained earnings / Accumulated (unabsorbed) losses	(34 445)	(61 136)	(26 637)	26 765	(95 453)
Total equity	631 034				570 026
Non-current liabilities	277 171				277 171
Current liabilities	133 979				133 979
TOTAL LIABILITIES	411 150				411 151
TOTAL EQUITY AND LIABILITIES	1 042 184				981 176

Standalone cash flows statement

	Year ended 31 December 2016		
	approved	adjustment	adjusted
Cash flow from operating activities			
Profit (loss) before taxation	(32 430)	128	(32 302)
Adjustments for:			
Amortization and depreciation	402		402
Gain / (loss) from foreign exchange differences	2 688		2 688
Impairment of assets	38 896	(128)	38 768
Net interest and dividends	6 182		6 182
Increase / decrease in receivables and other non-financial assets	1 001		1 001
Increase / decrease in payables except for loans, borrowings and bonds	4 262		4 262
Change in accruals and prepayments	967		967
Change in provisions	206		206
Income tax paid	(392)		(392)
Increase / decrease in loans to subsidiaries	(270 120)		(270 120)
Other	(5 022)		(5 022)
Net cash flow from operating activities	(253 361)		(253 361)
Net cash flow from investing activities	(3 122)		(3 122)
Net cash flow from financing activities	257 911		257 911
Net increase/(decrease) in cash and cash equivalents	1 428		1 428
Cash and cash equivalents at the beginning of the period	9 435		9 435
Cash and cash equivalents at the end of the period	10 863		10 863

9. New standards and interpretations that have been published and are not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective:

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
- Clarification to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – effective for financial years beginning on or after 1 January 2018,

The Management Board made an analysis of the agreements and because of their nature and lack of non-standard provisions in the agreements, the amendments to IFRS 15 will not have a significant impact on the results of the Company (detalis have beed described in note 9.1. of the financial statement).

- IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018, (detalis have beed described in note 9.2. of the financial statement)
- IFRS 16 Leasing (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 Investments in Associates and Joint Ventures which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation* (issued on 12 October 2017)) - effective for financial years beginning on or after 1 January 2019;
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018.

9.1. Adoption of IFRS 15

International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15") was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company can choose either a full retrospective application or a modified retrospective, and interim provisions stipulate some practical solutions. The Company plans to adopt the new standard on the required effective date using the full retrospective method.

APSA is a holding company and generates revenues from rendering services, dividends and received interest. The only preformance obligation by the companies receiving services are these services, therefore the Company does not expect that the adoption of IFRS 15 will influence its results significantly.

9.2. Adoption of IFRS 9

In July 2014, the International Accounting Standards Board published International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with the possibility of earlier application.

The Company plans to apply IFRS 9 from the date of entry into force of the standard, without transforming the comparative data.

In 2017, the Company carried out an assessment of the impact of the IFRS 9 introduction on the accounting principles (policy) applied by the Company with respect to the Company 's operations or its financial results. This assessment is based on currently available information and may be subject to amendments resulting from the acquisition of reasonable and documentable additional information during the period in which the Company applies IFRS 9 for the first time.

The Company does not expect a material impact of the IFRS 9 introduction on the statement of financial position and on equity. As a result of the application of IFRS 9, the classification of some financial instruments will change.

Classification and measurement

The Company does not expect a material impact on the statement of financial position and on equity in connection with the application of IFRS 9 in the area of classification and measurement. It is expected that all financial assets measured so-far at fair value will continue to be measured at fair value.

Trade receivables are held with the intention to obtain cash flows resulting from the agreement, and the Company does not sell trade receivables as part of factoring – they will continue to be measured at amortized cost through financial result. The Company uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.

Impairment

In accordance with IFRS 9, the entity measures write-downs for expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses in the life of the financial instrument. In the case of trade receivables, the Company will apply a simplified approach and will measure a write-down for expected credit losses at the amount equal to the expected credit losses over the whole life.
The Company estimates that due to the nature of trade receivables, the method of calculating the impairment write-downs will not change significantly.

Hedge accounting

Because IFRS 9 does not change the general principles of the Company 's hedge accounting, the application of IFRS 9 will not have a material impact on the Company 's financial statements.

9.3. Adoption of other standards

As at the date of approval of these financial statements for publication, the Management Board did not complete the analysis of the influence of adoption of other standards and interpretations on the accounting principles (policies) in reference to the Company’s operations or results.

10. Significant accounting policies

10.1. Foreign currency translation

The presentation currency of the Company is Polish zloty, however, for the foreign branch the functional currency is Swedish crown. As at the balance sheet date, assets and liabilities of the foreign branch are translated into presentation currency of the Company using the FX rate prevailing on that date and its income statement is translated into the functional currency using a weighted average FX rate for the relevant reporting period.

The FX differences arising from the translation are recognised in other total comprehensive income and accumulated in a separate item of equity – Fx differences on translation.

Transactions denominated in currencies other than Polish zloty are translated to Polish zloty at the FX rate prevailing on the transaction date.

As at the balance sheet date, assets and monetary liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the National Bank of Poland's mean FX rate prevailing for the given currency as at the end of the reporting period.

FX differences resulting from translation are recognised under financial income (expenses), or – in cases defined in the accounting policies – are capitalised in assets. Non-monetary foreign currency assets and liabilities recognised at historical cost in foreign currency are translated at the historical FX rates prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value in foreign currency are translated using the FX rates prevailing as at the date of fair value measurement.

The following exchange rates were used for book valuation purposes:

	Na dzień 31 grudnia 2017	Na dzień 31 grudnia 2016
USD	3,4813	4,1793
EUR	4,1709	4,4240
SEK	0,4243	0,4619
DKK	0,5602	0,5951
NOK	0,4239	0,4868
GBP	4,7001	5,1445
CHF	3,5672	4,1173

	01/01 - 31/12/2017	01/01 - 31/12/2016
USD	3,7782	3,9432
EUR	4,2583	4,3638
SEK	0,4422	0,4612
DKK	0,5725	0,5861
NOK	0,4570	0,4697
GBP	4,8595	5,3417
CHF	3,8364	4,0027

For translation of assets and liabilities of the foreign branch as at 31 December 2017, the exchange rate SEK/PLN of 0.4243 was applied (31 December 2016: 0.4619). For translation of the items of comprehensive income for the year ended on 31 December 2017, the exchange rate SEK/PLN of 0.4422 was applied (for the year ended on 31 December 2016: 0.4612) which is an arithmetic mean of NBP's mean exchange rates published by NBP in 2017 (2016).

10.2. Tangible fixed assets

Tangible fixed assets are measured at purchase price or construction cost reduced by accumulated depreciation and impairment charges.

The initial value of fixed assets comprises their purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the expenses for replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent asset components.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Type	Period
Buildings and structures	25 - 50 years
Plant and machinery	5 - 20 years
Office equipment	3 - 10 years
Motor vehicles	5 - 10 years
Computers	1 - 10 years

Residual values, useful lives and depreciation methods of asset components are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the reporting period that has just ended.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected from its further use. Any profit or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the book value of the asset) is recognised in the profit or loss for the period in which such derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognised at purchase price or cost of construction reduced by any impairment charges. Assets under construction are not depreciated until completed and brought into use.

10.3. Intangible assets

Intangible assets acquired in a separate transaction or constructed by the Company (if they meet the recognition criteria for development costs) are measured on initial recognition at purchase price or construction cost.

The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of combination. Following initial recognition, intangible assets are recognised at purchase price or construction cost reduced by any amortisation and any impairment charges.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the reporting period that has just ended.

A summary of the policies applied to the Company's intangible assets is as follows:

	Computer software and licences	Trademarks
Economic useful life	2 - 5 years	Unspecified
Depreciation method	2-5 years with the straight-line method	Is not depreciated
Internally generated or acquired	Acquired	Acquired
Verification for impairment	Annual assessment of any impairment indications	Annual assessment of any impairment indications

After analysing the relevant factors, for trademarks the Company does not define any time limit of their useful life. The intention of the Company is to operate for an indefinite period under the same trademark and it is believed that it will not become impaired. Consequently, and in accordance with IAS 38, the Company does not amortise intangible assets with indefinite useful lives.

Useful life of such resources should be reviewed in each reporting period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of such asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the book value of the asset and are recognised in profit or loss when the asset is derecognised.

10.4. Impairment of non-financial fixed assets

An assessment is made at each reporting date to determine whether there is any indication that a component of non-financial fixed assets may be impaired. If such indications exist, or in case an annual impairment test is required, the Company makes an estimate of the recoverable amount of that asset or the cash generating unit that the asset is a part of.

The recoverable amount of an asset or a cash-generating unit is the fair value of such asset or cash-generating unit reduced by costs to sell or its value in use, whichever is higher. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the book value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment charges of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment charge may no longer exist or may have decreased. If such indications exist, the Company makes an estimate of recoverable amount of the asset. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge was recognised. If that is the case, the book value of the asset is increased to its recoverable amount. That increased amount cannot exceed the book value that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.

Reversal of impairment charge to assets is recognised immediately as income. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's book value, reduced by its residual value (if any), on a systematic basis over its remaining useful life.

10.5. External borrowing costs

External borrowing costs are capitalised as part of the cost of fixed assets and intangible assets.

External borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases and FX differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest expense.

10.6. Shares in subsidiary, affiliated entities and in joint ventures

Shares in subsidiaries, affiliated entities and joint ventures are presented at historical cost basis, subject to impairment charges.

Impairment charge is calculated by comparing the book value of investment adjusted with the value of financial liabilities with the value in use resulting from the impairment test. Value in use is calculated by using the discounted cash flows method.

10.7. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held until maturity,
- financial assets measured at fair value through financial result,
- loans and receivables,
- financial assets available for sale.

Financial assets held until maturity are non-derivative financial assets quoted in active markets with fixed or determinable payments and fixed maturities which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as measured at fair value through financial result,
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets held until maturity are measured at amortised cost using the effective interest rate. Financial assets held until maturity are classified as long-term assets if they are falling due within more than 12 months of the balance sheet date.
A financial asset measured at fair value through financial result is a financial asset that meets one of the following conditions:

I. It is classified as held for trading. A financial asset is classified as held for trading if it is:
- acquired principally for the purpose of selling it in the near term,
- part of a portfolio of identified financial instruments that are managed collectively and for which there is probability of generating profit in the near term,
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

II. According to IAS 39, upon initial recognition it was designated to the category.
Financial assets measured at fair value through financial result are measured at fair value, which takes into account their market value as at the balance sheet date net of sales transaction expenses. Any change to the value of such financial instruments is recognised in profit and loss account/statement of total comprehensive income as financial income (favourable net changes to fair value) or financial expense (unfavourable net changes to fair value). If a contract contains one or more embedded derivative instruments, the entire contract may be classified as a financial asset measured at fair value through financial result. The above does not apply to instances when such embedded derivative instrument has no material impact on cash flows from the contract or – subject to a general analysis – if a similar hybrid instrument were considered first, no separation of such embedded derivative instrument would be allowed.

Financial assets may be designated at initial recognition as measured at fair value through financial result if the following criteria are met:
- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from recognition or measurement of the asset (accounting mismatch); or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management strategy; or
- the financial asset contains embedded derivative instruments that need to be recognised separately.

As on 31 December 2017 and as on 31 December 2016, no financial assets were designated as measured at fair value through financial result.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value as at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at purchase price, adjusted for any impairment charges. Positive and negative differences between the fair value and purchase price, net of deferred tax, of financial assets available for sale (if quoted market price determined on an active regulated market is available or if the fair value can be determined using other reliable method), are recognised in other total comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is recognised as financial expense.

Purchase and sale of financial assets is recognised on the transaction date. Initially, financial assets are recognised at fair value plus, for financial assets other than classified as financial assets measured as at fair value through financial result, transaction costs, directly attributable to the purchase.

Financial assets are derecognised if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

10.8. Impairment of financial assets

As at each balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets recognised at amortised cost

If there is objective evidence that an impairment loss on loans granted and receivables measured at amortised cost has been incurred, the amount of the impairment charge is measured as the difference between the asset's book value and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the effective interest rate (i.e. the effective interest rate computed at initial recognition). The book value of the asset is reduced directly. The amount of the loss shall be recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually material, and individually or collectively for financial assets that are individually not material. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether material or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment charge is or continues to be recognised, are not included in a collective assessment of a group of assets for impairment.

If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment charge is reversed. Any subsequent reversal of an impairment charge is recognised in profit or loss, to the extent that the book value of the asset does not exceed its amortised cost as at the reversal date.

Financial assets recognised at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not measured at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment charge is measured as the difference between the book value of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets.

Financial assets available for sale

If there is objective evidence for impairment of an available-for-sale asset, then the amount of the difference between the purchase price (net of any principal repayment and interest) and its current fair value, reduced by any impairment loss on that financial asset previously recognised in the profit and loss account, is derecognised from equity and recognised in the profit and loss account. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the profit and loss account, the impairment loss is reversed, with the amount of the reversal recognised in the profit and loss account.

10.9. Financial derivatives and hedges

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Such derivatives are stated as assets when the value is positive and as liabilities when the value is negative.

Any gains or losses arising from changes in the fair value of the derivatives that do not qualify for hedge accounting are recognised directly in the net profit or loss for the financial year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined based on valuation patterns which take into account observable market data, particularly including current term interest rates.

For the purpose of hedge accounting, hedges are classified as:
- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk inherent in the recognised asset or liability or a forecast transaction, or
- Hedges of interests in net assets in a foreign entity.

Hedges of foreign currency risk in an unrecognised firm commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship as well as the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and the assessment method of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a regular basis to check if the hedge is highly effective throughout all reporting periods for which it was designated.

Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any profit or loss on the hedged item attributable to the hedged risk is adjusted against the book value of the hedged item, the hedging instrument is re-measured to fair value and the gains and losses on the hedging instrument and hedged item are recognised in profit or loss.

For fair value hedges relating to items recognised at amortised cost, the adjustment to the book value is amortised and recognised in profit or loss over the remaining term to maturity of the instrument.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding profit or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Company discontinues hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Company revokes the designation. Any adjustment to the book value of a hedged financial instrument for which the effective interest method is used is amortised and the allowances are recognised in profit or loss. Amortisation may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedge

Cash flow hedges are hedges securing for the risk of cash flow fluctuations which can be attributed to a particular kind of risk inherent in the given item of assets or liabilities or in a contemplated investment of high probability, and which could influence profit or loss. The part of profit or loss related to the hedging instrument which constitutes an effective hedge is recognised directly in other total comprehensive income and the non-effective part is recognised in profit or loss.

If a hedged intended transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognised in other total comprehensive income and accumulated in equity shall be reclassified to profit and loss account in the same period or periods in which the asset acquired or liability assumed affects profit or loss.

If a hedge of a intended transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognised in other total comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised directly to net financial result for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative profit or loss on the hedging instrument that has been recognised directly in other total comprehensive income and accumulated in equity, remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative profit or loss recognised in equity is recognised in net profit or loss for the period.

Hedges of interests in net assets in a foreign entity

Hedges of interests in net assets in a foreign entity, including a hedge of a monetary item that is accounted for as part of the net assets, are accounted for similarly to cash flow hedges. The portion of the profit or loss on the hedging instrument that is determined to be an effective portion of the hedge is recognised in other total comprehensive income and the ineffective portion is recognised in profit or loss. On disposal of the foreign entity, the net cumulative profit or loss that was previously recognised in other total comprehensive income is recognised in profit or loss as an adjustment resulting from reclassification.

10.10. Inventories

Inventories are valued at the lower of purchase price and realisable net selling price.

Purchase price or construction cost of every item of inventories includes all purchase expenses, transformation expenses and other costs incurred in bringing each inventory item to its present location and conditions are accounted for as follows for both the current and previous year:

Goods at cost determined with an average-weighted price method

Net realisable selling price is the estimated selling price in the ordinary course of business, and estimated costs necessary to finalise the sale.

10.11. Trade and other receivables

Trade and other receivables are stated and recognised at original invoiced amount subject to an allowance for doubtful receivables. An allowance for doubtful receivables is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognised as financial income.
Other receivables include in particular input VAT receivables.

Budgetary receivables are presented within trade and other receivables, except for corporate income tax receivables that constitute a separate item in the balance sheet.

10.12. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

10.13. Interest-bearing loans, borrowings and bonds

All bank loans, borrowings and bonds are initially recognised at fair value reduced by costs associated with obtaining the loan or borrowing.
After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortised cost using the effective interest rate method.

The amortised cost is calculated by taking into account any costs associated with obtaining the loan or borrowing, and any discount or premium received in relation to the liability.

Revenues and expenses are recognised in profit or loss when the liabilities are derecognised from the balance sheet or accounted for with the effective interest method.

10.14. Trade and other payables

Short-term trade payables are recognised at amounts payable.

Financial liabilities measured at fair value through financial result include financial liabilities held for trading and financial liabilities designated upon initial recognition as measured at fair value through financial result.

Financial liabilities are classified as held for trading if they are acquired for the purpose of re-sale in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are determined to be effective hedging instruments.

Financial liabilities may be designated at initial recognition as measured at fair value through financial result if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment from measuring or recognising gains or losses based on different regulations; or
- the liabilities are part of a group of financial liabilities which are managed and their performance is measured on a fair value basis, in accordance with a documented risk management strategy; or
- financial liabilities contain an embedded derivative that would need to be recognised separately.

As at 31 December 2017 and 31 December 2016, no financial liabilities were designated as measured at fair value through financial result.

Financial liabilities measured at fair value through financial result are measured at fair value, reflecting their market value as at the balance sheet date without taking sales transaction costs into account. Changes in fair value of those instruments are recognised in the profit or loss as financial income or expenses.

Financial liabilities other than financial instruments measured at fair value through financial result are measured at amortised cost with the effective interest rate method.

A financial liability is derecognised when the contractual liability has been fulfilled, cancelled or has expired. Replacement of an existing debt instrument with an instrument with basically different conditions, made between the same entities, is recognised by the Company as expiry of the original financial liability and recognition of a new financial liability. Similarly, major modifications to contractual terms and conditions related to an existing financial liability is recognised by the Company as expiry of the original and recognition of a new financial liability. The differences in the corresponding book values resulting from such exchange are recognised in profit or loss.

Other short-term liabilities include in particular liabilities to tax authorities under personal income tax liability and liabilities to ZUS.

Other non-financial liabilities are recognised at the amount payable.

10.15. Provisions

Provisions are created when the Company is charged with a (legal or customary) obligation relating to past events, and when it is likely that satisfaction of such obligation shall result in a necessity of an outflow of economic benefits and an amount of such obligation may be reliably estimated. Where the Company expects some or all of the provisioned costs to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account after the deduction of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks inherent in the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as financial expenses.

10.16. Revenues

Revenues are recognised to the extent that it is probable that the economic benefits related to the transaction will flow to the Company and when the revenues can be reliably measured. Revenues are recognised at fair value of the consideration received or receivable, after the deduction of VAT and discounts. The following criteria are also applicable to recognition of revenues.

Provision of services

Revenue is recognised when material risk and benefits resulting from the provided services has been passed to the buyer and when the revenue amount can be credibly evaluated.

Interest

Interest income is recognised as interest accrues (using the effective interest rate method that is the rate that discounts the estimated future cash receipts over the anticipated life of the financial instrument) to the net book value of the financial asset.

Dividend

Dividend is recognised when the shareholders' rights to receive dividend are established.

10.17. Taxes

Current tax

Current income tax liabilities and receivables for the current period and previous periods are measured at amounts projected to be paid to tax authorities (to be recovered from tax authorities) with tax rates and based on tax regulations legally or actually applicable as at the balance sheet date.

Deferred income tax

For financial reporting purposes, deferred income tax is recognised using the liability method, regarding temporary differences as at the balance sheet date between the tax value of assets and liabilities and their disclosed carrying amounts.
Deferred tax provision is recognised for all positive temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and

- in respect of positive differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax asset is recognised for all negative temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the negative temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of negative temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, the deferred income tax asset is recognised in the balance sheet solely to the extent to which it is probable that in the foreseeable future the above differences will be reversed and sufficient taxable income to deduct such temporary negative differences.

The book value of deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax asset is reassessed at each balance sheet date and is recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred income tax asset to be recovered.

Deferred income tax asset and provision are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date.

Income tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other total comprehensive income in correlation items recognised in other total comprehensive income or directly in equity with reference to items recognised directly in equity.

Deferred income tax asset and deferred income tax liability are offset, if a legally enforceable right exists to set off current income tax asset against current income tax liability and the deferred income tax relates to the same taxable entity and the same tax authority.

Value added tax

Revenues, expenses, assets and liabilities are recognised after the deduction of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case VAT is recognised as part of the cost of purchase of the asset or as part of the expense item as applicable and
- receivables and payables, which are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the tax authority is included as part of receivables or payables in the balance sheet.

10.18. Net profit per share

Net profit per share is calculated by dividing the net profit for the period by the weighted average number of shares during the reporting period. Diluted profit per share is calculated by dividing the net profit for the period by the diluted weighted average number of shares during the reporting period.

11. Operational segments

Arctic Paper S.A. is a holding company, providing services mostly to the Group companies. The Company's activity represents one operational segment.

The table below presents a geographical split of revenues from selling services as well as dividend and interest income in 2017-2016.

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Poland	53 268	56 382
Foreign countries, of which:		
- Sweden	36 736	40 432
- other	3 627	2 097
	93 632	**98 911**

The above information about revenues is based on data regarding registered offices of subsidiaries of Arctic Paper S.A.

12. Income and costs

12.1. Other operating income

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Re-invoices	193	38
Other	331	159
	524	**197**

12.2. Financial income

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Interest income on funds in bank accounts	120	111
FX gains	3 128	-
Re-invoiced financial services	3 490	464
	6 738	**575**

12.3. Financial expenses

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Interest on loans and other liabilities from related entities	14 744	6 294
FX losses	-	3 228
Warranty costs	2 143	357
Costs related to new financing to be amortised over time	476	3 517
Other financial expenses	100	56
	17 463	**13 452**

12.4. Prime costs

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Depreciation/amortisation	464	402
Materials	237	253
Third party services	21 374	21 750
Taxes and charges	81	65
Wages and salaries	17 373	14 878
Employee benefits	2 722	3 081
Other prime costs	2 298	2 474
	44 549	**42 903**
Interest and other not recognised in costs by type	383	7 932
	44 932	**50 835**
Prime costs, of which:		
Items recognised as costs of sales	2 855	4 072
Items recognised as administrative expenses	39 171	34 571
Items recognised as internal costs of sales	2 907	9 890

12.5. Depreciation/amortisation expense

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Depreciation of tangible fixed assets	453	392
Amortisation of intangible assets	11	10
	464	**402**
Attributable to:		
- continuing operations	464	402
- discontinued operations	-	-

12.6. Employee benefit costs

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Wages and salaries	17 373	14 878
Social insurance premiums	1 044	2 183
Costs of retirement benefits	1 678	898
	20 095	**17 959**

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2017 and on 31 December 2016 are as follows:

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Current income tax liability	(263)	(215)
Amount of deferred income tax charge	(133)	-
Tax charge disclosed in the profit and loss account	**(396)**	**(215)**

13.2. Recognition of effective tax rate

A reconciliation of income tax expense applicable to gross profit (loss) before income tax at the statutory income tax rate, to income tax expense at the Company's effective income tax rate for the year ended on 31 December 2017 and 31 December 2016 is as follows:

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Gross profit (loss) before tax from continuing operations	(39 266)	(32 430)
Profit (loss) before tax from discontinued operations	-	-
Gross profit (loss) before tax	(39 266)	(32 430)

Tax at the statutory rate in Poland of 19% (2016: 19%)	**(7 461)**	**(6 162)**
Adjustments related to current income tax from previous years	133	-
Non-activated loss of the current year	1 723	2 291
Incomes on dividend	(9 198)	(10 382)
Adjustment to accrued and paid interest	(462)	(504)
Costs that are permanently non-tax deductible	600	813
Taxable costs being accounting costs in the year	(2 749)	(522)
Use of non-activated tax losses	-	(6)
Unrealised FX differences	69	100
Unrecognised other temporary income/expenses	2 686	792
Impairment allowances for interests and loans	14 641	13 315
Impairment allowances for other receivables	386	458
Difference resulting from income tax rates in force in other countries	26	22
Income tax at the effective tax rate: the company does not pay income tax (2016: the company did not pay income tax)	**-**	**-**
Income tax (charge) recognised in profit or loss	**396**	**215**
Income tax attributed to discontinued operations	-	-

Deferred income tax asset is recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable.

The amounts and expiry dates of unused tax losses are as follows:

Expiry year of tax losses	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
ended on 31 December 2017		1 716
ended on 31 December 2018	1 716	1 716
ended on 31 December 2019	3 598	3 598
ended on 31 December 2020	10 151	15 654
ended on 31 December 2021 and later	6 553	
Total	**22 018**	**22 685**

At the end of 2017, the 5-year period of possible use of 50% tax loss of 2012 and 50% tax loss of 2013 (PLN 1,716 thousand) expired.

13.3. Deferred income tax

Deferred income tax relates to the following items:

	Balance sheet		*Profit and loss account*	
	31 December 2017	*31 December 2016*	*Year ended on 31 December 2017*	*Year ended on 31 December 2016*
Deferred income tax provision				
Accelerated tax depreciation/amortisation	1	1	-	-
Accrued interest income	205	117	88	(117)
FX gains	594	-	594	(561)
Gross deferred income tax provision	**801**	**118**		

	Balance sheet		*Profit and loss account*	
	31 December 2017	*31 December 2016*	*Year ended on 31 December 2017*	*Year ended on 31 December 2016*
Deferred income tax asset				
Provisions and accruals and deferred income	1 831	1 218	(612)	(223)
Interest accrued on loans received and bonds	498	406	(91)	(5 829)
FX losses	632	1 193	561	(1 193)
Impairment charges	-	-	-	-
Losses deductible from future taxable income	4 183	4 310	127	(266)
Gross deferred income tax asset	**7 144**	**7 128**		
Deferred income tax charge			666	(8 189)
Deferred income tax assets, not recognised in the balance sheet	6 343	8 979	(666)	8 189
			-	-
Net deferred income tax provision, of which:	-	-		
Deferred income tax provision – continuing activity	-	-		

The Company has not recognised the deferred income tax asset on the impairment charges to receivables, loans and interests in AP Investment GmbH, AP Paper Mochenwangen GmbH and AP Investment AB. The potential related asset as at 31 December 2017 would have amounted to PLN 346 thousand (in 2016 – PLN 13,682 thousand).

14. Earnings (loss) per share

Earnings per share is established by dividing the net profit for the reporting period attributable to the Company's ordinary shareholders by weighted average number of issued ordinary shares existing in the reporting period.

There are no instruments dilluting the earnings of the Company.

The information regarding profit and the number of shares which was the base for calculation of earnings per share and diluted earnings per share is presented below:

	Year ended 31 December 2017	Year ended on 31 December 2016 (revised)
Net profit (loss) from continuing operations	(39 662)	(32 516)
Profit (loss) for the financial year from discontinued operations	-	-
Net profit (loss) for the reporting period	(39 662)	(32 516)
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
	69 287 783	69 287 783
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Weighted average diluted number of shares		
Profit per share (in PLN)	**(0,57)**	**(0,47)**
Diluted profit per share (in PLN)	**(0,57)**	**(0,47)**

15. Dividend paid and proposed

Dividend is paid based on the net profit disclosed in the standalone annual financial statements of Arctic Paper SA after covering losses carried forward from the previous years.

In accordance with provisions of the Code of Commercial Companies, the Company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the parent entity and cannot be distributed to other purposes.

As on the date hereof, the Company had no preferred shares.

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risks associated with the Company's ability to pay dividend are described in Additional Information to the Management Board's report on operations of Arctic Paper S.A.

In connection with the term and revolving loan agreements signed on 9 September 2017, agreements related to the bond issue pursuant to which on 30 September 2017 the Company issued bonds and the intercreditor agreement (described in more detail in note 24.1 "Obtaining of new financing" of the financial statement 2016), the possibility of the Company to pay dividend is subject to satisfying certain financial ratios by the Group in two periods preceding such distribution (as the term is defined in

the term and revolving loan agreements) and no occurrence of any events of default (as defined in the term and revolving loan agreements).
In 2017 and 2016 the Company did not pay out dividend.

16. Fixed assets

Year ended on 31 December 2017	*Land and buildings*	*Plant and machinery*	*Fixed assets under construction*	*Total*
Gross book value as at 01 January 2017	937	2 020	-	2 957
Increases	-	462	-	462
Decreases	-	(168)	-	(168)
Gross book value as at 31 December 2017	937	2 314	-	3 251
Depreciation and impairment allowances as at 01 January 2017	93	884	-	977
Depreciation allowance for the period	94	369		463
Reduced depreciation	-	(130)	-	(130)
Depreciation and impairment allowances as at 31 December 2017	187	1 123	-	1 310
Net value as at 01 January 2017	844	1 136	-	1 980
Net value as at 31 December 2017	750	1 191	-	1 940

Year ended on 31 December 2016	*Land and buildings*	*Plant and machinery*	*Fixed assets under construction*	*Total*
Gross book value as at 01 January 2016	922	1 772	-	2 694
Increases	15	248	-	263
Decreases	-	-	-	-
Gross book value as at 31 December 2016	937	2 020	-	2 957
Depreciation and impairment allowances as at 01 January 2016	-	586	-	586
Depreciation allowance for the period	93	298	-	392
Reduced depreciation		-		-
Depreciation and impairment allowances as at 31 December 2016	93	884	-	977
Net value as at 01 January 2016	93	1 187	-	2 108
Net value as at 31 December 2016	844	1 136	-	1 979

17. Intangible assets

Year ended on 31 December 2017	*Trademarks*	*Computer software*	*Total*
Gross book value as at 01 January 2017	1 319	49	1 368
Increases	-	292	292
Decreases	-	-	-
Gross book value as at 31 December 2017	1 319	341	1 660
Depreciation and impairment allowances as at 01 January 2017	-	35	35
Depreciation allowance for the period	-	11	11
Reduced amortisation	-	-	-
Depreciation and impairment allowances as at 31 December 2017	-	46	46
Net value as at 01 January 2017	1 319	13	1 332
Net value as at 31 December 2017	1 319	295	1 614

Year ended on 31 December 2016	*Trademarks*	*Computer software*	*Total*
Gross book value as at 01 January 2016	1 319	28	1 347
Increases	-	21	21
Decreases	-	-	-
Gross book value as at 31 December 2016	1 319	49	1 368
Depreciation and impairment allowances as at 01 January 2016	-	25	25
Depreciation allowance for the period		10	10
Reduced depreciation	-	-	-
Depreciation and impairment allowances as at 31 December 2016	-	35	35
Net value as at 01 January 2016	1 319	3	1 322
Net value as at 31 December 2016	1 319	13	1 332

The carrying value of acquired rights to trademarks as at 31 December 2017 was PLN 1,319 thousand.

18. Other assets

18.1. Shares in subsidiaries

	As at 31 December 2017	As at 31 December 2016 (transformed)
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	101 616	101 616
Arctic Paper Investment AB, of which:	32 407	95 768
Arctic Paper Investment AB (shares)	*307 858*	*295 983*
Arctic Paper Investment AB (loans)	*82 709*	*82 709*
Arctic Paper Investment AB (impairment charge)	*(358 160)*	*(282 924)*
Arctic Paper Investment GmbH	0	0
Arctic Paper Investment GmbH (shares)	*120 030*	*120 030*
Arctic Paper Investment GmbH (impairment charge)	*(120 030)*	*(120 030)*
Arctic Paper Sverige AB	0	0
Arctic Paper Sverige AB (shares)	*11 721*	*11 721*
Arctic Paper Sverige AB (impairment charge)	*(11 721)*	*(11 721)*
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	0	0
Arctic Norge AS (shares)	*3 194*	*3 194*
Arctic Paper Norge AS (impairment charge)	*(3 194)*	*(3 194)*
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Total	**678 313**	**741 674**

The value of investments in subsidiary companies was disclosed on the basis of historic costs.

In 2017 the Company increased its interests in Arctic Paper Investment AB by PLN 11,875 thousand by a shareholder contribution.

18.2. Impairment test

As at 31 December 2017 and 31 December 2016 impairment tests were conducted at the investment in Arctic Paper Investment AB, which owns the Arctic Paper Grycksbo mill. Value in use with reference to tangible fixed assets and intangible assets of the mill is adjusted with the value of financial liabilites. As a result of the impairment test, further impairment charge was recognised in the amount of PLN 75,236 thousand.

The impairment test at Arctic Paper Grycksbo was related to lower results generated at the Paper Mill than expected by the Group's Management Board in 2017, 2016 and in 2015 respectively. The results were adversely affected by market conditions such as unfavourable price fluctuations of raw materials, intensified competition in the segment of the paper produced by Grycksbo.

In view of the above, a decision was taken to perform an impairment test with the discounted cash flow method.

Below is a presentation of the key assumptions underlying the impairment tests held as at 31 December 2017 and 31 December 2016.

Calculations of the value in use of the paper sale centre at the Grycksbo Paper Mill is most sensitive to the following variables:
- Discount rates;
- Increase of raw material prices;
- Increase of energy prices;
- FX risk.

Discount rate – reflects the assessment of risks inherent to the centre estimated by the management. This is the rate applied by the management to estimate the operational effectiveness (results) and future investment proposals. In the budgeted period the discount rate is 8.00%. The discount rate was determined on the basis of the following: Weighted average cost of capital (WACC).

Changing raw material prices (mainly pulp) – estimates concerning changes to raw materials are made on the basis of the ratios related to pulp prices. The data underlying the applied assumptions is obtained from: www.foex.fi. It should be noted that the costs of pulp is characterised by high volatility.

Changing energy prices – a growth of energy prices, mainly electricity, listed at Nordpool, the commodity exchange in Sweden, and of the energy generated from biomass as the core source of energy, results from the assumptions applied to the projections approved by the local management of the Grycksbo Paper Mill.

FX risk – it refers to the purchase cost of raw materials for paper production, in particular purchases of pulp with the costs incurred mostly in USD. The projections made as at 31 December 2017 the FX rate of the USD/SEK pair was assumed at 8.12 in the first year of projection adn 8,00 in the following years (31 December 2016: 9.05 in 2017 and 8.55 in the following years).

The table below presents the core assumptions applied to calculate the value in use as at 31 December 2017 and 31 December 2016.

General assumption	2017	2016
Approved projections based on	2018-2022	2017-2021
Income tax rate	22,0%	22,0%
Discount rate before tax effect	8,5%	8,8%
Weighted average cost of capital (WACC)	8,0%	6,9%
Growth rate in the residual period	0,0%	2,0%

The table below presents sensitivity of the value in use of assets to fluctuations of each parameter underlying the test:

Parameters	Increase in basis points	Effect on value in use
2017		
Weighted average cost of capital (WACC)	+0,1 p.p.	(1 210)
Growth rate in the residual period	+0,1 p.p.	668
Sales volume in the first year of the projection	+ 0,1%	5 365
Sales prices in the first year of the projection	+ 0,1%	7 127
Pulp prices in first year of the projection	+1,0%	(31 384)
Energy prices in first year of the projection	+1,0%	(4 489)
Weighted average cost of capital (WACC)	-0,1 p.p.	1 239
Growth rate in the residual period	-0,1 p.p.	(651)
Sales volume in the first year of the projection	- 0,1%	(5 365)
Energy prices in first year of the projection	- 0,1%	(7 127)
Pulp prices in first year of the projection	-1,0%	31 384
Energy prices in first year of the projection	-1,0%	4 489
31 December 2016		
Weighted average cost of capital (WACC)	*+0,1 p.p.*	*(3 028)*
Growth rate in the residual period	+0,1 p.p.	2 265
Sales volume in the first year of the projection	+ 0,1%	7 689
Sales prices in the first year of the projection	+ 0,1%	10 464
Pulp prices in first year of the projection	+1,0%	(40 072)
Energy prices in first year of the projection	+1,0%	(7 575)
Weighted average cost of capital (WACC)	-0,1 p.p.	3 153
Growth rate in the residual period	-0,1 p.p.	(2 174)
Sales volume in the first year of the projection	- 0,1%	(7 689)
Energy prices in first year of the projection	- 0,1%	(10 464)
Pulp prices in first year of the projection	-1,0%	40 072
Energy prices in first year of the projection	-1,0%	7 575

The value in use adjusted with the value of financial liabilites as at the balance sheet date amounted PLN 89,553 thousand, whereas the value of the investment in Artcic Paper Investment AB amounted PLN 32,407 thousand. Total impairment charge to this investment amounted PLN 358,160 thousand as at 31 December 2017 (PLN 282,924 thousand as at 31 December 2016).

18.3. Other financial assets

Short-term	Maturity date	As at 31 December 2017
Loan granted to Arctic Paper Munkedals AB - amount: PLN 9,988 thousand	31.12.2018	7 930
Loans granted to Arctic Paper Kostrzyn S.A. (short-term-portion) - amount: PLN 4,800 thousand, and EUR 3.397 thousand respectively	31.12.2018	15 641
Loans granted to Arctic Paper Kostrzyn S.A. (Capex A, short-term-portion) - amount: PEUR 798 thousand	31.12.2018	3 328
Loans granted to Arctic Paper Grycksbo AB - amount: EUR 8,816 thousand	31.12.2018	1 735
Loans granted to Arctic Paper Grycksbo AB - amount: EUR 8,816 thousand	31.12.2019*	35 036
Loans granted to Arctcic Paper Benelux - amount: EUR 100 thousand	31.12.2022*	417
Cashpooling Arctic Paper Grycksbo AB		10 070
Loans granted to Arctic Paper Mochenwangen GmbH - amount: EUR 6,714 thousand		29 185
Loan granted to Arctic Paper Investment GmbH - amount: EUR 4,603 thousand		19 926
Loan granted to Arctic Paper Investment GmbH - amount: EUR 2,389 thousand		10 343
Impairment charge to assets - applies to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH		(59 455)
		74 157

* may be repaid prematurely upon request within 14 days

	Maturity date	As at 31 December 2017
Long-term		
Loan granted to Arctic Paper Investment AB (interest)		82 709
Loan granted to Arctic Paper Investment GmbH - amount: EUR 990 thousand		4 286
Loans granted to Arctic Paper Kostrzyn S.A. - amount: PLN 14,400 thousand, and EUR 10,989 thousand respectively	27.08.2021	46 937
Loans granted to Arctic Paper Kostrzyn S.A. - amount: PLN 14,400 thousand, and EUR 10,989 thousand respectively	27.08.2022	13 297
Loans granted to Arctic Paper Grycksbo AB - amount: EUR 1,872 thousand	27.08.2021	7 808
Impairment charge to assets - applies to Arctic Paper Investment GmbH		(4 286)
The loan is recognised as an investment in subsidiary entities		(82 709)
		68 042
Total other financial assets		**142 199**

Other financial assets in 2016 were as follows:

	Maturity date	Value as at 31 December 2016
Short-term		
Loan granted to Arctic Paper Munkedals AB - amount: PLN 9,988 thousand	31.12.2017	10 100
Loans granted to Arctic Paper Kostrzyn S.A. (short-term-portion) - amount: PLN 2,600 thousand, and EUR 4,800 thousand respectively	31.12.2019	16 302
Loans granted to Paper Grycksbo AB - amount: EUR 2,288 thousand	31.12.2019*	50 929
Loans granted to Arctic Paper Mochenwangen GmbH - amount: EUR 6,714 thousand	31.12.2019*	29 185
Loan granted to Arctic Paper Investment GmbH - amount: EUR 4,603 thousand	31.12.2017	19 926
Loan granted to Arctic Paper Investment GmbH - amount: EUR 2,389 thousand	31.12.2017	10 343
Impairment charge to assets - applies to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH		(59 454)
		77 332

* may be repaid prematurely upon request within 14 days

Long-term		
Loan granted to Arctic Paper Investment AB (interest) - interest rate: Wibor 6M + 4.8%	31.12.2016	82 709
Loan granted to Arctic Paper Investment GmbH - amount: EUR 990 thousand	30.06.2014	6 791
Loans granted to Arctic Paper Kostrzyn S.A. - amount: PLN 6,773 thousand, and EUR 10,400 thousand respectively	31.12.2019	52 783
Loans granted to Arctic Paper Grycksbo AB - amount: EUR 11,512 thousand	31.12.2019	10 122
Impairment charge to assets - applies to Arctic Paper Investment GmbH		(6 791)
The loan is recognised as an investment in subsidiary entities		(82 709)
		62 905
		140 237

18.4. Other non-financial assets

	As at 31 December 2017	As at 31 December 2016 (transformed)
Insurance	263	112
Rent and security deposits	31	193
Receivables from pension fund	1 248	1 092
VAT refundable	620	955
Accounting for costs related to new financing	5 170	5 295
Other	433	387
Total	**7 765**	**8 033**
- long-term	1 248	1 268
- short-term	6 518	6 765

19. Inventories

The Company does not and did not have any inventories in 2017 and in 2016.

20. Trade and other receivables

	Note	As at 31 December 2017	As at 31 December 2016 (transformed)
Trade receivables from related entities	*28*	89 300	87 234
Trade receivables from other entities		197	239
Total (gross) receivables		**89 497**	**87 473**
Impairment charges to receivables		(14 379)	(10 786)
Net receivables		**75 118**	**76 687**

As at 31 December 2017, the total cumulated write-off of short-term receivables from AP Investment GmbH amounted PLN 8,712 thousand and receivables from AP Mochenwangen GmbH PLN 5,667 thousand.

Terms and conditions of transactions with related entities are presented in note 28.

21. Cash and cash equivalents

Cash at bank earns interest at variable interest rates based on overnight bank deposit rates.

Short-term deposits are made for varying periods of between one day to one month depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

As at 31 December 2017, the fair value of cash and cash equivalents was PLN 36,943 thousand (31 December 2016: PLN 10,863 thousand).

The balance of cash and cash equivalents disclosed in the cash flow statement consisted of the following items:

	As at 31 December 2017	As at 31 December 2016 (transformed)
Cash in bank and on hand	36 943	10 863
	36 943	**10 863**

22. Share capital and reserve capital/other reserves

22.1. Share capital

Share capital	As at 31 December 2017	As at 31 December 2016 (transformed)
Ordinary series A shares	50	50
Ordinary series B shares	44 253	44 253
Ordinary series C shares	8 100	8 100
Ordinary series E shares	3 000	3 000
Ordinary series F shares	13 884	13 884
	69 288	**69 288**

Ordinary issued and fully paid-up shares	*increase*	*Number*	*Value*
Issued on 30 April 2008	28.05.2008	50 000	50
Issued on 12 September 2008	12.09.2008	44 253 468	44 253
Issued on 20 April 2009	01.06.2009	32	0
Issued on 30 July 2009	12.11.2009	8 100 000	8 100
Issued on 01 March 2010	17.03.2010	3 000 000	3 000
Issued on 20 December 2012	09.01.2013	10 740 983	10 741
Issued on 10 January 2013	29.01.2013	283 947	284
Issued on 11 February 2013	18.03.2013	2 133 100	2 133
Issued on 06 March 2013	22.03.2013	726 253	726
As at 31 December 2017		**69 287 783**	**69 288**

Nominal value of shares
All outstanding shares currently have a nominal value of PLN 1 and have been fully paid.

Purchase of treasury shares
Until the day of these financial statements, the Management Board of Arctic Paper S.A. has not purchased any treasury shares of the Company.

Major shareholders

	As at 31 December 2017		As at 31 December 2016	
	Share in the share capital	Share in the total number of votes	Share in the share capital	Share in the total number of votes
Thomas Onstad	**68,13%**	**68,13%**	**68,13%**	**68,13%**
indirectly via	59,15%	59,15%	59,36%	59,36%
Nemus Holding AB	58,28%	58,28%	58,06%	58,06%
other entity	0,87%	0,87%	1,30%	1,30%
directly	8,98%	8,98%	8,77%	8,77%
Other	**31,87%**	**31,87%**	**31,87%**	**31,87%**

22.2. FX differences on translation of investments in foreign entities

Swedish krona is the functional currency of the Company's foreign branch.

As at the balance sheet date, the assets and liabilities of the branch are translated into the presentation currency of the Company at the rate of exchange prevailing on the balance sheet date and its income statement is translated using the average weighted exchange rate for the relevant reporting period. The FX differences on translation are recognised in other total comprehensive income and cumulated in a separate equity item.

On 31 December 2017, FX differences on translation of the foreign branch recognised in equity amounted to PLN 1,167 thousand (as at 31 December 2016: PLN 350 thousand). The FX differences on translation of the foreign branch, recognised in the total comprehensive income statement, amounted to PLN 817 thousand in 2017 and PLN 60 thousand in 2016.

22.3. Reserve capital

The reserve capital was originally established from the issue premium in 2009 of PLN 35,985 thousand which was reduced by the costs of the issue recognised as a decrease of the reserve capital and was modified over the successive years as a result of subsequent share issues and allocations from profit.

In 2010 the reserve capital was increased by PLN 27,570 thousand resulting from the share premium in connection with the issue of series E shares.

In 2010 reserve capital was established to cover a loss of PLN 8,734 thousand as a result of profit distribution of Arctic Paper S.A., pursuant to Art. 396 of the Code of Commercial Companies (8% of profit for the financial year).

In 2011 reserve capital was established to cover a loss of PLN 7,771 thousand as a result of profit distribution of Arctic Paper S.A., pursuant to Art. 396 of the Code of Commercial Companies (8% of profit for the financial year).

In 2012 reserve capital was established to cover a loss of PLN 2,184 thousand as a result of profit distribution of Arctic Paper S.A., pursuant to Art. 396 of the Code of Commercial Companies (8% of profit for the financial year).

On 28 June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution regarding a decrease of the share capital of the Company by PLN 498,631,500 that is from PLN 554,035,000 to PLN 55,403,500 by decreasing the face value of each share by PLN 9.00 that is from PLN 10.00 down to PLN 1.00. The amount of the decrease was transferred to the Company's reserve capital without distribution to the shareholders.

In 2013 the reserve capital was increased as a result of a share issue by PLN 70,702 thousand (share issue premium) and by PLN 1,082 thousand resulting from profit distribution for 2012.

Pursuant to Resolution No. 8 of the Ordinary General Meeting of Shareholders of 26 June 2014, the loss generated by the Company in 2013 of PLN 179,910 thousand was covered with reserve capital.

Pursuant to Resolution No. 8 of the Ordinary General Meeting of Shareholders of 29 June 2015, the loss generated by the Company in 2014 of PLN 25,110 thousand was covered with reserve capital.

As at 31 December 2017, the total amount of the Company's reserve capital was PLN 447,641 thousand (31 December 2016: PLN 447,641 thousand).

22.4. Other reserves

Pursuant to Resolution No. 8 of the Ordinary General Meeting of 2 June 2016, the profit generated by the Company in 2015 of PLN 4,909 thousand was allocated to reserve capital of the Company.

Pursuant to Resolution No. 8 of the Ordinary General Meeting of Shareholders of 9 June 2017, the loss generated by the Company in 2016 of PLN 32,644 thousand was covered with the Company's reserve capital.

As at 31 December 2017, the total value of the Company's other reserves was PLN 116,300 thousand (31 December 2016: PLN 148,200 thousand)

22.5. Retained earnings (losses) and restrictions to dividend distribution

In accordance with the provisions of the Code of Commercial Companies, the Company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the financial statements of the Company should be transferred to the category of the capital until the capital has reached the amount of at least one third of the share capital. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting; however, the reserve capital equivalent to one third of the share capital may be used solely for the absorption of losses disclosed in the financial statements and may not be used for any other purposes.

In connection with the term and revolving loan agreements signed on 9 September 2016 , agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the creditor agreement (described in more detail in note 24.1 "Obtaining of new financing" of the financial statement 2016), the possibility of the Company to pay dividend is subject to satisfying certain financial ratios by the Group in two periods preceding such distribution (as the term is defined in the term and revolving loan agreements) and no occurrence of any events of default (as defined in the term and revolving loan agreements).

As at 31 December 2017, there were no other restrictions concerning dividend distribution.

23. Purchase of interests in subsidiary entities

In 2017 the Company did not acquire any new interests in subsidiaries.

24. Interest-bearing loans and borrowings

Short-term	*Repayment date*	As at 31 December 2017	As at 31 December 2016 (transformed)
Loan from Thomas Onstad of EUR 4,000	09.07.2017	-	17 818
Loan from Arctic Paper Finance AB of EUR 10,000; short-term portion and interest	30.09.2019	10 907	11 495
Long-term loan from the European Bank of Reconstruction and Development - agreement of 9 September 2016; short-term portion	31.08.2022	9 143	9 941
Long-term loan from Bank Zachodni WBK S.A. – agreement of 9 September 2016; short-term portion	31.08.2021	2 577	2 639
Long-term loan from Bank BGŻ Paribas S.A. – agreement of 9 September 2016; short-term portion	31.08.2021	2 306	2 528
Long-term loan CAPEX from the European Bank of Reconstruction and Development - agreement of 9 September 2016; short-term portion	31.08.2022	2 213	
Bond issue – agreement of 9 September 2016; short-term portion	31.08.2021	12 284	4 473
Cashpooling Arctic Paper Kosztrzyn S.A.		59 784	-
Cashpooling Arctic Paper Munkedals AB		33 263	-
		132 476	**48 894**

Long-term	*Repayment date*	As at 31 December 2017	As at 31 December 2016 (transformed)
Loan from Arctic Paper Finance AB of EUR 10,000 thousand, long-term portion	30.09.2019	20 855	33 180
Long-term loan from the European Bank of Reconstruction and Development – agreement of 9 September 2016; long-term portion	31.08.2022	31 684	42 448
Long-term loan from Bank Zachodni WBK S.A. – agreement of 9 September 2016; long-term portion	31.08.2021	6 521	8 741
Long-term loan from Bank BGŻ BNP Paribas S.A. – agreement of 9 September 2016; long-term portion	31.08.2021	6 205	8 825
Long-term loan CAPEX from the European Bank of Reconstruction and Development - agreement of 9 September 2016; long-term portion	31.08.2022	14 158	-
Bond issue – agreement of 9 September 2016; long-term portion	31.08.2021	84 781	93 162
Revolving credit facility from Bank Zachodni WBK S.A. – agreement of 9 September 2016;	31.08.2019	40 710	39 337
Revolving credit facility from Bank BGŻ BNP Paribas S.A. – agreement of 9 September 2016;	31.08.2019	426	49 822
		205 339	**275 514**

In connection with the term and revolving loan agreements signed on 9 September 201 7and agreements related to the bond issue, The Group is obliged to keep the apropriate level of certain covenants, which are calculated at the end of each quarter. As at 31 December 2017 the covenants level was retained.

25. Provisions

As at 31 December 2017 provisions created by the Company amounted to PLN 1,551 thousand (PLN 1,357 thousand in 2016) and were presented as long-term liabilities of PLN 1,551 thousand (PLN 1,357 thousand in 2016) and as short-term liabilities of PLN 0 thousand (PLN 0 thousand in 2016). The amount fully includes a provision for retirement employee benefits.

26. Trade payables, other liabilities and accruals, deferred income and other financial liabilities

26.1. Trade and other payables (short-term)

	Note	As at 31 December 2017	As at 31 December 2016 (transformed)
Trade payables			
Due to related entities	*28*	2 276	4 330
Due to other entities		56 961	69 142
		59 237	**73 472**
Other liabilities			
Liabilities due to employees		699	1 092
Liabilities towards the budget		927	974
Other liabilities		5	6
		1 631	**2 072**

The terms and conditions of financial liabilities presented above:
Terms and conditions of transactions with related entities are presented in note 28.
Other liabilities are interest free and the usual payment term is 30 days.

26.2. Accruals and deferred income

	As at 31 December 2017	As at 31 December 2016
Accruals and deferred income, including:		
Unutilised holiday leaves	1 521	1 119
Bonus for Group employees	2 800	1 400
Advisory services	207	67
Costs of sales agents	100	90
Transport costs	3 411	2 235
Other	49	143
	8 088	**5 055**
- long-term	-	-
- short-term	8 088	5 055

26.3. Other financial liabilties

	As at 31 December 2017	As at 31 December 2016 (transformed)
Other financial liabilities		
Valuation of hedging instruments	3 975	4 330
Liabilities from financial leasing	606	69 142
	4 581	**73 472**

Other financial liabilities		
Short-term	323	1 092
Long-term	4 258	974
	4 581	**2 066**

27. Contingent liabilities

As at 31 December 2017, the Company had no contingent liabilities.

27.1. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions.

No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risk in Poland is much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the beginning the year in which the tax was paid. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits.

In the opionion of the Management Board such risk does not exist for the Company, therefore no provisions have been recognised for identified and quantifiable tax risk as at 31 December 2017.

28. Information on related entities

The table below presents the total values of transactions with related parties entered into during the current and previous year:

Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*including overdue, after the payment date*	*Loan liabilities*
Parent entity:											
Nemus Holding AB	2017	-	327	-	-	4 006	-	-	-	-	-
	2016	-	-	-	-	2 858	-	-	-	-	-
Thomas Onstad	2017	-	-	-	747	-	-	-	-	-	-
	2016	-	-	-	1 498	-	-	-	-	-	17 818
Subsidiary entities:											
Arctic Paper Kostrzyn S.A.	2017	19 478	337	2 491	-	53 317	-	79 204	28	-	59 784
	2016	21 999	3 919	407	-	61 624	-	69 085	1 407	-	-
Arctic Paper Munkedals AB	2017	11 305	-	381	-	7 505		7 929	254	-	33 263
	2016	11 482	-	478	-	5 422		10 100	407	-	-
Arctic Paper Mochenwangen GmbH	2017	93	-	894	-	5 666	5 666	29 185	-	-	-
	2016	282	-	578	-	2 856	2 856	29 185	-	-	-
Arctic Paper Grycksbo AB	2017	11 126	15	1 541	-	10 063	-	54 649	1 284	-	-
	2016	11 251	15	99	-	6 498	-	61 051	871	-	-
Arctic Paper Investment GmbH	2017	-	-	1 024	-	8 712	8 712	34 556		-	-
	2016	-	-	1 076	-	7 930	7 930	34 556		-	-
Arctic Paper Investment AB	2017	-	-		-			82 709	322	-	-
	2016	-	-	-	-	-		82 709		-	-
Arctic Paper Deutschland GmbH	2017	10	142	-	-	-	-	-	57	-	-
	2016	16	197	-	-	-	-	-	35	-	-

Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*including overdue, after the payment date*	*Loan liabilities*
Arctic Paper Sverige AB	2017	8	-	-	-	-	-	-	-	-	-
	2016	13	-	-	-	-	-	-	-	-	-
Arctic Paper Danmark A/S	2017	5	-	-	-	-	-	-	-	-	-
	2016	9	-	-	-	-	-	-	-	-	-
Arctic Paper Italia srl	2017	3	-	-	-	-	-	-	-	-	-
	2016	5	-	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2017	1	-	-	-	-	-	-	-	-	-
	2016	2	-	-	-	-	-	-	-	-	-
Arctic Paper Norge AS	2017	2	-	-	-	-	-	-	-	-	-
	2016	7	-	-	-	-	-	-	-	-	-
Arctic Paper Benelux S.A.	2017	5	1 354	8	-	8	-	417	-	-	-
	2016	13	1 391	-	-	25	-	-	117	-	-
Arctic Paper Baltic States SIA	2017	1	-	-	-	-	-	-	-	-	-
	2016	3	-	-	-	2	-	-	-	-	-
Arctic Paper France SAS	2017	7	-	-	-	-	-	-	-	-	-
	2016	12	-	-	-	-	-	-	-	-	-
Arctic Paper Papierhandels GmbH	2017	7	-	-	-	-	-	-	-	-	-
	2016	9	-	-	-	-	-	-	-	-	-
Arctic Paper UK Limited	2017	6	-	-	-	5	-	-	-	-	-
	2016	20	-	-	-	-	-	-	-	-	-
Arctic Paper Schweiz AG	2017	3	1 471	-	-	-	-	-	288	-	-
	2016	7	1 974	-	-	1	-	-	223	-	-
Arctic Paper Polska Sp. z o.o.	2017	6	49	-	-	-	-	-	1	-	-
	2016	10	40	-	-	-	-	-	3	-	-

Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*including overdue, after the payment date*	*Loan liabilities*
Arctic Paper East Sp. z o.o.	2017	3	-	-	-	17	-	-	-	-	-
	2016	5	-	-	-	17	-	-	-	-	-
Arctic Paper Finance AB	2017	-	-	-	2 150	-	-	-	42	-	31 761
	2016	-	-	-	2 777	1	-	-	46	-	44 675
Other units:											
Progressio s.c.	2017		195						-		
	2016	-	289	-	-	-	-	-	28	-	-
Total	2017	42 071	3 891	6 338	2 897	89 300	14 378	288 649	2 276	-	124 808
impairment charges		(93)	-	(1 918)	-	(14 378)	-	(63 741)	-	-	-
presentation as interests in subsidiary entities		-	-	-	-	-	-	(82 709)	-	-	-
2017 following impairment charges and changes to presentation		41 978	3 891	4 420	2 897	74 922	14 378	142 199	2 276	-	124 808
	2016	45 147	7 825	2 639	4 275	87 234	10 786	286 686	4 358	-	62 493
impairment charges		(282)	-	(1 654)	-	(10 786)	-	(63 741)	-	-	-
presentation as interests in subsidiary entities		-	-	-	-	-	-	(82 709)	-	-	-
2016 following impairment charges and changes to presentation		44 865	7 825	985	4 275	76 448	10 786	140 236	4 358	-	62 493

28.1. Ultimate parent entity of the Group

The direct parent of the Group is Nemus Holding AB. The parent entity of the whole Group is Incarta Development SA.

There were no transactions between the Company and aforementioned companies during the year ended 31 December 2017 and 31 December 2016, apart from the transactions with Nemus Holding AB, as shown in note 29.

28.2. Terms and conditions of transactions with related entities

Related entity transactions are made at arm's length.

28.3. Loan granted to members of the Management Board

In the period covered by these financial statements, the Company did not grant any loans to key management and did not grant any loans in the comparable period.

28.4. Remuneration of the Company's managerial staff

Key management staff of the Company as at 31 December 2017 comprised two persons: President of the Management Board and a Member of the Management Board.

The table below presents the total value of remuneration to the members of the Management Board and the members of the Supervisory Board for the current and previous year:

	As at 31 December 2017	As at 31 December 2016
Management Board		
Employee benefits (salaries and overheads)	6 969	7 848
Supervisory Board		
Employee benefits (salaries and overheads)	1 011	988
Total	**7 980**	**8 836**

29. Information on the remuneration of the statutory auditor or entity authorised to audit financial statements

The table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2017 and 31 December 2016 by category of services:

Service type	As at 31 December 2017	As at 31 December 2016
Statutory audit of the annual financial statements	310 *	325 *
Mandatory audit of the annual financial statements (branch)	20	32
Tax consultancy services	-	-
Other services	60	39
Total	**390**	**396**

* relates to Ernst&Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp.k.

30. Financial risk management objectives and policies

The core financial instruments used by the Company include bank loans, bonds, cash on hand and loans granted and borrowings received within the Group. The main purpose of these financial instruments is to raise finance for the Company's and Group's operations. The Company has various other financial instruments such as trade payables which arise directly from its operations.

The principle used by the Company currently and throughout the whole period covered with these financial statements is not to trade in financial instruments.

The core risks arising from the Company's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk.

The Management Board verifies and approves the management principles of each type of risk – the principles are concisely presented herebelow. The Company has also been monitoring the risk of market prices of holdings of financial instruments.

30.1. Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to financial liabilities and granted variable interest loans.

Interest rate risk – sensitivity to fluctuations

The following table demonstrates the sensitivity of gross profit(loss) to a reasonably possible change in interest rates, with all other variables held constant (in connection with liabilities with variable interest rates). No impact on equity or total comprehensive income has been presented.

	Increase/decrease by percentage points	*Impact on gross profit or loss for 2017*
As at 31 December 2017		
PLN	+1%	144
EUR	+1%	737
SEK	+1%	-
PLN	-1%	(144)
EUR	-1%	(737)
SEK	-1%	-

	Increase / Decrease in percentage points	*Impact on gross result for 2016*
As at 31 December 2016		
PLN	+1%	68
EUR	+1%	460
SEK	+1%	-
PLN	-1%	(68)
EUR	-1%	(460)
SEK	-1%	-

30.2. FX risk

The Company is exposed to transactional FX risk. The risk mainly arises as a result of receiving by the Company dividend from its subsidiaries – and to a lesser extent – as a result of purchase transactions made in currencies other than its functional currency.

The following table demonstrates the sensitivity of gross profit (loss) (due to changes in the fair value of monetary assets and liabilities) and the Company's equity to reasonably possible change of FX rates with all other variables held constant.

	Growth/drop of FX rates	Impact on gross profit or loss	Impact on total comprehensive income
31 December 2017 – SEK	+1%	65	-
	-1%	(65)	-
31 December 2017 – EUR	+1%	199	-
	-1%	(199)	-
31 December 2017 – USD	+1%	15	-
	-1%	(15)	-
31 December 2016 – SEK	+1%	(8)	(103)
	-1%	8	103
31 December 2016 – EUR	+1%	236	-
	-1%	(236)	-
31 December 2016 – USD	+1%	31	-
	-1%	(31)	-

30.3. Credit risk

With respect to the Company's other financial assets such as cash and cash equivalents, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the book value of those instruments.

There are no significant concentrations of credit risk within the Company, except for the Group entities.

30.4. Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The tool considers the maturity of both its financial investments and financial assets (e.g. receivables, other financial assets) and projected cash flows from guaranteed bank loans.

The table below presents the maturity profile of the Company's financial liabilities at 31 December 2017 based on maturities of contractual undiscounted payments.

31 December 2017	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans, borrowings and bonds	-	94 686	38 949	206 716	-	340 352
Other liabilities	-	60 868	-	-	-	60 868
	-	**155 554**	**38 949**	**206 716**	**-**	**401 219**

31 December 2016	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans, borrowings and bonds	-	10 740	43 479	300 746	-	354 965
Other liabilities	-	75 544	-	-	-	75 544
	-	**86 284**	**43 479**	**300 746**	**-**	**430 509**

As at 31 December 2017, the Company held no contingent liabilities.

31. Financial instruments

The Company holds the following financial instruments: cash in bank accounts, loans, borrowings, receivables, liabilities under financial leases and SWAP interest rate contracts.

31.1. Interest rate risk

The table below presents the book value of the financial instruments held by the Company, exposed to interest rate risk, split into specific age categories:

31 grudnia 2017 Oprocentowanie zmienne	*<1rok*	*1–2 lat*	*2-3 lat*	*3-4 lat*	*4-5 lat*	*>5 lat*	*Ogółem*
Pożyczki udzielone do spółek powiązanych	18 000	38 781	21 105	-	-	-	77 886
Kredyty bankowe	20 064	-	-	-	-	-	20 064
Pożyczki otrzymane od spółek powiązanych	93 047	-	-	-	-	-	93 047
	131 111	**38 781**	**21 105**	**-**	**-**	**-**	**190 997**

31 grudnia 2017 Oprocentowanie stałe	*<1rok*	*1–2 lat*	*2-3 lat*	*3-4 lat*	*4-5 lat*	*>5 lat*	*Ogółem*
Kredyty bankowe	37 310	17 075	16 041	15 046	10 406	-	95 878
Obligacje	12 284	18 809	17 059	48 914	-	-	97 065
Pożyczki otrzymane od spółek powiązanych	10 907	10 427	10 427	-	-	-	31 761
	60 500	**46 311**	**43 527**	**63 960**	**10 406**	**-**	**224 704**

31 December 2016 Floating rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Loans granted to subsidiary entities	10 100	67 231	62 905	-	-	-	140 237
Bank loans	5 000	-	35 361	-	-	-	40 361
	15 100	**67 231**	**98 267**	**-**	**-**	**-**	**180 598**

31 December 2016 Fixed rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank loans	10 108	14 502	67 388	12 695	11 833	7 394	123 920
Bonds	4 473	12 158	18 180	16 434	46 376	14	97 635
Loans received from subsidiary entities	29 313	33 180	-	-	-	-	62 493
	43 894	**59 840**	**85 568**	**29 129**	**58 209**	**7 408**	**284 048**

In connection with the recognised complete write-off, the Company concluded that the loans granted to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH (including interest) are not exposed to interest rate risk.

31.2. Fair value of each category of financial instruments

Due to the fact that the book values of the financial instruments held by the Company do not materially differ from their fair value, the table below presents all financial instruments by their book values, split into categories of assets and liabilities.

		Book value	
	Category in compliance with IAS 39	31 December 2017	31 December 2016
Financial Assets			
Other (long-term) financial assets	*L&R*	68 042	62 905
Trade and tax receivables	*FVTPL*	36 943	10 863
Other (short-term) financial assets	*L&R*	74 157	77 332
Financial liabilities			
Interest-bearing loans and borrowings	*OFL*	337 817	324 408
- short-term bonds	*OFL*	323	300
Trade payables and other financial liabilities	*OFL*	63 495	77 958

Abbreviations used:
L&R – Loans and receivables
FVTPL – Financial assets/liabilities measured at fair value through comprehensive income,
OFL – Other financial liabilities measured at amortised cost.

31.3. Collateral

Cash flow hedge

As at 31 December 2017, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,

Cash flow volatility hedge accounting related to variable loan interest rate of the long-term loan with the use of SWAP transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in EUR on the loan in EUR:

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 M.

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in PLN on the loan in PLN:

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 M

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 M.

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 December 2017 and the comparative data:

	As at 31 December 2017		As at 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
SWAP	-	3 604	-	4 580
Floor option	-	370		(343)
Total hedging derivatives	-	3 974	-	4 237

The table below presents the nominal value of derivative hedging instruments as at 31 December 2017:

	1 year	1 to 5 years	Over 5 years	Total
SWAP on interest principal repayment (in PLN thousand)	22 954	204 514	-	227 468

The table below presents the amounts related to cash flow hedge accounting that were recognised in 2017 by the Company in profit and loss account and in the total comprehensive income statement:

	Year ended 31 December 2017
Revaluation reserve as at 31 December 2017 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	3 835
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	(111)
The period of the anticipated hedged flows	1 January 2018 - 31 August 2021

The table below presents changes to revaluation reserve due to cash flow hedge accounting in 2017:

	Year ended 31 December 2017
Revaluation reserve as at 01 January 2017	4 580
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	(856)
The amount of the changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from the revaluation reserve and transferred to financial income or expenses	111
Revaluation reserve as at 31 December 2017	3 835

Fair value hedge

Fair value volatility hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

32. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.
The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended on 31 December 2017 and 31 December 2016.

	As at 31 December 2017	As at 31 December 2016
Interest-bearing loans, borrowings, bonds and other financial liabilities	342 398	329 194
Trade and other payables	60 996	75 543
Minus cash and cash equivalents	(36 943)	(10 863)
Net debt	366 451	393 875
Equity	531 032	570 026
Equity and net debt	897 483	963 901
Leverage ratio	**0,41**	**0,41**

The Company monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Company includes interest bearing loans and borrowings, trade and other payables, reduced by cash and cash equivalents within its net debt.

33. Employment structure

The average headcount in the Company in the year ended on 31 December 2017 and 31 December 2016 was as follows:

	As at 31 December 2017	As at 31 December 2016
Management Board	2	5
Finances	6	7
Sales & Marketing	4	6
Logistics	24	24
Administration	8	2
IT	1	2
Total	**45**	**46**

34. Reasons for differences between changes resulting from the statement of financial condition and changes resulting from the cash flow statement

The differences between changes resulting from the statement of financial condition and changes resulting from the cash flow statement are presented in the table below:

	Year ended 31 December 2017	Year ended 31 December 2016 (transformed)
Change in income tax receivables resulting from the report on financial situation	128	(178)
Tax paid	(396)	(214)
	(268)	**(392)**

35. Events after the balance sheet date

35.1. Repayment of debt under lease contracts at Arctic Paper Grycksbo AB

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. In the same time th Company applied to the current consortium of the financing banks (Bank Zachodni WBK S.A. oraz Bank BGŻ BNP Paribas S.A.) to grant consent to contract financial indebtedness in the form of a term facility of up to PLN 25,820,000.00 as an additional tranche under the facilities agreement of 9 September 2016, in order to finance or refinance repayment of Arctic Paper Grycksbo AB's indebtedness under a lease granted by Svenska Handelsbanken AB. Such consent was alredy grated as at 20 February 2018 by the Bondholders' Meeting. Currently the Company is completing the documentation regarding the abovementioned additional tranche.

35.2. Announcement of the strategic plan for the paper business

The Management Board of Arctic Paper has adopted a long term financial target of EBIT 10 percent. The Management Board has also adopted a new strategy for its paper business – A Future in Paper - Strategic Agenda 2022 – showing the way to a growing and more profitable business. The new general business strategy consists of six strategic initiatives:

- Growth by focusing on selected profitable segments and markets, among them speciality & premium products, Eastern Europe and new markets.
- New innovative products and grades developed in close collaboration with customers.
- Building stronger brands for premium and other segments, leading to higher revenue per ton paper.
- Optimization of all processes with the aim to reduce costs.
- Nurturing a performance culture among all employees built on clear targets and continuous measurement.
- A sustainable business built on recyclable products and renewable materials.

Implementation of the strategy has already begun, which means that different entities and functions are working with action plans based on these strategic initiatives.

From the balance sheet date until the day of publishing of these financial statements, there were no other events which might have a material impact on the Company's financial and capital position.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	9 April 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	9 April 2018	