Arctic Paper S.A.

Annual Report 2018

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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Selected standalone financial data

Selected standalone financial data

	For the period from 01.01.2018 to 31.12.2018 000'PLN	For the period from 01.01.2017 to 31.12.2017 000'PLN	For the period from 01.01.2018 to 31.12.2018 000'EUR	For the period from 01.01.2017 to 31.12.2017 000'EUR
Sales revenues	82 695	90 210	19 404	21 185
Operating profit (loss)	36 298	(31 438)	8 517	(7 383)
Gross profit (loss)	20 285	(39 266)	4 760	(9 221)
Net profit (loss) from continuing operations	19 523	(39 662)	4 581	(9 314)
Net profit (loss) for the financial year	19 523	(39 662)	4 581	(9 314)
Net cash flows from operating activities	(84 699)	114 289	(19 874)	26 839
Net cash flows from investing activities	(258)	(12 582)	(61)	(2 955)
Net cash flows from financing activities	67 619	(75 628)	15 867	(17 760)
Change in cash and cash equivalents	(17 337)	26 079	(4 068)	6 124
	-	-	-	-
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)	0,28	(0,57)	0,07	(0,13)
Diluted EPS (in PLN/EUR)	0,28	(0,57)	0,07	(0,13)
Mean PLN/EUR exchange rate*			4,2617	4,2583

	As at 31 December 2018 000'PLN	As at 31 December 2017 000'PLN	As at 31 December 2018 000'EUR	As at 31 December 2017 000'EUR
Total assets	992 611	944 061	230 840	226 345
Long-term liabilities	82 807	207 214	19 257	49 681
Short-term liabilities	374 679	205 815	87 135	49 345
Equity	535 124	531 032	124 447	127 318
Share capital	69 288	69 288	16 113	16 612
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)	7,72	7,66	1,80	1,84
Diluted book value per share (in PLN/EUR)	7,72	7,66	1,80	1,84
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**			4,3000	4,1709

* - 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.

Management Board Report

from operations of Arctic Paper S.A.
to the annual report for 2018

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

Dear Ladies and Gentlemen,

2018 was a challenging year for our industry. It is an extremely challenging market environment to operate in, but Arctic Paper's market position has strengthened in relative terms.

Our strategy shows the way to a growing and more profitable business, but there is still a lot to do to strengthen Arctic Paper's competitiveness. To succeed in achieving our long-term financial goal, even greater focus is needed on efficiency and productivity. We must spend our money in a more efficient way to achieve better results. The road to sustainably higher profitability is not only about cost savings but about building a strong performance-oriented culture at Arctic Paper. We need to be better at recruiting, engaging, involving and motivating all employees in contributing to the company's development and making the necessary changes.

I also want to emphasize the importance of our strategic holding in Rottneros, which contributes to stability and greater financial muscle. All in all, this means that I look to the future with confidence, and I look forward to leading Arctic Paper in a time of great challenges and major changes.

Sincerely yours,
Michał Jarczyński
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 S.A. 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 2018.

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 foreign branch in Göteborg, Sweden.

Business objects
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 2018, 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 sales office operating in Sweden;
— Arctic Paper Norge AS – a sales office operating in Norway;
— Arctic Paper Danmark A/S – a 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 2018 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 2018.

Modifications to the core management principles

In 2018 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 2018) 40,381,449 shares of our 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 Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2018 was 68.13% and has not changed until the date hereof.

as at 18.03.2019

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 31.12.2018

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 09.11.2018

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%**

The data in the above table is provided as of the date of approval hereof, on the balance sheet date and as of the publication date of the quarterly report for Q3 2018.

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

In 2018 the Management Board approved its new strategy for the Group's paper business "The future lies in paper – Strategic Agenda 2022" which aims at developing the business and improve the profitability of the segment. The new strategy consists in obtaining higher EBIT profitability in a sustainable way at 10% latest by 2022; the strategy is founded on six initiatives:

— Business development by focusing on selected profitable segments and markets, including specialist products and premium products, in Eastern Europe and in new markets;
— New innovative products and weights, developed in close cooperation with customers;
— Development of strong brands for the premium segment in order to increase revenues per one ton of paper;
— Optimisation of all processes in order to reduce costs;
— Reinforcement of the efficiency culture among employees, based on clear and measurable objectives;
— Sustainable activities based on products that may be recycled and on renewable materials.

Sales structure

In 2018, the sales structure by main sources of the Company's revenues was as follows:

thousand tons	2018	share %	2017	share %
Services	37 970	46%	37 377	41%
Dividend	39 812	48%	48 412	54%
Interest income on loans	4 913	6%	4 420	5%
Total	**82 695**	**100%**	**90 210**	**100%**

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

PLN '000	2018	share %	2017	share %
Arctic Paper Kostrzyn S.A.	39 488	48%	49 386	55%
Rottneros AB	12 125	15%	13 440	15%
Arctic Paper Munkedals AB	10 758	13%	11 296	13%
Arctic Paper Grycksbo AB	13 516	16%	12 000	13%
Other	6 808	8%	4 087	5%
Total	82 695	100%	90 210	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. Reduced 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 2018.

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 items of the profit and loss statement

PLN '000	2018	2017	Change % 2018/2017
Sales revenues	**82 695**	**90 210**	**(8,3)**
of which:			
Revenues from sales of services	*37 970*	*37 377*	*1,59*
Interest income on loans	*4 913*	*4 420*	*11,14*
Dividend income	*39 812*	*48 412*	*(17,76)*
Profit on sales	77 366	84 406	(8,3)
% of sales revenues	*93,56*	*93,57*	*(0,0) p.p.*
Selling and distribution costs	(2 997)	(2 855)	5,0
Administrative expenses	(32 981)	(35 749)	(7,7)
Other operating income	3 960	524	656,1
Other operating expenses	(9 050)	(77 764)	(88,4)
EBIT	**36 298**	**(31 438)**	**(215,5)**
% of sales revenues	*43,89*	*(34,85)*	*78,7 p.p.*
EBITDA	**36 773**	**(30 974)**	**(218,7)**
% of sales revenues	*44,47*	*(34,34)*	*78,8 p.p.*
Financial income	4 630	6 738	(31,3)
Financial expenses	(20 643)	(14 566)	41,7
Gross profit	**20 285**	**(39 266)**	**(151,7)**
Income tax	(762)	(396)	92,5
Net profit	**19 523**	**(39 662)**	**(149,2)**
% of sales revenues	*23,61*	*(43,97)*	*67,6 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 Sales Offices and Procurement Office. In 2018, the standalone sales revenues amounted to PLN 82,695 thousand and included: dividend income (PLN 39,812 thousand), services provided to Group companies (PLN 37,970 thousand) and interest income on loans (PLN 4,913 thousand). In 2017 the Company's standalone revenues amounted to PLN 90,210 thousand and included: dividend income (PLN 48,412 thousand), services provided to Group companies (PLN 37,377 thousand) and interest income on loans (PLN 4,420 thousand).
In 2018 and in 2017, the Company did not render services to the Pulp Mills of the Rottneros Group.

The costs of sales cover internal costs of providing logistics services and interest on loans granted to the Company by related entities (PLN 3,807 thousand).

Administrative expenses

In 2018 the administrative expenses amounted to PLN 32,981 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 2018 the Company recognised the amount of PLN 2,997 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 3,960 thousand in 2018 which means a growth versus to the equivalent period of the previous year – that was due primarily to reversal of impairment allowances of fixed assets – shares in Arctic Paper Sverige AB an Arctic Paper Norge AS for PLN 3,451 thousand. Details are provided in note 18.2 to the standalone financial statements.

At the same time there was a decrease of other operating expenses that reached the level of PLN 9,050 thousand (in 2017 it was PLN 77,764 thousand). The decrease of other operating expenses was due primarily to the recognition in 2017 of higher impairment charges to shares in Arctic Paper Investment AB (PLN 75,236 thousand), in 2018 the impairment charges to shares amounted to PLN 7,828 thousand.

Financial income and financial expenses

In 2018, the financial income amounted to PLN 4,630 thousand and was by PLN 2,108 thousand lower than generated in the equivalent period last year. At the same time, there was an increase of financial expenses from PLN 14,566 thousand in 2017 up to PLN 20,643 thousand.

The changes to financial income and expenses result mainly 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 2017 the Company recorded a surplus of FX profit disclosed as financial income while in 2018 the Company disclosed a surplus of FX losses as financial expenses.

Profitability analysis

EBITDA in 2018 was PLN 36,773thousand while in 2017 it was PLN -30,974 thousand.
EBIT in 2018 amounted to PLN 36,298 thousand as compared to PLN -31,438 thousand in the previous year.
The net profit in 2018 amounted to PLN 19,523 thousand as compared to the net profit of PLN -39,662 thousand in 2017.

PLN '000	2018	2017	Change % 2018/2017
Profit on sales	77 366	84 406	(8,3)
% of sales revenues	*93,56*	*93,57*	*(0,0) p.p.*
EBITDA	**36 773**	**(30 974)**	**(218,7)**
% of sales revenues	*44,47*	*(34,34)*	*78,8 p.p.*
EBIT	**36 298**	**(31 438)**	**(215,5)**
% of sales revenues	*43,89*	*(34,85)*	*78,7 p.p.*
Net profit	**19 523**	**(39 662)**	**(149,2)**
% of sales revenues	*23,61*	*(43,97)*	*67,6 p.p.*
Return on equity / ROE (%)	3,6	(7,5)	11,1 p.p.
Return on assets / ROA (%)	2,0	(4,2)	6,2 p.p.

In 2018, return on equity was 3.6% while in 2017 it was -7.5%. Return on assets increased from -4.2% in 2017 to 2.0% in 2018.

Selected items from the statement of financial position

PLN '000	31.12.2018	31.12.2017	Change % 2018/2017
Fixed assets	751 507	751 157	350
Receivables	90 818	75 287	15 531
Other current assets	130 681	80 675	50 006
Cash and cash equivalents	19 605	36 943	(17 337)
Total assets	**992 611**	**944 061**	**48 550**
Equity	535 124	531 032	4 092
Short-term liabilities	374 679	205 815	168 864
Long-term liabilities	82 807	207 214	(124 407)
Total equity and liabilities	**992 611**	**944 061**	**48 550**

As at 31 December 2018 total assets amounted to PLN 992,611 thousand as compared to PLN 944,061 thousand at the end of 2017.

Fixed assets

At the end of December 2018 fixed assets accounted for about 75.7% of total assets and their share in total assets decreased versus December 2017 (79.6%).

Current assets

As at the end of December 2018, current assets amounted to PLN 241,104 thousand as compared to PLN 192,904 thousand at the end of 2017.

Equity

At the end of December 2018, the equity amounted to PLN 535,124 thousand as compared to PLN 531,032 thousand at the end of 2017.
The growth of equity was primarily due to the net profit generated in 2018.

Short-term liabilities

As at the end of December 2018, short-term liabilities amounted to PLN 374,679 thousand (37.7 % of balance sheet total) as compared to PLN 205,815 thousand as at the end of 2017 (21.8 % 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 and re-classification of certain long-term loans to short-term loans due to failure to comply with the financial ratio.

Long-term liabilities

As at the end of December 2018, long-term liabilities amounted to PLN 82,807 thousand (8.3 % of balance sheet total) as compared to PLN 207,214 thousand as at the end of 2017 (21.9 % of balance sheet total). The decrease of long-term liabilities was primarily due to a decrease of the long-term part of interest liabilities and reclassification of certain long-term loans to short-term due to failure to comply with the financial ratio.

Debt analysis

	2018	2017	Change % 2018/2017
Debt to equity ratio (%)	85,5	77,8	7,7 p.p.
Equity to fixed assets ratio (%)	71,2	70,7	0,5 p.p.
Interest-bearing debt-to-equity ratio (%)	66,0	63,6	2,4 p.p.

As at the end of December 2018 the debt to equity ratio was 85.5% and was higher by 7.7 p.p. versus the end of December 2017.

The equity to asset ratio increased from 70.7% as at the end of 2017 to 71.2% as at the end of December 2018. The interest bearing debt to equity ratio was 66.0 % as at the end of 2018 and it was at a higher level as compared to the end of December 2017 by 2.4 p.p.

Liquidity analysis

	2018	2017	Change % 2018/2017
Current ratio	0,64x	0,94x	(0,3)
Quick ratio	0,64x	0,94x	(0,3)
Acid test ratio	0,05x	0,18x	(0,1)

The current liquidity ratio and the fast liquidity ratio at the end of December 2018 amounted to 0.64x and were by 0.3x lower than at the end of December 2017. The cash ration dropped versus December 2017 and was 0.05x at the end of 2018.

Selected items from the cash flow statement

PLN '000	2018	2017	Change % 2018/2017
Cash flows from operating activities	(84 699)	114 289	(174,1)
of which:			
Gross profit	*20 285*	*(39 266)*	*(151,7)*
Depreciation/amortisation	*475*	*464*	*2,5*
Changes to working capital	*18 318*	*(9 609)*	*(290,6)*
Net interest and dividends	*8 156*	*14 474*	*(43,7)*
Increase / decrease of loans granted to subsidiaries	*(135 365)*	*78 129*	*(273,3)*
Other adjustments	*3 432*	*70 097*	*(95,1)*
Cash flows from investing activities	(258)	*(12 582)*	(97,9)
Cash flows from financing activities	67 619	(75 628)	(189,4)
Total cash flows	**(17 337)**	**26 079**	**(166,5)**

Cash flows from operating activities

In 2018, net cash flows from operating activities amounted to PLN -84,699 thousand as compared to PLN 114,289 thousand in 2017. The high negative flows from operating activities in 2018 were primarily affected by the change of payables under cash pooling and change of balances of loans to subsidiary companies.

Cash flows from investing activities

In 2018, cash flows from investing activities amounted to PLN -258 thousand as compared to PLN -12,582 thousand in 2017. The negative cash flows from investing activities in 2017 were primarily related to increased interests in subsidiary companies which did not occur in 2018.

Cash flows from financing activities

In 2018 cash flows from financing activities amounted to PLN 67,619 thousand as compared to PLN -75,628 thousand in 2017. In 2018 cash flows from financing activities were related to changing balances of 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 2018.

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

Repayment of lease liabilities of Arctic Paper Grycksbo AB and receipt of a re-financing tranche from banks

On 7 January 2018, Arctic Paper S.A. granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 million to cover repayment under lease contracts with Svenska Handelsbanken AB. The Company requested the existing consortium of financing banks Santander Bank S.A. (formerly Bank Zachodni WBK S.A.) and Bank BGŻ BNP Paribas S.A.) for approval for the Company to contract an additional short-term loan up to PLN 25,820 thousand to be granted as an additional tranche under the loan agreement of 9 September 2016 in order to finance or re-finance repayment of lease debt by Arctic Paper Grycksbo AB granted by Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018. The new loan tranche of PLN 25,820 thousand was disbursed by the banks on 18 July 2018.

Received release from complying with the financial ratios as at 31 December 2018

As described in note 7 of the standalone financial statement, in view of failure to comply with a financial ratio, after the balance sheet date Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 31 December 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 65,996 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

Factors affecting the development of the Company

Information on market trends and in factors affecting the Company's financial results over the next year is provided in the consolidated annual report. Below 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 result in an overall drop of demand and average prices of high quality paper which in turn may adversely affect the dividends received from subsidiary companies.

FX risk

The Company's revenues, expenses and results are exposed to 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.

The objectives and methods of financial risk management in the Company along with the methods applied to hedge material transactions are detailed in note 30 to the standalone financial statements.

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 management staff and qualified personnel

The achievement of strategic objectives by the Company is subject to the know-how and experience of the professional management staff and the ability to hire and retain qualified specialists. The Company may not be able to retain its management staff and other key specialists or to attract new specialists. If the Company is not able to attract and retain management 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 2016 with a consortium of banks (European Bank for Reconstruction and Development, Santander Bank S.A. and BGŻ BNP Paribas S.A.) and the bond issue agreement, the Company has interest payable under the agreements.

Failure by the Company 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 Company to distribute dividend.

In connection with the term and revolving loan agreements signed on 9 September 2016, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 "Obtaining of new financing" in the Annual Report for 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 2018 and has not published and does not intend to publish projections of financial results for 2019.

Dividend information

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

In accordance with provisions of the Code of Commercial Companies, the parent entity 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 company. The use of reserve capital and other reserves 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 company 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 risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2018.

In connection with the term and revolving loan agreements signed on 9 September 2016, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement, the possibility of dividend disbursement by the Company is subject to the Group complying with specified financial ratios in two periods preceding such disbursement (in compliance with the definition of the period in the term and revolving loan agreements) and non-occurrence of any event of default (in compliance with the definition of the period in the term and revolving loan agreements).

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2018, the Parent Entity's Supervisory Board was composed of:
— Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
— Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed as a Member of the Supervisory Board 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).

On 13 June 2018, the Ordinary General Meeting decided to appoint the Supervisory Board with no changes to the next joint term of office, effective on 21 December 2018.

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

As at 31 December 2018, the Parent Entity's Management Board was composed 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 10 December 2018, the Supervisory Board dismissed Mr Per Skoglund from the function of the President of the Company's Management Board and CEO, effective on 31 January 2019. At the same meeting, the Supervisory Board nominated Mr Michał Jarczyński to the function of the President of the Company's Management Board effective on 1 February 2019. Mr Michał Jarczyński will also act as the Chief Executive Officer of the Company.

Until the date hereof, there were no other changes in the composition of the Management Board of the Parent Company.

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

In 2018 there were no changes to the Company's share capital.

Purchase of treasury shares

In 2018 and 2017 the Company did not acquire any treasury stock.

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 2018 to 31 December 2018 (data in PLN thousand).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Costs related to termination of the employment contract	Other	Total
Management Board					
Per Skoglund	1 241 148	362 188	2 189 269	132 964	3 925 570
Göran Eklund	780 051	215 058	-	17 743	1 012 852
Supervisory Board					
Per Lundeen	300 321	-	-	-	300 321
Roger Mattsson	210 000	-	-	-	210 000
Thomas Onstad	150 000	-	-	-	150 000
Mariusz Grendowicz	180 252	-	-	-	180 252
Maciej Georg	150 000	-	-	-	150 000

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2018 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 18.03.2019	Number of shares or rights to shares as at 31.12.2018	Number of shares or rights to shares as at 09.11.2018	Change
Management Board				
Michał Jarczyński	-	N/A	N/A	-
Per Skoglund	N/A	20 000	20 000	-
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 2018 the Company did not place any 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" of the Annual Report for 2016) signed on 9 September 2016, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims would be 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 2018 in note 27.

Assessment of the feasibility of investment plans

Arctic Paper S.A. plans no material investments to be made in 2018. 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 the entity authorised to audit the financial statements

On 25 September 2018 the Company entered into a contract with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for audit of the Company's financial statements and consolidated financial statements of the Group for the year ended on 31 December 2018 and ending on 31 December 2019. The contract was concluded for the time required to perform the above services.

Other information on the entity authorised to audit the financial statements is provided in note 29 to the standalone financial statements for 2018.

Headcount

Information on the headcount is provided in note 33 to the standalone financial statements for 2018.

Report on non-financial information

Apart from this report the Company publishes a separate report on non-financial information for the Arctic Paper S.A. 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 GPW Listed Companies 2016", attached to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 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 8 January 2019 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 Practice of GPW Listed Companies. In 2018 Arctic Paper S.A. did not apply the following rules:

Good practice – Information Policy, Communication with Investors

Recommendation I.R.2
"Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report".

Explanation: The Company is not involved in any sponsorship, charity or similar activities.

Principle No. 1.Z.1.10
"A company operates a corporate website and publishes 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 operates a corporate website and publishes 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 as: 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 operates a corporate website and publishes 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 operates a corporate website and publishes on it, in a legible form and in a separate section, in addition to information required under the applicable laws: a recorded transmission of a general meeting, in audio or video form".

Explanation:
Publication of the entire recording from a general meeting, in audio or video form, might infringe interests of shareholders. Information on the approved resolutions is published by the company in the form of current reports. When this solution becomes more popular in the market, the company will consider implementing it.

Good practice – Systems and internal functions
Recommendation III.R.1
"The company's structure includes 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.

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

Explanation:
The Company has not established dedicated units to be 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. The external entities that provide consultancy services, including legal consulting and performing audits, have regular and direct 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 report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred toin Principle No. 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 practice – 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) two-way communication in real time, under which the shareholders may speak at the General Meeting of Shareholders, while not present at the place where the General Meeting of Shareholders is held,
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 to carry out a number of technical and organisational activities, and the related costs and risks, the Company has decided not 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 practice – 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.1
Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

Explanation:
At present the company pursues no incentive schemes.

Principle No. VI.Z.2
To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Explanation:
The company pursues no incentive schemes. The rules of remuneration are set forth in the remuneration regulations in force at the company. The remuneration of members of the Management Board is set by the Supervisory Board who are guided by their best knowledge and will.

Principle No. VI.Z.4.
In its report from operations, the company should report on the remuneration policy including at least the following:
- general information on remuneration system adopted by the Company,
- 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 each entity belonging to the Capital group,
- information about non-financial remuneration components due to each management board member and key manager,
- significant amendments of the remuneration policy in the last financial year or information about their absence,
- 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 9 March 2018. 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 Company prepares its financial statements and periodic reports on the basis of the procedures of making and publishing periodic reports and consolidated reports, in force at Arctic Paper S.A. 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 next 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 2018 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 packages of shares is presented in the table below – the table presents the situation as of the publication date of the annual report.

	as at 18.03.2019			
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%**

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 Competition and Consumer Protection of 16 February 2007 and the Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings of 20 January 2004.

Additional restrictions related to purchases and sales of the Issuer's securities by persons in managerial functions and their closely related persons are set forth in Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC ("MAR").

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 of on Offering and Marketing of Financial Instruments to Organised Trading Systems and on Public Companies 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 Chairperson 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:
- Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
- Per Skoglund – President of the Management Board appointed on 27 April 2016 and acting until 31 January 2019 (appointed as 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 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 doubt, 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, 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 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 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).

In 2018, the Supervisory Board held meetings on: 21-22 February, 19-20 April, 28-29 June, 12-13 September and 10 December 2018.

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 no 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;
— At least one member of the audit committee shall have knowledge and skills in terms of accounting or auditing financial statements. The Supervisory Board is of the opinion that the requirement of competences in the sphere accounting and financial audit is recognised as satisfied if a member of the Audit Committee has a significant experience in financial management in commercial partnerships, internal audit or audit of financial statements, and additionally:
  › has the title of a certified auditor or equivalent international certificate, or
  › has an academic degree in the field of accounting or financial audit, or
  › has long-term experience as a financial director in public companies or in working in an audit committee of such companies.
— Members of the Audit Committee shall have knowledge and skills relating to the industry in which the Issuer operates. This condition is recognised as satisfied if at least one member of the Audit Committee has knowledge and skills relating to that industry or individual members within specific scopes have knowledge and skills relating to the scope of that industry. The Supervisory Board is of the opinion that the requirement of competences relating to the industry is recognised as satisfied if a member of the Audit Committee has information on the characteristics of the sector, that allows him to obtain a complete picture of the sector's complexity or has knowledge on part of the chain of activities carried out by the Company.

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.
In 2018, the Audit Committee held 3 meetings on: 21 February, 12 September, 10 December.

As at 18 October 2017, the Audit Committee was composed of:
- Mariusz Grendowicz – a member meeting the independence criteria. Mr Mariusz Grendowicz being a member of the Supervisory Board for over five years, including being a member of the Audit Committee, has experience and qualifications relating to the scope of the industry in which the Company operates;
- Roger Mattsson – due to his long-term experience as the financial controller at the Arctic Paper Group and over three years in the Audit Committee, Mr Roger Mattsson meets the requirement of knowledge and know-how of the Company's business as required of members of the Audit Committee. Additionally, he has knowledge and skills in the sphere of accounting or auditing financial statements;
- Maciej Georg – a member meeting the independence criteria.

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

Core assumptions underlying the policy of selecting an audit firm to conduct audits
- According to the regulations applicable to the Company, the Company's Supervisory Board shall select – by way of a resolution and acting under a recommendation of the Audit Committee – the auditor authorised to carry out the audit;
- The selection is made taking into account the principles of impartiality and independence of the audit firm and the analysis of the audit firm's work carried out in the Company which falls beyond the scope of the audit of financial statements, in order to avoid any conflict of interest (observance of impartiality and independence);
- A request for proposals concerning the selection of an audit firm for statutory audit of the Company's financial statements is developed by the Audit Committee in concert with the Company's Financial Director;
- After analysing the submitted offers, the Audit Committee shall develop a recommendation with conclusions from the selection procedure to be approved by the Audit Committee and shall submit a recommendation on the selection of the audit firm to the Supervisory Board within such time that will support a resolution on audit firm selection;
- The Supervisory Board shall select the audit firm on the basis of the submitted offers and after becoming acquainted with the Audit Committee's opinion and recommendation;
- If the Supervisory Board's decision differs from the recommendation of the Audit Committee, the Supervisory Board shall justify the reasons for its failure to comply with the Audit Committee's recommendation and shall submit such justification to the body approving the financial statements;
- The Company's Management Board shall enter into a contract with the selected audit firm for the audit of financial statements of the Company;
- The first contract is concluded for minimum 2 years and it may be extended for another two or three years. The duration of the cooperation shall be counted from the first financial year covered by the audit contract, in which the authorised auditor was appointed for the first time to carry out the consecutive statutory audits of the Company;
- After expiry of the maximum period of the cooperation, the authorised auditor or, where applicable, any member of its network, may not undertake a statutory audit of the Company's financial statements for further 4 years;
- The key statutory auditor may not perform a statutory audit in the Company for a period longer than 5 years. The key statutory auditor may conduct a statutory audit again after the expiry of 3 years;
- The maximum period of uninterrupted performance of statutory audits by the same audit firm or an audit firm related to that audit firm or any member of the network operating in the European Union of which the audit firms are members, may not exceed 5 years.

Core assumptions underlying the policy the provision of permitted services other than audit services by the audit firm performing the audit, by entities related to the audit firm and by a member of the audit firm's network;

- The Audit Committee of Arctic Paper S.A. shall be responsible for the policy covering the provision of permitted services other than audit services by the audit firm performing the audit, by entities related to the audit firm and by a member of the audit firm's network;
- The Audit Committee of Arctic Paper S.A. controls and monitors the independence of the auditor and the audit firm, in particular if the audit firm provides other services than audit of statutory financial statements to Arctic Paper S.A.;
- The Audit Committee of Arctic Paper S.A., when so requested by a competent body or person, approves the provision of permitted services by the auditor that are not an audit of Arctic Paper S.A.;
- The prohibited services do not include:
  - carrying out due diligence procedures for economic and financial condition;
  - issue of letters of support;
  - attestation services related to pro forma financial information, forecast of results, or estimation of results, contained in the issue prospectus of the audited entity;
  - review of historic financial information for projects referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisement;
  - verifying consolidation packages;
  - confirming the fulfilment of terms and conditions of concluded loan agreements on the basis of the analysis of financial information from the financial statements audited by the audit firm;
  - attestation services related to reporting on corporate governance, risk management, and corporate social responsibility;
  - services consisting in assessing the conformity of information disclosed by financial institutions and investment firms with requirements for disclosure of information on capital adequacy and variable remuneration components;
  - certifying financial statements or other financial information intended for supervisory authorities, supervisory board or other supervisory body of the company or owners, which falls beyond the scope of statutory audit and helps these bodies to fulfil their statutory obligations;
- provision of the above services is possible solely to the extent not related to the entity's tax policies after a review by the Audit Committee of hazards and mitigants of the audit firm's independence as referred to in Art. 69-73 of the Act on Certified Auditors, Audit Firms and Public Supervision.

On 22 February the Supervisory Board of Arctic Paper S.A. in its resolution elected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as the Company's auditor to audit the financial statements for 2018 and 2019. The Supervisory Board selected the audit firm on the basis of a recommendation by the Audit Committee. The recommendation of the Audit Committee was issued as a result of the selection procedure in compliance with the "Policy and selection procedure of the audit firm to perform statutory and voluntary audit of consolidated and stand-alone financial statements of Arctic Paper S.A. with its registered office in Poznań".

Apart from the above, KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. will also conduct assurance services covering the audited period regarding calculation of the covenants and the underlying pro-forma financial statements. The provision of such services is in compliance with the policy on the provision of permitted services by the audit firm that carries out the audit (...) which are not audit services of statutory consolidated and standalone financial statements of Arctic Paper S.A., approved by the Company.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., entities related to the audit firm and members of its audit firm network, in the period covered by the audit did not provide any other permitted services to the issuer that are not a statutory audit.

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 no 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 members 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.

The Remuneration Committee held a meeting on 21 February 2018.

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 no 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;

The Risk Committee held a meeting on 28 June 2018.

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 governing bodies of the company

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 Management 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 Best 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.

Information by the Management Board of Arctic Paper S.A. on selection of the audit firm

On the basis of a statement made by the Supervisory Board of Arctic Paper S.A. on the selection of the audit firm to audit the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2018 in compliance with applicable laws and on the basis of a statement received from KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, the Company's Management Board informs that the audit firm and members of its team performing the audit have complied with the requirements to make an impartial and independent report from the audit of the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2018 in compliance with the applicable laws, professional standards and the rules of professional ethics.

The Management Board of the Company also informs that the applicable laws with regard to a change of the audit firm and the key statutory auditor, as well as mandatory periods of grace have been complied with. The Arctic Paper Group has a policy relating to the selection of the auditing company and a policy of the provision of services that are not an audit by the audit firm, entities related to the audit firm or a member of its group, including services that are not covered with the ban on being provided by audit firms.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Financial Director	Göran Eklund	18 marca 2019	signed with a qualified electronic signature

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 2018 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 2018 in a true, reliable and clear manner;

— The Management Board's Report from operations of Arctic Paper S.A. in 2018 contains a true image of the development, achievements and condition of Arctic Paper S.A., including a description of core hazards and risks.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Financial Director	Göran Eklund	18 marca 2019	signed with a qualified electronic signature

Financial statement

for the year ended on 31 December 2018
together with independent auditor's report

(all amounts in PLN '000 unless specified otherwise)

Standalone financial statements

Standalone profit and loss statement

	Note	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Continuing operations			
Revenues from sales of services	*28*	37 970	37 377
Interest income on loans	*28*	4 913	4 420
Dividend income	*28*	39 812	48 412
Sales revenues	*11*	82 695	90 210
Interest expense to related entities and internal costs of sale of logistics services	*12.5*	(5 329)	(5 804)
Profit (loss) on sales		**77 366**	**84 406**
Other operating income	*12.1*	3 960	524
Selling and distribution costs	*12.5*	(2 997)	(2 855)
Administrative expenses	*12.5*	(32 981)	(35 749)
Impairment allowance to assets	*12.2*	(8 652)	(77 057)
Other operating expenses		(398)	(707)
Operating profit (loss)		**36 298**	**(31 438)**
Financial income	*12.3*	4 630	6 738
Financial expenses	*12.4*	(20 643)	(14 566)
Gross profit (loss)		**20 285**	**(39 266)**
Income tax	*13.1*	(762)	(396)
Net profit (loss) from continuing operations		**19 523**	**(39 662)**
Discontinued operations		-	-
Profit (loss) for the financial year from discontinued operations		-	-
Net profit (loss) for the reporting period		**19 523**	**(39 662)**
Profit (loss) per share in PLN:			
– basic earnings from the profit (loss) for the period	*14*	0,28	(0,57)
– basic earnings from the profit (loss) from continuing operations for the period		0,28	(0,57)
– diluted earnings from the profit (loss) for the period	*14*	0,28	(0,57)
– diluted earnings from the profit (loss) from the continuing operations for the period		0,28	(0,57)

(all amounts in PLN '000 unless specified otherwise)

Standalone statement of total comprehensive income

	Note	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Net profit/(loss) for the reporting period		19 523	(39 662)
Items to be reclassified to profit/loss in future reporting periods:			
Measurement of financial instruments	*31.3*	(44)	(744)
FX differences on translation of foreign operations	*22.2*	294	(817)
Other total comprehensive income		250	(1 561)
Total comprehensive income		**19 773**	**(38 101)**

(all amounts in PLN '000 unless specified otherwise)

Standalone statement of financial position

	Note	As at 31 December 2018	As at 31 December 2017
ASSETS			
Fixed assets			
Fixed assets	*16*	1 480	1 940
Intangible assets	*17*	1 857	1 614
Shares in subsidiaries	*18.1*	673 937	678 313
Other financial assets	*18.2*	72 742	68 042
Other non-financial assets	*18.3*	1 492	1 248
		751 507	751 157
Current assets			
Trade and other receivables	*20*	90 469	74 119
Income tax receivables		349	168
Other financial assets	*18.2*	123 848	75 156
Other non-financial assets	*18.3*	6 833	6 518
Cash and cash equivalents	*21*	19 605	36 943
		241 104	192 904
TOTAL ASSETS		992 611	944 061

(all amounts in PLN '000 unless specified otherwise)

Standalone statement of financial position – continued

	Note	As at 31 December 2018	As at 31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	*22.1*	69 288	69 288
Reserve capital	*22.3*	407 979	447 641
Other reserves	*22.4*	102 399	116 300
FX differences on translation	*22.2*	1 461	1 167
Retained earnings / Accumulated losses		(46 002)	(103 364)
Total equity		**535 124**	**531 032**
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	*24*	80 782	205 339
Provisions	*25*	1 854	1 551
Other financial liabilities		171	323
Accruals and deferred income	*26.2*	-	-
		82 807	207 214
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	*24*	272 269	132 477
Trade payables	*26.1*	86 924	59 237
Other financial liabilities		3 802	4 258
Other short-term liabilities	*26.1*	2 394	1 631
Income tax liability		-	128
Accruals and deferred income	*26.2*	9 290	8 084
		374 679	205 815
Total liabilities		**457 486**	**413 029**
TOTAL EQUITY AND LIABILITIES		**992 611**	**944 061**

(all amounts in PLN '000 unless specified otherwise)

Standalone cash flow statement

	Note	Year ended 31 December 2018	Year ended 31 December 2017 (transformed)
Cash flows from operating activities			
Gross profit (loss)		**20 285**	**(39 266)**
Adjustments for:			
Depreciation/amortisation	*12.6*	475	464
Loss on exchange rate differences		1 721	(4 195)
Impairment of interests	*12.2*	4 377	75 236
Net interest and dividends		8 156	14 474
Increase / decrease in receivables and other non-financial assets		(11 337)	1 771
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities		28 450	(14 675)
Change in accruals and prepayments		1 206	3 295
Change in provisions		303	194
Income tax paid		(1 070)	(268)
Change to liabilities due to cash-pooling		(82 174)	82 978
Increase / decrease of loans granted to subsidiaries	*28*	(53 190)	(4 850)
Other		(1 900)	(869)
Net cash flows from operating activities		**(84 699)**	**114 289**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		-	38
Purchase of tangible fixed assets and intangible assets		(258)	(745)
Increase of interests in subsidiaries		-	(11 875)
Net cash flows from investing activities		**(258)**	**(12 582)**
Cash flows from financing activities			
Repayment of leasing liabilities		(283)	(58)
Repayment of loan liabilities		(35 683)	(30 575)
Change of balance of working capital loans		-	(48 023)
Borrowings and bonds received	*24*	125 011	16 216
Interest paid		(7 569)	(13 187)
Dividends paid		(13 857)	-
Net cash flows from financing activities		**67 619**	**(75 628)**
Cash and cash equivalents at the beginning of the period	*21*	**36 942**	**10 863**
Change in cash and cash equivalents		(17 337)	26 079
Cash and cash equivalents at the end of the period	*21*	**19 605**	**36 942**

(all amounts in PLN ‘000 unless specified otherwise)

Standalone statement of changes in equity

	Note	Share capital	Reserve capital	Translation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2018		69 288	447 641	1 167	116 300	(103 364)	531 032
Net profit / (loss) for the period		-	-	-	-	19 523	19 523
Other comprehensive income for the period	*22.2*	-	-	294	(44)	-	250
Total comprehensive income for the period		-	-	294	(44)	19 523	19 773
Profit distribution	*22.4*	-	(39 662)	-	-	39 662	-
Dividend distribution		-	-	-	(13 858)	-	(13 858)
Settlement of the tax group in Sweden		-	-	-	-	(1 824)	(1 824)
As at 31 December 2018		69 288	407 979	1 461	102 399	(46 002)	535 124

	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)	570 025
Adjustment for previous years' errors						-	-
Net profit / (loss) for the period		-	-	-	-	(39 662)	(39 662)
Other comprehensive income for the period		-	-	817	744)	-	1 561
Total comprehensive income for the period		-	-	817	744)	(39 662)	(38 101)
Profit distribution		-	-	-	(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

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 2018 and contain comparative data for the year ended on 31 December 2017.

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 also has a foreign branch in Göteborg, Sweden.
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 S.A.

2. Identification of the consolidated financial statements

The Company prepared its consolidated financial statements for the year ended on 31 December 2018 which were approved for publishing on 18 March 2019.

3. Composition of the Company's Management Board

As at 31 December 2018, the Company's Management Board was composed 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 10 December 2018, the Supervisory Board dismissed Mr Per Skoglund from the function of the President of the Company's Management Board and CEO, effective on 31 January 2019. At the same meeting, the Supervisory Board nominated Mr Michał Jarczyński to the function of the President of the Company's Management Board effective on 1 February 2019. Mr Michał Jarczyński will also act as the Chief Executive Officer of the Company.

From 31 December 2018 until the publication date of the financial statements no other 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 18 March 2019.

(all amounts in PLN '000 unless specified otherwise)

5. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Group profile	Share 31.12.2018	Share 31.12.2017
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	Szwajcaria, Gutenbergstrasse 1, CH-4552 Derendingen	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 E	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Rottneros AB	Szwecja, Box 144, Sunne	Pulp production	51,27%	51,27%

As at 31 December 2018 and as at 31 December 2017 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 2013-2018, the Management Board decided not to create a deferred income tax asset for tax losses. Furthermore, the Management Board decided not 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 824 thousand.

As at 31 December 2018 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 tests performed for Arctic Paper Grycksbo AB generated additional impairment allowances as at 31 December 2018 by PLN 7,828 thousand. Note 18.2 to these financial statements details the impairment test performed for the investment. As at 31 December 2018 an analysis of indications was performed underlying the full write-off in 2013 for the shares in Arctic Paper Sverige AB and in 2015 in Arctic Paper Norge AS. Those companies acted as distribution offices until 2015 and bought paper from the mills at their own risk. In 2016 those companies were transformed into sales offices and since then they have been receiving remuneration for agency services from the mills based on cost plus calculation.

As a result of the tests, impairment allowances for the shares in both companies were partially reversed – to the amount of the current value of their assets. In Arctic Paper Sverige AB this is PLN 2,936 thousand and in Arctic Paper Norge AS this is PLN 516 thousand. Details are presented in note 18.2 to these financial statements.

6.3. 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 unjustified split to operations, involvement of intermediaries despite no economic justification, mutually exclusive of compensating elements, and 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, company 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

These financial statements have been prepared on a historical cost basis (except 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.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 31 December 2018, the Group failed to maintain the Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., Bank BGŻ BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter, net of any discontinued operations and operations by the Rottneros Group. Failure to comply with the ratio was due to lower operating cash flows in 2018 primarily resulting from higher inventories as a result of higher pulp prices.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Sandander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 does not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1 as such assurance was not available on 31 December 2018, the Group disclosed its entire debt to the bank consortium as at that day of PLN 65,996 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.
If the ratio is complied with at future testing dates, the debt to the bank consortium will again be disclosed as long-term liabilities. 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 cover standards and interpretations approved 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.

7.3. Adjustment of previous years' errors

In 2018 there were no other changes that would result in changes to the comparable data.

7.4. Data comparability/change to estimates

In 2018 there were events that resulted in minor changes to the comparable data. They primarily result from the unification of presentation of costs and receivables disclosed in the financial statements for 2017 with the presentation method for 2018.
Within the profit and loss statement for 2017, the positions of revenues from sales of services and administrative expenses were decreased by PLN 3,422 thousand, which results from net presentation of re-invoiced marketing services. The amount of PLN 2,897 thousand was transferred from administrative expenses to interest expense due to related entities and costs of sales of logistics services in order to unify the presentation with 2018.
Within the statement of financial position for 2017, the amount of PLN 999 thousand of interest accrued on granted loans was transferred from trade receivables to other financial assets.

8. Changes to the applied accounting principles

The accounting principles (policies) applied to prepare these financial statements are compliant with those applied to the financial statements of the Company for the year ended on 31 December 2017, with the exception of those listed below. The modifications to IFRS listed below were applied to these financial statements when they became effective; however, they have no material impact on the presented and disclosed financial information and did not apply to any transactions concluded by the Company:

— Modifications to IFRS 15 — Revenue from Contracts with Customers, issued in May 2014 and amended in April 2016. The standard sets forth a five-step model to recognise revenues from contracts with customers. 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.

— IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018. IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment, and hedge accounting. The Management Board made an analysis of the agreements and because of their nature, the amendments to IFRS 9 have not had a significant impact on the results of the Company.

8.1. Implementation of IFRS 15

Selected accounting principles

The International Financial Reporting 15 Revenue from Contracts with Customers ("IFRS 15"), issued in May 2014 and amended in April 2016, establishes a Five-Step Model to recognise revenues resulting from contracts with customers:

– Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Company is able to identify the rights of each party concerning the goods and services to be provided; the Company is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Company will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.

— Identification of obligations to perform the service: at contract conclusion, the Company assess the goods and services promised in the contract and identifies each promise as a liability for deliver to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.

— Identification of the transactional price: in order to determine the transactional price, the Company takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that – as the Company expects – will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Company has decided to apply the most probable value method.

— The allocation of the transactional price of each liability to perform: The Company allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Company's expectations – it is due to the Company in exchange for the delivery of the promised goods or services to the customer.

— Revenue recognition when the obligation to perform is being executed: The Company recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

Impact assessment of the new standard

The Company has applied IFRS 15 from its effective date, applying a full retrospective method.
APSA is a holding company and receives income from rendering of services, dividends and interest. The only expected liability to carry out service by the purchasing companies are those services, therefore the implementation of IFRS 15 has had no material impact on the Company's results.

Dividends and interest are disclosed by the Company outside the scope of the new IFRS 15 standard.

Company conducts its business activity in the area of performing services to its related entities which include management and logistics services and intermediation services in purchases of pulp.
The contractual obligation is the obligation to render those services. Revenues from rendering of these services are recognised in time due to the continued nature of rendering and invoices are issued at the end of each quarter. Due date for payment of those invoices is 14 days of issue.
The Company complies with its obligations to perform the agreed services. The remuneration due to the Company is calculated on the basis of the actually incurred costs plus a margin. The remuneration does not contain financing elements and is payable by the date designated in the invoices.

8.2. Implementation of IFRS 9

Selected accounting principles

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.

Classification and measurement of financial assets and liabilities

In compliance with IFRS 9, the Company classifies financial assets to one of the following categories:

- measured at amortised cost: To measure its financial assets measured at amortised cost, the Company applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured at amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal value;
- measured at fair value through other comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other comprehensive income with the exception of dividend received;
- measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend income.
- hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Company classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.
In compliance with IFRS 9, the Company classifies financial liabilities to one of the following categories:

- measured at amortised cost: trade payables, loans, borrowings and bonds
- measured at fair value via the profit and loss account: liabilities under derivative instruments not designated to hedge accounting
- hedging financial instruments, assets and financial liabilities being derivative instruments hedging cash flows and hedging fair value

With the application of IFRS 9, the categories of financial liabilities have not changed and they are as follows:

- Measured at amortised cost
- Measured at fair value through profit and loss

Impairment of financial assets

IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IAS 39 which was based on a concept of incurred losses. Loans and trade receivables are the most important financial asset in the Company's financial statements that are subject to the new principles of calculating anticipated credit losses.

(all amounts in PLN '000 unless specified otherwise) 58

The Company applies a simplified model to recognise impairment allowances for those items.

In the simplified model, the Company does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Company applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

Hedge accounting

The Company decided to continue applying accounting principles compliant with IAS 39 with respect to hedging instruments.

Impact assessment of the new standard

The Company has applied IFRS 9 since its effective date without transforming its comparable data.
In 2018 the Company carried out a review of the impact of implementing IFRS 9 on the accounting principles (policies) applied by the Company with reference to the Company's business or financial results.
The implementation of IFRS 9 did not have any impact on the statement of financial condition and equity. As a result of the application of IFRS 9, classification to certain financial instruments was changed.

Classification and measurement

The application of IFRS 9 did not affect the measurement of financial assets and liabilities and on the relevant values recognised in the statement of financial condition and on equity. The Company classified financial assets and liabilities in accordance with IFRS 9.
Trade receivables are maintained in order to generate contractual cash flows and the Company does not sell its trade receivables under factoring arrangements – they continue to be measured at amortised cost though profit and loss account. The Company uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.
The table below presents the classification and measurement of the financial assets in compliance with IAS 39 and IFRS 9 as at 1 January 2018:

Financial assets	*Category and method in compliance with IAS 39*	*Value in compliance with IAS 39 as at 1 January 2018*	*Category and valuation method in compliance with IFRS 9*	*Value in compliance with IFRS 9 as at 1 January 2018*
Trade and other receivables	Loans and receivables valued at amortised cost	75 118	Financial assets valued at amortised cost	75 118
Other financial assets	Loans and receivables valued at amortised cost	142 199	Financial assets valued at amortised cost	142 199
Cash and cash equivalents	Loans and receivables valued at amortised cost	36 943	Financial assets valued at amortised cost	36 943

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 case of trade receivables, the Company will apply a simplified approach and will estimate allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables.
In view of the nature of trade receivables, the Company has not changed the calculation method of impairment.

Hedge accounting

The entry into force of IFRS 9 did not affect the Company's financial statements in view of the decision to continue applying IAS 39 with respect to hedge instruments.

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 16 Leasing (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019,
— IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 clarities income tax treatment if an applied approach has not been yet accepted by tax authorities and it is aimed at increasing transparency.

9.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leases ("IFRS 16"), which replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosure.

IFRS 16 introduces a uniform model of the lessee accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments.
The lessee separately recognizes depreciation of an asset with respect to the right of use and interest on the lease liability.

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine such payments). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the value of the asset with respect to the right of use.
The lessor accounting under IFRS 16 remains substantially unchanged from to the current accounting under IAS 17. The lessor will continue to include all lease agreements using the same classification principles as in the case of IAS 17, distinguishing between operating leases and financial leasing.

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.
The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions. IFRS 16 is effective for annual periods beginning on and after 1 January 2019. Earlier application is permitted for entities which apply IFRS 15 from or before the date of the first application of IFRS 16. The Group did not decide on early adoption of IFRS 16.

As at 1 January 2019, prospectively the Company will implement a uniform model of lessee accounting covering lease contracts in compliance with IFRS 16 with terms in excess of 12 months unless the underlying asset has value under EUR 5 thousand.
The Management Board made an analysis of the agreements and because of their nature, the amendments to IFRS 16 will not have a significant impact on the results of the Company. The observed impact will result in modified measurement of the existing assets and in the Company's opinion it will not be material.

10. Significant accounting principles (policies)

(all amounts in PLN '000 unless specified otherwise)

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 branch are translated into the presentation currency of the Company using the FX rate prevailing on that date and its profit and loss account is translated using a weighted average FX rate for the 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:

	31 December 2018	31 December 2017
USD	3,7597	3,4813
EUR	4,3000	4,1709
SEK	0,4201	0,4243
DKK	0,5759	0,5602
NOK	0,4325	0,4239
GBP	4,7895	4,7001
CHF	3,8166	3,5672

	01/01 - 31/12/2018	01/01 - 31/12/2017
USD	3,6117	3,7782
EUR	4,2617	4,2583
SEK	0,4156	0,4422
DKK	0,5718	0,5725
NOK	0,4439	0,4570
GBP	4,8168	4,8595
CHF	3,6912	3,8364

For translation of assets and liabilities of the foreign branch as at 31 December 2018, the exchange rate SEK/PLN of 0.4201 was applied (31 December 2017: 0.4243). For translation of the items of comprehensive income for the year ended on 31 December 2018, the exchange rate SEK/PLN of 0.4156 was applied (for the year ended on 31 December 2017: 0.4422) which is an arithmetic mean of NBP's mean exchange rates published by NBP in 2018 (2017).

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 economic 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 financial year that has just ended.

An item of property, plant and equipment 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 (construction in progress) include assets in the course of construction or assembly and are recognised at purchase price or cost of construction less any impairment losses. 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 cost or construction cost reduced by any accumulated amortisation and 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.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year 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

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.

Profit or loss arising from derecognition of an intangible asset are measured as the difference between the net sales proceeds and the book value of the asset and are recognised in the income statement 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 foreign exchange 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 subsidiaries, 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 allowances are calculated by comparing the book value of investments with the value in use resulting from impairment tests, adjusted for the amount of financial obligations. The value in use is calculated with the discounted cash flow method.

10.7. Financial assets

In compliance with IFRS 9, the Company classifies financial assets to one of the following categories:

- measured at amortised cost: To measure its financial assets measured at amortised cost, the Company applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured at amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal value;
- measured at fair value through other comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other comprehensive income with the exception of dividend received;
- measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend revenues;
- hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Company classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.

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.

IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IAS 39 which was based on a concept of incurred losses. Loans and trade receivables are the most important financial asset in the Company's financial statements that are subject to the new principles of calculating anticipated credit losses.
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 applies a simplified model to recognise impairment allowances to trade receivables. In the simplified model, the Company does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Company applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

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 a valuation model which takes 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 to 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 the profit and loss statement 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. 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 statement of financial position.

10.11. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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.

10.12. 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 statement of financial position or accounted for with the effective interest method.

10.13. Trade and other payables

Short-term trade payables are recognised at amounts payable.

In compliance with IFRS 9, the Company classifies financial liabilities to one of the following categories:

- measured at amortised cost: trade payables, loans, borrowings and bonds;
- measured at fair value via the profit and loss account: liabilities under derivative instruments not designated to hedge accounting;
- hedging financial instruments, assets and financial liabilities being derivative instruments hedging cash flows and hedging fair value.

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 2018 and 31 December 2017, 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 in the statement of financial position 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.

10.14. 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 statement 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.

10.15. Revenues

The International Financial Reporting 15 Revenue from Contracts with Customers ("IFRS 15"), issued in May 2014 and amended in April 2016, establishes a Five-Step Model to recognise revenues resulting from contracts with customers:

- Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Company is able to identify the rights of each party concerning the goods and services to be provided; the Company is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Company will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.
- Identification of obligations to perform the service: at contract conclusion the Company assesses the goods and services promised in the contract and identifies each promise as a liability for delivery to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.
- Identification of the transactional price: in order to determine the transactional price, the Company takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that – as the Company expects – will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Company has decided to apply the most probable value method.
- The allocation of the transactional price of each liability to perform: The Company allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Company's expectations – it is due to the Company in exchange for the delivery of the promised goods or services to the customer.
- Revenue recognition when the obligation to perform is being executed: The Company recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

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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.

10.16. 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 book value disclosed in the financial statements.

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 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 statement of financial position 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 the deferred tax asset is reviewed as 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 as 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 tax asset to be recovered.

Deferred tax asset and provisions 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 disclosed with the VAT amount inclusive.

(all amounts in PLN '000 unless specified otherwise) 69

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

10.17. 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. Sales revenues

Arctic Paper S.A. is a holding company, providing services mostly to the Group companies.

The table below presents a geographical split of revenues from selling services as well as dividend and interest income in 2017-2018.

	Year ended 31 December 2018	Year ended on 31 December 2017
Revenues from sales of services		
- Poland	16 089	15 999
- Sweden	21 881	21 377
- other	-	-
	37 970	37 377
Other revenues (dividends and interest)		
- Poland	23 399	33 844
- Sweden	15 139	15 361
- other	6 188	3 627
	44 725	52 833
Total	82 695	90 210

The above information about revenues is based on data regarding registered offices of subsidiaries of Arctic Paper S.A.
The revenues from the provision of services (management, logistics) is income recognised over time because the underlying services are provided over specified periods of time defined in the agreements with customers. The Company usually applies a 14-day payment term and does not receive payment before the service is completed.

12. Other revenues and costs

12.1. Other operating income

	Year ended 31 December 2018	Year ended on 31 December 2017
Re-invoices	51	193
Reversal of impairment allowance to assets (Arctic Paper Sverige AB)	2 936	-
Reversal of impairment allowance to assets (Arctic Paper Norge AS)	516	-
Other	458	331
	3 960	524

(all amounts in PLN '000 unless specified otherwise)

12.2. Impairment charges to assets

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Impairment allowance to assets (Arctic Paper Mochenwangen GmbH)	824	1 822
Impairment allowance to assets (Arctic Paper Investment AB)	7 828	75 236
	8 652	**77 057**

12.3. Financial income

	Year ended 31 December 2018	Year ended on 31 December 2017 (transferred)
Interest income on funds in bank accounts	686	120
FX gains	-	3 128
Re-invoiced financial services	3 924	3 490
Other financial income	20	-
	4 630	**6 738**

12.4. Financial expenses

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Interest on loans and other liabilities from related entities	11 531	11 847
FX losses	3 190	-
Warranty costs	2 169	2 143
Costs related to new financing to be amortised over time	3 254	476
Other financial expenses	499	100
	20 643	**14 566**

12.5. Prime costs

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Depreciation/amortisation	474	464
Materials	231	237
Third party services	17 669	21 374
Taxes and charges	141	81
Wages and salaries	14 799	17 373
Employee benefits	4 127	2 722
Other prime costs	2 344	5 195
	39 785	**47 446**
Interest and other not recognised in costs by type	1 522	383
	41 307	**47 829**
Prime costs, of which:		
Items recognised as selling and distribution costs	2 997	2 855
Items recognised as administrative expenses	32 981	39 171
Items recognised as costs of sales	5 329	5 804

(all amounts in PLN '000 unless specified otherwise)

12.6. Amortisation

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Depreciation of tangible fixed assets	471	453
Amortisation of intangible assets	3	11
	474	**464**
Attributable to:		
- continuing operations	474	464
- discontinued operations	-	-
	474	**464**

12.7. Employee benefit costs

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Wages and salaries	14 477	17 373
Social insurance premiums	2 534	1 044
Costs of retirement benefits	1 593	1 678
	18 604	**20 095**

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2018 and on 31 December 2017 are as follows:

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Current income tax liability	(762)	(263)
Amount of deferred income tax charge	-	(133)
Tax charge disclosed in the profit and loss account	**(762)**	**(396)**

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 2018 and 31 December 2017 is as follows:

(all amounts in PLN '000 unless specified otherwise)

	Year ended 31 December 2018	Year ended on 31 December 2017
Gross profit (loss) before tax from continuing operations	20 285	(39 266)
Profit (loss) before tax from discontinued operations	-	-
Gross profit (loss) before tax	20 285	(39 266)

Tax at the statutory rate in Poland of 19%	**3 854**	**(7 461)**
Adjustments related to current income tax from previous years	305	133
Non-activated loss of the current year	2 389	1 723
Incomes on dividend	(7 564)	(9 198)
Adjustment to accrued and paid interest	(277)	(462)
Costs that are permanently non-tax deductible	413	600
Taxable costs being accounting costs in the year	(191)	(2 749)
Use of non-activated tax losses	-	-
Unrealised FX differences	7	69
Unrecognised other temporary income/expenses	312	2 686
Impairment allowances for interests and loans	1 198	14 641
Impairment allowances for other receivables	157	386
Difference resulting from income tax rates in force in other countries	161	26
Income tax at the effective tax rate: the company does not pay income tax (2017: the company did not pay income tax)	**-**	**-**
Income tax (charge) recognised in profit or loss	**762**	**396**

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 2018	Year ended on 31 December 2017 (transformed)
ended on 31 December 2019	3 598	3 598
ended on 31 December 2020	6 777	10 151
ended on 31 December 2021	8 040	6 553
ended on 31 December 2022	11 148	-
ended on 31 December 2023 and later	6 287	-
Total	**35 851**	**20 302**

At the end of 2018, the five-year period of possible use of 50% tax loss of 2013 and 50% tax loss of 2014 (PLN 1,716 thousand).

13.3. Deferred income tax

Deferred income tax relates to the following items:

(all amounts in PLN '000 unless specified otherwise)

	Balance sheet		*Profit and loss account*	
	31 December 2018	*31 December 2017*	*Year ended on 31 December 2018*	*Year ended on 31 December 2017*
Deferred income tax liability				
Accelerated tax depreciation/amortisation	0	1	(1)	-
Accrued interest income	178	205	(27)	88
FX gains	1503	594	909	594
Gross deferred income tax provision	**1 681**	**801**		

	Balance sheet		*Profit and loss account*	
	31 December 2018	*31 December 2017*	*Year ended on 31 December 2018*	*Year ended on 31 December 2017*
Deferred income tax asset				
Provisions and accruals and deferred income	791	1 831	1 039	(612)
Interest accrued on loans received and bonds	33	498	464	(91)
FX losses	2 336	632	(1 704)	561
Impairment charges	-	-	-	-
Other	(118)	-	118	-
Losses deductible from future taxable income	6 812	4 183	(2 628)	127
Gross deferred income tax asset	**9 854**	**7 144**		-
				-
Deferred income tax charge			(1 830)	666
Deferred income tax assets, not recognised in the balance sheet	8 174	6 343	1 830	(666)
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 2018 would have amounted to PLN 157 thousand (in 2017 – PLN 346 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 for profit dilution 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:

(all amounts in PLN '000 unless specified otherwise)

	Year ended 31 December 2018	Year ended on 31 December 2017 (transformed)
Net profit (loss) from continuing operations	19 523	(39 662)
Profit (loss) for the financial year from discontinued operations	-	-
Net profit/(loss) for the reporting period	19 523	(39 662)
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
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	69 287 783	69 287 783
Profit per share (in PLN)	**0,28**	**(0,57)**
Diluted profit per share (in PLN)	**0,28**	**(0,57)**

15. Dividend paid and proposed

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

In accordance with provisions of the Code of Commercial Companies, the parent entity 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 other reserves 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 company 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 risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2018.

In connection with the term and revolving loan agreements signed on 9 September 2016, related to the bond issue, pursuant to which the Company issued bonds on 30 September 2016, and the intercreditor agreement,
the possibility of dividend disbursement by the Company is subject to the Group complying with specified financial ratios in two periods preceding such disbursement (in compliance with the definition of the period in the term and revolving loan agreements) and non-occurrence of any event of default (in compliance with the definition of the period in the term and revolving loan agreements).

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

(all amounts in PLN '000 unless specified otherwise) 75

16. Fixed assets

Year ended on 31 December 2018	*Land and buildings*	*Plant and machinery*	*Fixed assets under construction*	*Total*
Gross book value as at 01 January 2018	937	2 314	-	3 251
Increases	-	13	-	13
Decreases	-	(48)	-	(48)
Gross book value as at 31 December 2018	937	2 279	-	3 216
Depreciation and impairment allowances as at 01 January 2018	187	1 123	-	1 310
Depreciation allowance for the period	94	377		471
Reduced depreciation	-	(47)	-	(47)
Depreciation and impairment allowances as at 31 December 2018	280	1 453	-	1 734
Net value as at 01 January 2018	750	1 191	-	1 941
Net value as at 31 December 2018	656	825	-	1 480

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

(all amounts in PLN '000 unless specified otherwise)

17. Intangible assets

Year ended on 31 December 2018	*Trademarks*	*Computer software*	*Total*
Gross book value as at 01 January 2018	1 319	341	1 660
Increases	-	246	246
Decreases	-	-	-
Gross book value as at 31 December 2018	1 319	587	1 906
Depreciation and impairment allowances as at 01 January 2018	-	46	46
Depreciation allowance for the period	-	3	3
Reduced amortisation	-	-	-
Depreciation and impairment allowances as at 31 December 2018	-	49	49
Net value as at 01 January 2018	1 319	295	1 614
Net value as at 31 December 2018	1 319	538	1 857

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 depreciation	-	-	-
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

The book value of acquired rights to trademarks as at 31 December 2018 was PLN 1,319 thousand.

(all amounts in PLN '000 unless specified otherwise)

18. Other assets

18.1. Shares in subsidiaries

	As at 31 December 2018	As at 31 December 2017
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:	24 579	32 407
Arctic Paper Investment AB (shares)	*307 858*	*307 858*
Arctic Paper Investment AB (loans)	*82 709*	*82 709*
Arctic Paper Investment AB (impairment charge)	*(365 988)*	*(358 160)*
Arctic Paper Investment GmbH	0	0
Arctic Paper Investment GmbH (shares)	*120 031*	*120 030*
Arctic Paper Investment GmbH (impairment charge)	*(120 031)*	*(120 030)*
Arctic Paper Sverige AB	2 936	0
Arctic Paper Sverige AB (shares)	*11 721*	*11 721*
Arctic Paper Sverige AB (impairment charge)	*(8 785)*	*(11 721)*
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	516	0
Arctic Norge AS (shares)	*3 194*	*3 194*
Arctic Paper Norge AS (impairment charge)	*(2 678)*	*(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	**673 937**	**678 313**

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

In 2018 the Company reversed its impairment allowances to the assets in Arctic Paper Sverige AB by PLN 2,936 thousand and in Arctic Paper Norge AS for PLN 516 thousand (aggregated value of reversed allowances as at 31 December 2018 amounts to PLN 3,451 thousand).

In Arctic Paper Investment AB which owns the Arctic Paper Grycksbo paper mill, the impairment allowances to assets was increased as a result of an impairment test for PLN 7,828 thousand. Details are specified in note 18.2.

18.2. Test of impairment of non-financial fixed assets

As at 31 December 2018 and 31 December 2017, the Company held an impairment test to its investment in Arctic Paper Investment AB which owns Arctic Paper Grycksbo paper mill. The value in use resulting from impairment tests of tangible fixed assets and intangible assets of Arctic Paper Grycksbo AB is adjusted for the value of financial obligations. The impairment test resulted in the establishment of a further impairment charge to assets of PLN 7,828 thousand in 2018 (PLN 75,236 thousand as at 31 December 2017).

(all amounts in PLN '000 unless specified otherwise)

The impairment test for tangible fixed assets and intangible assets at Arctic Paper Grycksbo was related to lower results generated at the Paper Mill than expected by the Group's Management Board in 2018 and in 2017 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.

The recoverable amount of the tested assets amounted to PLN 87,897 thousand as at 31 December 2018 and was determined by the value in use method.

Below is a presentation of the key assumptions underlying the calculation of value in use as at 31 December 2018 and 31 December 2017.

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;
— Growing raw material prices;
— Growing energy prices;

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.

The table below presents the core assumptions applied to calculate the value in use as at 31 December 2018 and 31 December 2017.

Main assumptions	2018	2017
Approved projections based on	2019-2023	2018-2022
Income tax rate	21,4%	22,0%
Discount rate before tax effect	10,2%	8,5%
Weighted average cost of capital (WACC)	8,0%	8,0%
Growth rate in the residual period	0,0%	0,0%

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

(all amounts in PLN '000 unless specified otherwise)

Parameters	Increase in basis points	Effect on value in use
31 December 2018		
Weighted average cost of capital (WACC)	+0,1 p.p.	(1 078)
Growth rate in the residual period	+0,1 p.p.	743
Sales volume in the first year of the projection	+ 0,1%	667
Sales prices in the first year of the projection	+ 0,1%	726
Pulp purchase prices in the first year of the projection	+1,0%	(3 368)
Energy prices in first year of the projection	+1,0%	(153)
Weighted average cost of capital (WACC)	-0,1 p.p.	1 104
Growth rate in the residual period	-0,1 p.p.	(716)
Sales volume in the first year of the projection	- 0,1%	(667)
Sales prices in the first year of the projection	- 0,1%	(726)
Pulp purchase prices in the first year of the projection	-1,0%	3 368
Energy purchase prices in the first year of the projection	-1,0%	153
31 December 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 purchase prices in the first year of the projection	+1,0%	(31 384)
Energy purchase prices in the 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 purchase 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

The value in use resulting from impairment tests adjusted for the value of financial obligations was PLN 24,579 thousand as at the balance sheet date and the value of investments in Arctic Paper Investment AB is PLN 32,407 thousand. The total impairment charge of the investment as at 31 December 2018 was PLN 365,988 thousand (31 December 2017: PLN 358,160 thousand).

(all amounts in PLN '000 unless specified otherwise)

18.3. Other financial assets

	Maturity date	As at 31 December 2018
Short-term		
Loan granted to Arctic Paper Munkedals AB	2019-12-31	8 128
- amount: PLN 7,849 thousand		
Loans granted to Arctic Paper Kostrzyn S.A. (short-term portion)	2019-12-31	16 553
- amount: PLN 4,800 thousand and EUR 2,600 thousand		
Loan granted to Arctic Paper Kostrzyn S.A. (Capex A, short-term part)	2019-12-31	7 329
- amount: EUR 1,633 thousand		
Loans granted to Arctic Paper Grycksbo AB (short-term part)	2019-12-31	2 686
- amount: EUR 624 thousand		
Loans granted to Arctic Paper Grycksbo AB (short-term part)	2019-12-31	4 789
- amount: EUR 1,112 thousand		
Loans granted to Paper Grycksbo AB	31.12.2019*	36 132
- amount: EUR 8,400 thousand		
Loans granted to Arctic Paper Benelux	31.12.2022*	450
- amount: EUR 100 thousand		
Cashpooling Arctic Paper Grycksbo AB		47 781
Loans granted to Arctic Paper Mochenwangen GmbH		29 185
- amount: EUR 6,714 thousand		
Loan granted to Arctic Paper Investment GmbH		30 269
- amount: EUR 4,603 thousand + EUR 2,389 thousand		
Impairment charges to assets		(59 455)
- applies to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH		
		123 848

*possibility to repay upon request within 14 days

(all amounts in PLN '000 unless specified otherwise)

	Maturity date	As at 31 December 2018
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 9,600 thousand and EUR 5,200 thousand	2021-08-27	31 960
Loan granted to Arctic Paper Kostrzyn S.A. (Capex A) - amount: EUR 4,900 thousand	2022-08-27	21 070
Loans granted to Paper Grycksbo AB - amount: EUR 1,248 thousand	2021-08-27	5 366
Loans granted to Paper Grycksbo AB - amount: EUR 3,336 thousand	2021-08-27	14 345
Impairment charges to assets - applies to Arctic Paper Investment GmbH		(4 286)
The loan is recognised as an investment in subsidiary entities		(82 709)
		72 742
Total other financial assets		**196 588**

*possibility to repay prematurely upon request

(all amounts in PLN '000 unless specified otherwise)

Other financial assets in 2017 were as follows:

Short-term	*Maturity date*	*Value as at 31 December 2017*
Loan granted to Arctic Paper Munkedals AB - amount: PLN 7,849 thousand	31.12.2018	7 930
Loans granted to Arctic Paper Kostrzyn S.A. (short-term portion) - amount: PLN 4,800 thousand and EUR 2,600 thousand	31.12.2018	16 391
Loan granted to Arctic Paper Kostrzyn S.A. (Capex A, short-term part) - amount: EUR 798 thousand	31.12.2018	3 449
Loans granted to Arctic Paper Grycksbo AB (short-term part) - amount: EUR 416 thousand	31.12.2018	1 764
Loans granted to Paper Grycksbo AB - amount: EUR 8,400 thousand	31.12.2019*	35 127
Loans granted to Arctic Paper Benelux - amount: EUR 100 thousand	31.12.2022*	425
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 charges to assets - applies to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH		(59 455)
		75 156

*possibility to repay upon request within 14 days

(all amounts in PLN '000 unless specified otherwise)

	Maturity date	*Value as at 31 December 2017*
Long-term		
Loan granted to Arctic Paper Investment AB (interest) - interest rate: Wibor 6M + 4.8%		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 7,800 thousand respectively	27.08.2021	46 937
Loan granted to Arctic Paper Kostrzyn S.A. - amount: EUR 3,188 thousand	27.08.2022	13 297
Loans granted to Arctic Paper Grycksbo AB - amount: EUR 1,872 thousand	27.08.2021	7 808
Impairment charges 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		**143 198**

*possibility to repay upon request within 14 days

18.4. Other non-financial assets

	As at 31 December 2018	As at 31 December 2017
Insurance	77	263
Rent and security deposits	28	31
Receivables from pension fund	1 492	1 248
VAT refundable	1 499	620
Accounting for costs related to new financing	4 612	5 170
Other	617	433
Total	**8 325**	**7 765**
- long-term	1 492	1 248
- short-term	6 833	6 518
	8 325	**7 765**

19. Inventories

The Company does not and did not have any inventories in 2018 and in 2017.

(all amounts in PLN '000 unless specified otherwise) 84

20. Trade and other receivables

	Note	As at 31 December 2018	As at 31 December 2017
Trade receivables from related entities	*28*	106 674	88 301
Trade receivables from other entities		686	197
Total (gross) receivables		**107 360**	**88 498**
Impairment charges to receivables		(16 891)	(14 379)
Net receivables		**90 469**	**74 119**

The Company has no receivables with maturities exceeding 12 months.

As at 31 December 2018, the cumulated amount of write-offs to short-term receivables from AP Investment GmbH amounted to PLN 9,506 thousand and receivables from AP Mochenwangen GmbH: PLN 7,385 thousand.

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

Ageing of trade and other receivables as at 31 December 2018

		current	1 - 30	31 - 90	91 - 180	181 - 365	over 365
Trade receivables from related entities		72 690	10 994	2 316	(58)	(13)	3 855
Trade receivables from other entities		166	89	147	119	75	89
Net receivables	**90 469**	72 856	11 083	2 463	61	62	3 944

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 2018, the fair value of cash and cash equivalents was PLN 19,605 thousand (31 December 2017: PLN 36,943 thousand).

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

	As at 31 December 2018	As at 31 December 2017
Cash in bank and on hand	19 605	36 943
	19 605	**36 943**

(all amounts in PLN '000 unless specified otherwise)

22. Share capital and reserve capital/other reserves

22.1. Share capital

Share capital	As at 31 December 2018	As at 31 December 2017
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	*Registration date of capital increase*	*Number*	*Value*
Issued on 30 April 2008	2008-05-28	50 000	50
Issued on 12 September 2008	2008-09-12	44 253 468	44 253
Issued on 20 April 2009	2009-06-01	32	0
Issued on 30 July 2009	2009-11-12	8 100 000	8 100
Issued on 01 March 2010	2010-03-17	3 000 000	3 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 741
Issued on 10 January 2013	2013-01-29	283 947	284
Issued on 11 February 2013	2013-03-18	2 133 100	2 133
Issued on 06 March 2013	2013-03-22	726 253	726
As at 31 December 2018		**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 2018		As at 31 December 2017	
	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%	59,15%	59,15%
Nemus Holding AB	58,28%	58,28%	58,28%	58,28%
other entity	0,87%	0,87%	0,87%	0,87%
directly	8,98%	8,98%	8,98%	8,98%
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 Group 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 2018, FX differences on translation of the foreign branch recognised in equity amounted to PLN 1,461 thousand (as at 31 December 2017: PLN 1,167 thousand). The FX differences on translation of the foreign branch, recognised in the total comprehensive income statement, amounted to PLN 294 thousand in 2018 and PLN 817 thousand in 2017.

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.

Pursuant to Resolution No. 9 of the Ordinary General Meeting of Shareholders of 13 June 2018, the loss generated by the Company in 2017 of PLN 39,662 thousand was covered with the Company's reserve capital.

As at 31 December 2018, the total amount of the Company's reserve capital was PLN 407,979 thousand (31 December 2017: PLN 447,641 thousand).

22.4. Other reserves

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60.
As at 31 December 2018, the total value of the Company's other reserves was PLN 102,399 thousand (31 December 2017: PLN 116,300 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, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 24.1 "Obtaining of new financing" in the Financial Statements for 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 2018, there were no other restrictions concerning dividend distribution.

23. Purchase of interests in subsidiary entities

In 2018 the Company did not acquire any new interests in subsidiaries.

(all amounts in PLN '000 unless specified otherwise)

24. Interest-bearing loans and borrowings

	Repayment date		As at 31 December 2018	As at 31 December 2017
Short-term				
Loan from Arctic Paper Finance AB of EUR 10,000; short-term portion and interest	30.09.2019		11 080	10 907
Long-term loan from the European Bank of Reconstruction and Development - agreement of 09 September 2016	31.08.2022	*	33 867	9 143
Long-term loan from Bank Zachodni WBK S.A. – agreement of 09 September 2016;	31.08.2021	*	6 860	2 577
Long-term loan from Bank BGŻ BNP Paribas S.A. – agreement of 09 September 2016; short-term portion	31.08.2021	*	6 622	2 306
Long-term loan CAPEX from the European Bank of Reconstruction and Development – agreement of 09 September 2016; short-term portion	31.08.2022	*	27 248	2 213
Loan from a bank consortium: Santander and BNP PLN	31.01.2021	*	25 673	-
Revolving loan from Bank Zachodni WBK S.A. – agreement of 09 September 2016;	31.08.2019		42 373	-
Revolving loan from Bank BGŻ BNP Paribas S.A. – agreement of 09 September 2016;	31.08.2019		9 147	-
Bond issue – agreement of 09 September 2016; short-term portion	31.08.2021		19 992	12 284
Cashpooling BNP EUR			40 823	-
Cashpooling Arctic Paper Kostrzyn S.A.			29 338	59 784
Cashpooling Arctic Paper Munkedals AB			19 247	33 263
			272 269	**132 476**

*amounts disclosed as short-term portion – reclassified long-term portions due to a breach of a covenant – details in note 7

(all amounts in PLN '000 unless specified otherwise)

Long-term	*Repayment date*	As at 31 December 2018	As at 31 December 2017
Loan from Arctic Paper Finance AB of EUR 2,500 thousand, long-term portion	30.09.2019	10 750	20 855
Long-term loan from the European Bank of Reconstruction and Development – agreement of 09 September 2016; long-term portion	31.08.2022	-	31 684
Long-term loan from Bank Zachodni WBK S.A. – agreement of 09 September 2016; long-term portion	31.08.2021	-	6 521
Long-term loan from Bank BGŻ BNP Paribas S.A. – agreement of 09 September 2016; long-term portion	31.08.2021	-	6 205
Long-term loan CAPEX from the European Bank of Reconstruction and Development – agreement of 09 September 2016; long-term portion	31.08.2022	-	14 158
Bond issue – agreement of 09 September 2016; long-term portion	31.08.2021	70 032	84 781
Revolving loan from Bank Zachodni WBK S.A. – agreement of 09 September 2016;	31.08.2019		40 710
Revolving loan from Bank BGŻ BNP Paribas S.A. – agreement of 09 September 2016;	31.08.2019	-	426
		80 782	205 339

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 31 December 2018 the Group did not comply with the ratio as set forth in the agreements which resulted in re-classification of certain long-term loans to short-term loans (PLN 65,996 thousand).

25. Provisions

As at 31 December 2018 provisions created by the Company amounted to PLN 1,854 thousand (PLN 1,551 thousand in 2017) and were presented as long-term liabilities of PLN 1,854 thousand (PLN 1,551 thousand in 2017) and as short-term liabilities of PLN 0 thousand (PLN 0 thousand in 2017). The amount fully includes a provision for retirement employee benefits.

(all amounts in PLN '000 unless specified otherwise)

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

26.1. Trade and other payables (short-term)

	Note	As at 31 December 2018	As at 31 December 2017
Trade payables			
Due to related entities	*28*	3 061	2 276
Due to other entities		83 863	56 961
		86 924	**59 237**
Other liabilities			
Liabilities due to employees		876	699
Liabilities towards the budget		1 511	927
Other liabilities		6	5
		2 393	**1 631**

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.

There are no liabilities with maturities exceeding 12 months.

26.2. Accruals and deferred income

	Na dzień 31 grudnia 2018	Na dzień 31 grudnia 2017
Rozliczenia międzyokresowe kosztów z tytułu:		
Niewykorzystanych urlopów	1 249	1 521
Premii dla pracowników	1 833	2 800
Usług doradczych	166	207
Kosztów agentów sprzedaży	33	100
Koszty transportu	2 879	3 411
Koszty odpraw dla pracowników	2 881	-
Pozostałe	249	49
	9 290	**8 088**
- długoterminowe	-	-
- krótkoterminowe	9 290	8 088

26.3. Other financial liabilities

	As at 31 December 2018	As at 31 December 2017
Other financial liabilities		
Measurement of financial instruments	3 648	3 975
Lease liabilities	324	606
	3 973	**4 581**
Other financial liabilities		
Long-term	171	323
Short-term	3 802	4 258
	3 973	**4 581**

27. Contingent liabilities

As at 31 December 2018, 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 risks in Poland are 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 opinion of the Management Board, such risk does not exist as at 31 December 2018 and therefore the Company has not established any provision for recognised and quantifiable tax risk.

(all amounts in PLN '000 unless specified otherwise)

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*	*Received guarantees - other financial costs*	*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	2018	-	321	-	-	-	3 641	-	-	-	-	-
	2017	-	327	-	-	-	4 006	-	-	-	-	-
Thomas Onstad	2018	-	-	-	-	-	-	-	-	-	-	-
	2017	-	-	-	747	-	-	-	-	-	-	-
Subsidiary entities:												
Arctic Paper Kostrzyn S.A.	2018	18 659	338	2 499	-	1 242	64 678	-	76 912	30	-	29 338
	2017	19 478	337	2 491	-	1 348	53 317	-	79 203	28	-	59 784
Arctic Paper Munkedals AB	2018	10 918	5	240	-	505	9 880	-	8 128	-	-	19 247
	2017	11 305	-	381	-	421	7 505	-	7 930	254	-	33 263
Arctic Paper Mochenwangen GmbH	2018	-	-	896	-	-	7 385	7 385	29 185	-	-	-
	2017	93	-	894	-	-	5 666	5 666	29 185	-	-	-
Arctic Paper Grycksbo AB	2018	12 036	2	2 162	-	421	11 553		111 099	-	-	-
	2017	11 126	15	1 541	-	373	10 063	-	54 649	1 284	-	-
Arctic Paper Investment GmbH	2018	-	-	1 037	-	-	9 506	9 506	30 269	-	-	-
	2017	-	-	1 024	-	-	8 712	8 712	34 555	-	-	-
Arctic Paper Investment AB	2018	-	-	-	-	-	-	-	82 709	-	-	-
	2017	-	-	-	-	-	-	-	82 709	322	-	-
Arctic Paper Deutschland GmbH	2018	2	108	-	-	-	-	-	-	32	-	-
	2017	10	142	-	-	-	-	-	-	57	-	-

(all amounts in PLN '000 unless specified otherwise)

Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Received guarantees - other financial costs*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*including overdue, after the payment date*	*Loan liabilities*
Arctic Paper Sverige AB	2018	2	-	-	-	-	-	-	-	-	-	-
	2017	8	-	-	-	-	-	-	-	-	-	-
Arctic Paper Danmark A/S	2018	1	-	-	-	-	-	-	-	-	-	-
	2017	5	-	-	-	-	-	-	-	-	-	-
Arctic Paper Italia srl	2018	1	43	-	-	-	-	-	-	-	-	-
	2017	3	-	-	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2018	0	-	-	-	-	0	-	-	-	-	-
	2017	1	-	-	-	-	-	-	-	-	-	-
Arctic Paper Norge AS	2018	1	-	-	-	-	-	-	-	-	-	-
	2017	2	-	-	-	-	-	-	-	-	-	-
Arctic Paper Benelux S.A.	2018	2	1 356	12	-	-	2	-	450	114	-	-
	2017	5	1 354	8	-	-	8	-	417	-	-	-
Arctic Paper Baltic States SIA	2018	0	-	-	-	-	-	-	-	-	-	-
	2017	1	-	-	-	-	-	-	-	-	-	-
Arctic Paper France SAS	2018	2	-	-	-	-	-	-	-	-	-	-
	2017	7	-	-	-	-	-	-	-	-	-	-
Arctic Paper Papierhandels GmbH	2018	1	-	-	-	-	-	-	-	-	-	-
	2017	7	-	-	-	-	-	-	-	-	-	-
Arctic Paper UK Limited	2018	4	-	-	-	-	10	-	-	-	-	-
	2017	6	-	-	-	-	5	-	-	-	-	-
Arctic Paper Schweiz AG	2018	1	1 330	-	-	-	1	-	-	88	-	-
	2017	3	1 471	-	-	-	-	-	-	288	-	-
Arctic Paper Polska Sp. z o.o.	2018	1	37	-	-	-	-	-	-	4	-	-
	2017	6	49	-	-	-	-	-	-	1	-	-
Arctic Paper Ireland Ltd	2018	-	-	-	-	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-	-	-	-	-

Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Received guarantees - other financial costs*	*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.	2018	-	-	-	-	-	18	-	-	-	-	-
	2017	3	-	-	-	-	17	-	-	-	-	-
APG Branch Office	2018	-	-	-	-	-	-	-	-	2 432	-	-
	2017	-	-	-	-	-	-	-	-	-	-	-
API Branch Office	2018	-	-	-	-	-	-	-	-	319	-	-
	2017	-	-	-	-	-	-	-	-	-	-	-
Arctic Paper Finance AB	2018	-	-	-	1 522	-	-	-	-	42	-	21 830
	2017	-	-	-	2 150	-	-	-	-	42	-	31 761
Other units												
Progressio s.c.	2018	-	-	-	-	-	-	-	-	-	-	-
	2017	-	195	-	-	-	-	-	-	-	-	-
Total	2018	41 631	3 539	6 846	1 522	2 168	106 670	16 891	338 752	3 062	-	70 415
impairment charges		-	-	(1 933)	-	-	(16 891)	-	(63 741)	-	-	-
presentation as interests in subsidiary entities		-	-	-	-	-	-	-	(82 709)	-	-	-
2018 following impairment charges and changes to presentation		41 631	3 539	4 913	1 522	2 168	89 779	16 891	192 302	3 062	-	70 415
	2017	42 071	3 891	6 338	2 897	2 142	89 300	14 378	288 648	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	2 142	74 922	14 378	142 198	2 276	-	124 808

(all amounts in PLN '000 unless specified otherwise)

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 S.A.

There were no transactions between the Company and aforementioned companies during the year ended 31 December 2018 and 31 December 2017, apart from the transactions with Nemus Holding AB, as shown in note 28.

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 management staff

Key management staff of the Company as at 31 December 2018 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 2018	As at 31 December 2017
Management Board		
Employee benefits (salaries and overheads)	4 938	6 969
Supervisory Board		
Employee benefits (salaries and overheads)	991	1 011
Total	**5 929**	**7 980**

As at 31.12.2018, obligations to the management staff amounted to PLN 2,189 thousand and was disclosed as a provision for expenses related to termination of employment contracts.

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 2018 and 31 December 2017 by category of services:

Service type	As at 31 December 2018	As at 31 December 2017 (transformed)
Statutory audit of the annual financial statements	170	310
Review of the semi-annual financial statements	63	-
Statutory audit of the annual financial statements (branch)	25	20
Tax consultancy services	-	-
Other services	8	60
Total	**267**	**390**

(all amounts in PLN '000 unless specified otherwise)

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 2018*
As at 31 December 2018		
PLN	+1%	181
EUR	+1%	210
SEK	+1%	-
PLN	-1%	(181)
EUR	-1%	(210)
SEK	-1%	-

	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%	-

(all amounts in PLN '000 unless specified otherwise)

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 from granting and taking loans in foreign currencies – 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 2018 – SEK	+1%	30	-
	-1%	(30)	-
31 December 2018 – EUR	+1%	(334)	-
	-1%	334	-
31 December 2018 – USD	+1%	814	-
	-1%	(814)	-
31 December 2018 – USD	+1%	16	-
	-1%	(16)	-
31 December 2017 – SEK	+1%	65	-
	-1%	(65)	-
31 December 2017 – EUR	+1%	199	-
	-1%	(199)	-
31 December 2017 – USD	+1%	15	-
	-1%	(15)	-

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. The value of financial assets exposed to credit risk – loans granted to Group companies amounted to PLN 196,588 thousand as at 31 December 2018 (PLN 142,199 thousand as at 31 December 2017).

The Company recognises impairment allowances which reflect the estimated value of expected credit losses. The main component of the allowance is the part that covers specific losses related to exposure to material single risk.

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 2018 based on maturities of contractual undiscounted payments

Due to failure to comply with the bank covenant which is described in note 7 of these statements, the Company disclosed its entire debt as short-term liabilities. After the balance sheet date, the Company received a written assurance from Sandander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 did not constitute an event of default under the loan agreement of 9 September 2016 and therefore the Company will repay loan liabilities according to the previously agreed repayment schedules.

(all amounts in PLN '000 unless specified otherwise) 97

31 December 2018	*Upon request*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing loans, borrowings and bonds	-	72 481	138 979	165 476	-	376 936
Other liabilities	-	86 925	3 812	175	-	90 911
	-	**159 405**	**142 791**	**165 651**	**-**	**467 847**

31 December 2017	*Upon request*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing loans, borrowings and bonds	-	124 457	22 066	222 461	-	368 984
Other liabilities	-	59 237	4 258	-	-	63 495
	-	**183 694**	**26 324**	**222 461**	**-**	**432 479**

As at 31 December 2018, 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 December 2018 Variable interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Loans granted to related entities	79 833	23 003	23 003	7 023	-	-	132 864
Bank loans	(44 774)	-	-	-	-	-	(44 774)
Borrowings received from related entities	(48 585)	-	-	-	-	-	(48 585)
	(13 526)	**23 003**	**23 003**	**7 023**	**-**	**-**	**39 505**

31 December 2018 Fixed interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank loans	44 015	7 465	12 246	-	-	-	63 726
Bank loans	(78 769) -	(32 248) -	(37 032)	-	-	-	(148 048)
Bonds	(16 600)	(16 600)	(58 700)	-	-	-	(91 900)
Loans received from related entities	(10 750)	(10 750)	-	-	-	-	(21 500)
	(62 104)	**(52 133)**	**(83 485)**	**-**	**-**	**-**	**(197 722)**

(all amounts in PLN '000 unless specified otherwise) 98

31 December 2017 Variable interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Loans granted to related entities	18 000	38 781	21 105	-	-	-	77 886
Bank loans	20 064	-	-	-	-	-	20 064
Loans received from related entities	93 047	-	-	-	-	-	93 047
	131 111	**38 781**	**21 105**	**-**	**-**	**-**	**190 997**

31 December 2017 Fixed rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank loans	37 310	17 075	16 041	15 046	10 406	-	95 878
Bonds	12 284	18 809	17 059	48 914	-	-	97 065
Loans received from related entities	10 907	10 427	10 427	-	-	-	31 761
	60 500	**46 311**	**43 527**	**63 960**	**10 406**	**-**	**224 704**

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 (except for those presented in the table below), the table below presents all financial instruments by their book values, split into classes and categories of assets and liabilities.

		Book value	
	Category in compliance with IFRS 9	31 December 2018	31 December 2017
Financial Assets			
Other (long-term) financial assets	*FVTPL*	72 742	68 042
Trade and other receivables	*AMC*	90 469	74 119
Trade and tax receivables	*AMC*	19 605	36 943
Other (short-term) financial assets	*FVTPL*	123 848	74 157
Total		306 664	253 261
Financial liabilities			
Interest-bearing loans, borrowings and	*AMC*	353 051	337 817
Other financial liabilities (long-term)	*AMC*	171	323
Trade payables and other financial liabilities	*AMC*	90 726	63 495
Total		443 949	401 635

Abbreviations used:
WwZK - Financial assets/liabilities measured at amortised cost
WwWGpWF – Financial assets/liabilities measured at fair value through profit and loss account

PLN bonds issued by AP S.A. with the book value of PLN 90,024 thousand as at 31 December 2018 have fair value of PLN 92,035 thousand. Loans with the book value of PLN 192,625 thousand as at 31 December 2018 have fair value of PLN 193,979 thousand.

As at 31 December 2018 and as at 31 December 2017, financial instruments as at the measurement hierarchy are qualified to level 3 and level 2 in case of derivative instruments.

The table below presents items of revenues, expenses, profit and loss recognised in the profit and loss account, split into categories of financial instruments for the years ended on 31 December 2018 and 31 December 2017:

(all amounts in PLN '000 unless specified otherwise)

Year ended on 31 December 2018	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
Financial assets							
Derivative instruments	-	-	-	-	-	-	-
Trade and other receivables	-	2 992	(2 749)	907	-	-	1 149
financial assets (net of	-	(259)	-	3 914	-	-	3 655
Cash and cash equivalents	686	(11)	-	(2 366)	-	-	(1 691)
Financial liabilities							
Derivative instruments	(2 125)	-	-	-	-	-	(2 125)
Interest-bearing loans and borrowings	(9 365)	70	-	(3 280)	-	(3 254)	(15 829)
Liabilities under financial leases and rental co	25	-	-	-	-	-	25
Trade payables	(7)	(3 090)	-	(962)	-	-	(4 059)

Year ended on 31 December 2017	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
Financial assets							
Derivative instruments	-	-	-	-	-	-	-
Trade and other receivables	-	(5 340)	(3 852)	(2 862)	-	-	(12 054)
Other	-	-	-	3 365	-	-	3 365
Cash and cash equivalents	120	2 890	-	(86)	-	-	2 924
Financial liabilities							
Derivative instruments	-	-	-	(111)	-	-	(111)
Interest-bearing loans and borrowings	(12 651)	372	-	2 762	-	-	(9 518)
Liabilities under financial leases and rental co	(30)	-	-	-	-	-	(30)
Trade payables	-	5 137	-	2 600	-	-	7 737

31.3. Changes to liabilities resulting from financing activity

Year ended on 31 December 2018	Note	As at 1 January 2018	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair values	Other changes	As at 31 December 2018
Non-current interest-bearing loans, borrowings and bonds	24	337 815	22 729	(1 721)	-	(5 773)	353 050
Non-current liabilities under finance leases and hire purchase contracts	26.3	606	(282)	-	-	-	324
Derivatives	26.3	3 975	-	-	(327)	-	3 648
Others		323	-	-	-	(153)	170
Total liabilities from financing activities	**24**	**342 720**	**22 447**	**(1 721)**	**(327)**	**(5 926)**	**357 192**

31.4. Collateral

In connection with interest rate risk as detailed in note 30.1, the Company hedges its future cash flows that may fluctuate as a result of the risk. As at 31 December 2018, the Company held loans and debt securities for PLN 237,863 thousand with a variable interest rate that were hedged with SWAP derivative instruments (PLN 192,943 thousand as at 31 December 2017).

(all amounts in PLN '000 unless specified otherwise)

In the Company's opinion, the effectiveness of the hedging instruments is very high due to the fact that the parameters of the hedging instruments are matched to the hedged positions, in particular with respect to nominal values and dates of cash flows, interest rates underlying the calculation of the cash flows and the interest accrual convention.

Cash flow hedge

As at 31 December 2018, the Company used cash flow hedge accounting for the following hedging items:
— the Company designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
— the Company 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	2016-11-21
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 million

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.

(all amounts in PLN '000 unless specified otherwise)

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 million.

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 million.

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand.

— 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 million.

(all amounts in PLN '000 unless specified otherwise)

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	2016-11-21
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 million

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 million.

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 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	2018-07-31
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 25.8 million

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 December 2018 and the comparative data:

	As at 31 December 2018		As at 31 December 2017	
	Assets	Equity and liabilities	Assets	Equity and liabilities
SWAP	-	3 648	-	3 604
Corridor options	-	-		370
Total hedging derivative instruments	-	3 648	-	3 974

The table below presents the nominal value of derivative hedging instruments as at 31 December 2018:

	1 year	1 to 5 years	Over 5 years	Total
interest rate SWAP				
principal repayment (in '000 PLN)	101 418	144 383	-	245 802

The table below presents the amounts related to cash flow hedge accounting that were recognised in 2018 by the Company in profit and loss statement and in the total comprehensive income statement:

	Year ended 31 December 2018
Revaluation reserve as at 31 December 2018 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	3 879
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	1
The period of the anticipated hedged flows	1 January 2019 - 31 August 2022

The table below presents changes to revaluation reserve due to cash flow hedge accounting in 2018:

	Year ended 31 December 2018
Revaluation reserve as at 01 January 2018	3 835
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	44
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	(1)
Revaluation reserve as at 31 December 2018	3 879

Fair value hedges

Fair value 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	2016-11-21
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 million

(all amounts in PLN '000 unless specified otherwise)

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.

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 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 2018 and 31 December 2017.

	Na dzień 31 grudnia 2018	Na dzień 31 grudnia 2017
Oprocentowane kredyty, pożyczki, obligacje i pozostałe zobowiązania finansowe	357 024	342 398
Zobowiązania z tytułu dostaw i usług oraz pozostałe zobowiązania	89 318	60 996
Minus środki pieniężne i ich ekwiwalenty	(19 605)	(36 943)
Zadłużenie netto	426 737	366 451
Kapitał własny	535 124	531 032
Kapitał i zadłużenie netto	961 860	897 483
Wskaźnik dźwigni	**0,44**	**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.

(all amounts in PLN '000 unless specified otherwise)

33. Employment structure

The average headcount in the Company in the year ended on 31 December 2018 and 31 December 2017 was as follows:

	As at 31 December 2018	As at 31 December 2017
Management Board	2	2
Finances	5	6
Sales & Marketing	4	4
Logistics	25	24
Administration	9	8
IT	1	1
Total	46	45

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 on 31 December 2018	Year ended 31 December 2017 (transformed)
Change to income tax receivables as specified in the statement of financial condition	(308)	128
Income tax paid	(762)	(396)
	(1 070)	(268)

35. Events after the balance sheet date

35.1. Exemption from maintaining financial ratios as at 31 December 2018

As described in note 7, in view of failure to comply with a financial ratio as specified in the loan agreement, after the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 does not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 31 December 2018, the Company disclosed its entire debt to the bank consortium as at that day of PLN 65,996 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

From the balance sheet date until the day of publishing of the standalone 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 Managing Director	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Financial Director	Göran Eklund	18 marca 2019	signed with a qualified electronic signature