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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated Annual Report
for the year ended 31st December 2014

TRANSLATORS' 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, the Polish version is binding.

ARCTIC PAPER

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

Dear Sirs,

It is not without pride that I look back over the year of 2014 and the results of the Arctic Paper staff efforts. The Stability/Mobility approach that we implemented during the autumn of 2013 has had good effect and focused our energy on the most important issues. We look back at a successful 2014 and cautiously enter a complex 2015.

Our sharpened focus has been vital although market conditions have been less turbulent than the previous years. The graphic paper market has shown unexpected stability in 2014 quite contrary to the predictions made in 2013. However it’s a bit early to speak of a steady state and even less of a long term change – I’m bound to say that we perhaps should consider flat as the new up. We do identify more and more areas where the digital and analogue media converge to create new and positive synergies. Not least is it so in one of our main areas: book print.

In this still very challenging environment the Arctic Paper team have defended and slightly improved our market shares and position and produced good results. The numbers speak for themselves – an operating result (EBIT) of PLN 116.6 million and net result of PLN 78.1 million is a great improvement compared to 2013. This indicates that the restructuring programme has been effective since our total revenues of PLN 3.1 billion are almost equivalent compared to 2013.

I especially want to point out the hard work that has been put into this programme – aiming to reduce costs and optimise synergies in our operations. The production and sales records of Arctic Paper Kostrzyn, the new sales organisation for the Scandinavian market and the concentration of our logistic operations to one centre are three different examples of these efforts.

All the measures aim towards a reduction of our net debt to EBITDA and an optimisation of our working capital. At the same time we will increase our investments in new technology. Our environmental track record is proof of these investments – we are leaders in minimizing water consumption and our two biggest units are running on 100 % locally produced energy. We will continue at this pace – and plan to invest in new sustainable solutions thereby making paper even more environmentally friendly.

The positive and inspiring figures of 2014 have also been made possible by the support and loyalty of customers and suppliers. Paper merchants, converters and publishers are all contributing and cooperating with us not least in our effort to create new products both within the packaging and the digital printing segments. Our products in these segments already generate cash flow, improve profits and are a vital part of our group’s long-term base.

Our majority ownership of the pulp producer Rottneros is an important part of our base, both financially and as a part of our value-chain. The development during 2014 gave credence to the idea and the future potential and our aim is to invest in the enlargement of the production at Rottneros.

Occurrences after the reporting period

Entering 2015 we have already seen larger fluctuations and greater volatility in currencies than in years past. As an un-integrated paper manufacturer this is always a potentially perilous situation and the beginning of 2015 has proven that European currencies is a factor that we, together with Rottneros, must be most observant of.

The strategy of Stability and Mobility is in focus and thereby we are re-enforcing our actions and measures, so that we can ensure the continued sustainable development of 2014 in 2015.

Yours faithfully

Wolfgang Lübbert

CEO of Arctic Paper S.A.

Introduction

Information on the report

The hereby Consolidated Annual Report for 2014 was prepared in accordance with the Minister of Finance Regulation of 19 February 2009 concerning current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state (Journal of Laws of 2009 no. 33, item 259, as amended), and a part of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) approved by the European Union.

At the date of authorization of these consolidated financial statements for publishing, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRS applied by the Group and the IFRS endorsed by the European Union. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Certain selected information contained in this report comes from the Arctic Paper Group management accounting system and statistics systems.

The hereby Consolidated Annual Report presents data in PLN, and all figures, unless otherwise stated, are given in thousand PLN.

Definitions and abbreviations

Insofar as the context does not require otherwise, the following definitions and abbreviations are used in the whole document:

Abbreviations applied to business entities, institutions, authorities and documents of the Company

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna seated in Poznań, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint enterprises
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB seated in Munkedal Municipality, Västra Götaland County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH seated in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB seated in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen, Arctic Paper Grycksbo
Arctic Paper Investment	Arctic Paper Investment GmbH seated in Wolpertswende, Germany

Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH seated in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG seated in Ulm, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. seated in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Since 8th July 2014 Arctic Paper Grycksbo AB , before: Arctic Paper Grycksbo AB, Grycksbo Paper Holding AB,
Distribution Companies	Arctic Paper Sverige AB, Arctic Paper Danmark A/S and Arctic Paper Norge AS
Sales Offices	Arctic Paper Papierhandels GmbH seated in Vienna (Austria); Arctic Paper Benelux SA seated in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S seated in Vallensbaek (Denmark); Arctic Paper France SA seated in Paris (France); Arctic Paper Deutschland GmbH seated in Hamburg (Germany); Arctic Paper Ireland Ltd seated in Dublin (Ireland); Arctic Paper Italia Srl seated in Milan (Italy); Arctic Paper Baltic States SIA seated in Riga (Latvia); Arctic Paper Norge AS seated in Trollåsen (Norway); Arctic Paper Polska Sp. z o.o. seated in Warsaw (Poland); Arctic Paper España SL seated in Barcelona (Spain); Arctic Paper Sverige AB seated in Uddevalla (Sweden); Arctic Paper Schweiz AG seated in Zurich (Switzerland); Arctic Paper UK Ltd seated in Caterham (UK); Arctic Paper East Sp. z o.o. seated in Kostrzyn nad Odrą (Poland);
Rottneros, Rottneros AB	Rottneros AB seated in Stockholm, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB seated in Vallvik, Sweden; Rottneros Bruk AB seated in Sunne, Sweden; Utansjo Bruk AB seated in Sweden, Vallviks Bruk AB seated in Vallvik, Sweden; Rottneros Packaging AB seated in Sweden; SIA Rottneros Baltic seated in Latvia
Pulp mills	Rottneros Bruk AB seated in Sunne, Sweden; Vallviks Bruk AB seated in Vallvik, Sweden
Purchasing Office	SIA Rottneros Baltic seated in Latvia
Kalltorp	Kalltorp Kraft Handelsbolaget seated in Trollhattan, Sweden
Trebruk AB	Trebruk AB (formerly Arctic Paper AB) seated in Göteborg Municipality, Västra Götaland County, Sweden
Nemus Holding AB	Nemus Holding AB seated in Göteborg Municipality, Västra Götaland County, Sweden
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
SM, Shareholders Meeting, Issuer's Shareholders Meeting, Company's Shareholders Meeting	Shareholders Meeting of Arctic Paper S.A.

ESM, Extraordinary Shareholders Meeting, Issuer's Extraordinary Shareholders Meeting, Company's Extraordinary Shareholders Meeting	Extraordinary Shareholders Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Stock Exchange	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna (Warsaw Stock Exchange)
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna seated in Warsaw
KNF	Komisja Nadzoru Finansowego (Financial Supervision Authority)
SFSA	Swedish Financial Supervisory Authority
NASDAQ OMX, OMX	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Polish Central Statistical Office
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of sales profit (loss) to sales income
EBIT	Profit on operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income
EBITDA	Operating profit plus depreciation and amortization and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortization)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortization and impairment charges to sales income
Gross profit margin	Ratio of gross profit (loss) to sales income
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales income
Return on equity, ROE	Ratio of net profit (loss) to equity
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the number of shares
BVPS	Book Value Per Share, ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA

Solidity ratio	Ratio of equity (calculated in compliance with Swedish Gaap accounting principles) to value of assets
Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish Gaap accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest cost
Current ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash assets and other cash assets to current liabilities
Days inventory outstanding, DSI, DIO	Days Sales of Inventory or Days Inventory Outstanding, ratio of inventory to cost of sales multiplied by the number of days in the period
Days sales outstanding, DSO	Days Sales Outstanding, ratio of trade receivables to sales income multiplied by the number of days in the period
Days payable outstanding, DPO	Days Payable Outstanding, ratio of trade payables to cost of sales multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
1Q	1st quarter of the financial year
2Q	2nd quarter of the financial year
3Q	3rd quarter of the financial year
4Q	4th quarter of the financial year
1H	First half of the financial year
2H	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result – in the meaning of this report excluding the effect of the purchase of Arctic Paper Grycksbo in March 2010
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the Great Britain
SEK	Swedish Krona - Monetary unit of the Kingdom of Sweden
USD	United States dollar, the currency being legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 Arctic Paper S.A. Series A Shares with a par value of 1 PLN each
Series B Shares	44,253,500 Arctic Paper S.A. Series B Shares with a par value of 1 PLN each
Series C Shares	8,100,000 Arctic Paper S.A. Series C Shares with a par value of 1 PLN each
Series E Shares	3,000,000 Arctic Paper S.A. Series E Shares with a par value of 1 PLN each
Series F Shares	13,884,283 Arctic Paper S.A. Series F shares with a par value of 1 PLN each
Shares, Stock, Issuer's Shares, Issuer's Stock	Series A, Series B, Series C, Series E and Series F Shares jointly

Forward-looking statements

The information contained in the hereby report which does not relate to historical facts relates to forward looking statements. Such statements may, in particular, concern the Group's strategy, business development, market projections, planned investment outlays, and future revenues. Such statements may be identified by the use of expressions pertaining to the future such as, e.g., "believe", "think", "expect", "may", "will", "should", "is expected", "is assumed", and any negations and grammatical forms of these expressions or similar terms. The statements contained in the hereby report concerning matters which are not historical facts should be treated only as projections subject to risk and uncertainty. Forward-looking statements are inevitably based on certain estimates and assumptions which, although our management finds them rational, are naturally subject to known and unknown risks and uncertainties and other factors that could cause the actual results to differ materially from the historical results or the projections. For this reason, we cannot assure that any of the events provided for in the forward-looking statements will occur or, if they occurred, about their impact on the Group's operating activity or financial situation. When evaluating the information presented in this report, one should not rely on such forward-looking statements, which are stated only on the date they are expressed. Insofar as the legal regulations do not contain detailed requirements in this respect, the Group shall not be obliged to update or verify those forward-looking statements in order to provide for new developments or circumstances. Furthermore, the Group is not obliged to verify or to confirm the analysts' expectations or estimates, except for those required by law.

Statements concerning risk factors

In the hereby report, we have described the risk factors that the Management Board of our Group finds typical for our industry; however, this list may not be complete. It may happen that other factors exist which we have not identified and which could have a material adverse impact on the operations, financial situation, operating results or perspectives of the Arctic Paper Group. In such circumstances, the prices of the Company's shares listed on the Warsaw Stock Exchange or on NASDAQ OMX stock exchange in Stockholm may drop, investors may lose all or part of their invested funds, and the payment of dividend by the Company may be limited.

Please analyze carefully the information contained in the "Risk factors" section of the hereby report which describes the risks and uncertainties related to Arctic Paper Group's operations.

Management Board Report
on the operations of Arctic Paper S.A. Capital Group
to the report for year 2014

Arctic Paper Group profile

General information

The Arctic Paper Group is the second-largest European producer of bulky book paper in terms of production volume, offering the largest product assortment in this segment, and one of Europe's leading producers of fine graphic paper. The Group produces numerous types of uncoated and coated wood-free paper, as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. Because of the acquisition of Rottneros Group in December 2012, our assortment broadened with pulp production. As on the day of publishing of the hereby report, Arctic Paper Group employs app. 1,800 people in four paper mills, two pulp mills, fifteen companies dealing in paper distribution and sales, and a company which purchases timber for pulp production. The Group's paper mills are located in Poland, Sweden and Germany and have total production capacity of more than 800,000 metric tons of paper per year. The pulp mills are located in Sweden and have total production capacity of 400,000 tons per year. The Group has three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenue in 2014 totaled PLN 3,099 million.

Arctic Paper S.A. is a holding company established in April 2008. The Parent Company is entered in the commercial register of the Polish Court Register maintained by the District Court – Nowe Miasto i Wilda in Poznań, 8th Commercial Department of the Polish Court Register, under KRS number 0000306944. The Parent Company holds statistical number REGON 080262255.

Group Profile

The principal business of the Arctic Paper Group is paper production and sales.

Additional businesses of the Group, subsidiary to paper production, cover:

- Production and sales of pulp,
- Generation of electric energy,
- Transmission of electric energy,
- Distribution of electric energy,
- Production of heat,
- Distribution of heat,
- Logistic services,
- Distribution of paper.

Our production units

As on 31st December 2014, as well as on the day of publishing of the hereby report, the Group owned the following paper mills:

- the paper mill in Kostrzyn nad Odrą (Poland) has a production capacity of about 275,000 metric tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the paper mill in Munkedal (Sweden) has a production capacity of about 160,000 metric tons per year and mainly produces uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the paper mill in Mochenwangen (Germany) has a production capacity of about 115,000 metric tons per year and mainly produces uncoated wood-containing paper used primarily for printing books and flyers;
- paper mill in Grycksbo (Sweden) has a production capacity of about 265,000 metric tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31st December 2014, as well as on the day of publishing of the hereby report, the Group owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the annual production capacities of app. 150.000 tons and mainly produces two types of fibrous mechanical pulp: groundwood and CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacities of app. 250.000 tons and produces two types of long-fiber sulfate pulp: fully bleached sulfate pulp and unbleached sulfate pulp.

The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulfate pulp produced by the mill is characteristic of high levels of purity and is used, among other, in production of power transformers and cable industry.

Our products

The assortment of products of Arctic Paper Group includes:

Uncoated wood-free paper, in particular:

- high-white offset paper produced and distributed primarily under the brand name Amber, one of the most versatile types of paper that can be used for many different purposes;
- wood-free bulky book paper produced under the brand name Munken, used primarily for book publishing;
- high quality graphic paper of particularly smooth surface, used for printing various advertising and marketing materials, produced under the brand name Munken;

Coated wood-free paper, in particular:

- coated wood-free paper produced under the brand names G-Print and Arctic, used primarily for printing books, magazines, catalogs, maps and direct mail.

Uncoated wood-containing paper, in particular:

- wood-containing bulky book paper produced and distributed under the brand name Pamo, primarily used for printing paperbacks;
- wood-containing offset paper produced and distributed under the brand name L-Print, primarily used for printing low-budget advertising brochures and telephone directories.

Sulfate pulp:

- fully bleached sulfate pulp and unbleached sulfate pulp which is used mainly for production of printing and writing papers, cardboard, toilet paper and white packaging paper.

Fibrous mechanical pulp:

- chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers.

Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Company, and its subsidiaries, as well as joint enterprises. Since 23rd October 2009 Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20th December 2012 in NASDAQ OMX stock exchange in Stockholm. The Group carries out business through its Paper Mills and Pulp Mills together with a company producing packaging as well as Distribution Companies, Sales Offices and a Purchase Office.

Detailed information about the organization of the Arctic Paper S.A. Capital Group with indication of the companies under consolidation can be found in the section Significant Accounting Policies and in additional explanatory notes (note 1 and 2) to the consolidated financial statements.

Changes in the capital structure of the Arctic Paper Group

On 1st January 2014, a sales agreement concluded on 29th October 2013 came into force. Under the agreement Arctic Paper S.A. acquired 100% shares in Arctic Paper Deutschland GmbH from Arctic Paper Investment GmbH.

On 3rd September 2014, a sales agreement between Arctic Paper S.A. and Arctic Paper Investment AB was concluded and came into force. Under the agreement, the Company acquired 100% shares in Arctic Paper Finance AB (formerly Arctic Energy Sverige AB).

In August 2014, in Swedish commercial register of entrepreneurs a merger of Grycksbo Paper Holding AB (a holding company and the acquired party) with Arctic Paper Investment AB (the acquirer) was registered, as the result of which Arctic Paper Holding AB terminated its business operations.

In 2014, no other changes in the capital structure of Arctic Paper Group occurred.

Changes in basic management principles

There were no important changes in basic management principles in 2014.

Shareholder structure

On 5th September 2014, the hitherto parent entity of the Issuer, Trebruk AB sold 41,360,449 Shares to Nemus Holding AB, therefore Nemus Holding AB is currently the majority shareholder of Arctic Paper S.A., holding 41,356,449 shares of the Company as on 31st December 2014, which constitute 59.69% of its share capital and representing 59.69% of total number of votes in the Shareholders Meeting. Thus Nemus Holding AB became the parent entity of the Issuer. Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds 5,848,658 Shares constituting 8.44% of total number of the Company's Shares.

Shareholders who hold, directly or indirectly, at least 5% of the total number of votes at the Shareholder Meeting

	as at 23.03.2015				as at 14.11.2014			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Nemus Holding AB	41 356 449	59,69%	41 356 449	59,69%	41 375 449	59,72%	41 375 449	59,72%
Thomas Onstad	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%
Others	22 082 676	31,87%	22 082 676	31,87%	22 063 676	31,84%	22 063 676	31,84%
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

Data in the above table are given as on the date of approval of the hereby report and as on the date of publication of the quarterly report for 3Q 2014.

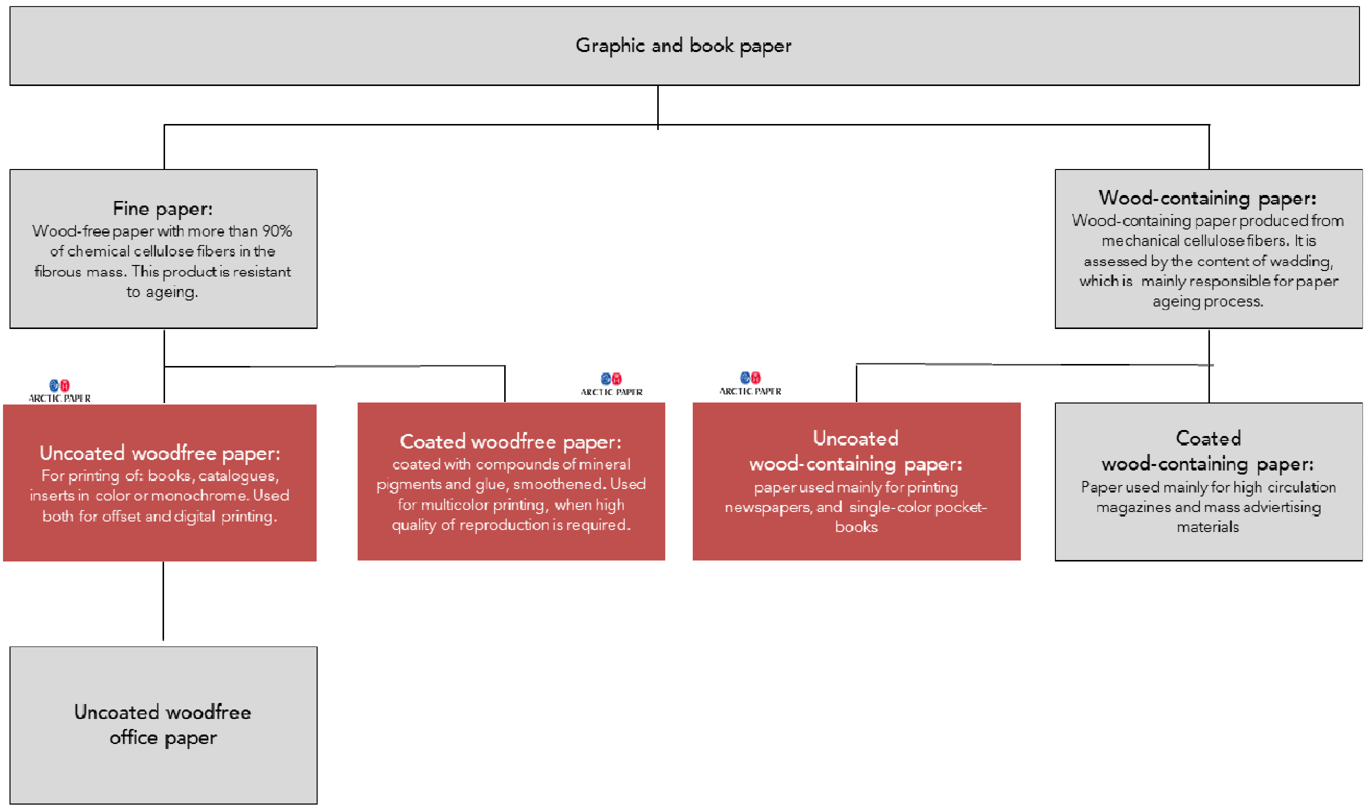
Market environment

Segments of the graphic paper market

Graphic paper market can be divided into three main categories:

- fine paper,
- newsprint,
- magazine paper.

The Group conducts its business in fine graphic paper market only. We do not operate in segment of newsprint and magazine paper, as well as photocopy and office paper.



Below is the description of particular segments of graphic paper market :

- Fine paper is white wood-free paper in which pulp fibers extracted using a chemical method constitute at least 90% of pulp:
  - Uncoated wood-free paper is wood-free paper for printing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing processes, such as surface

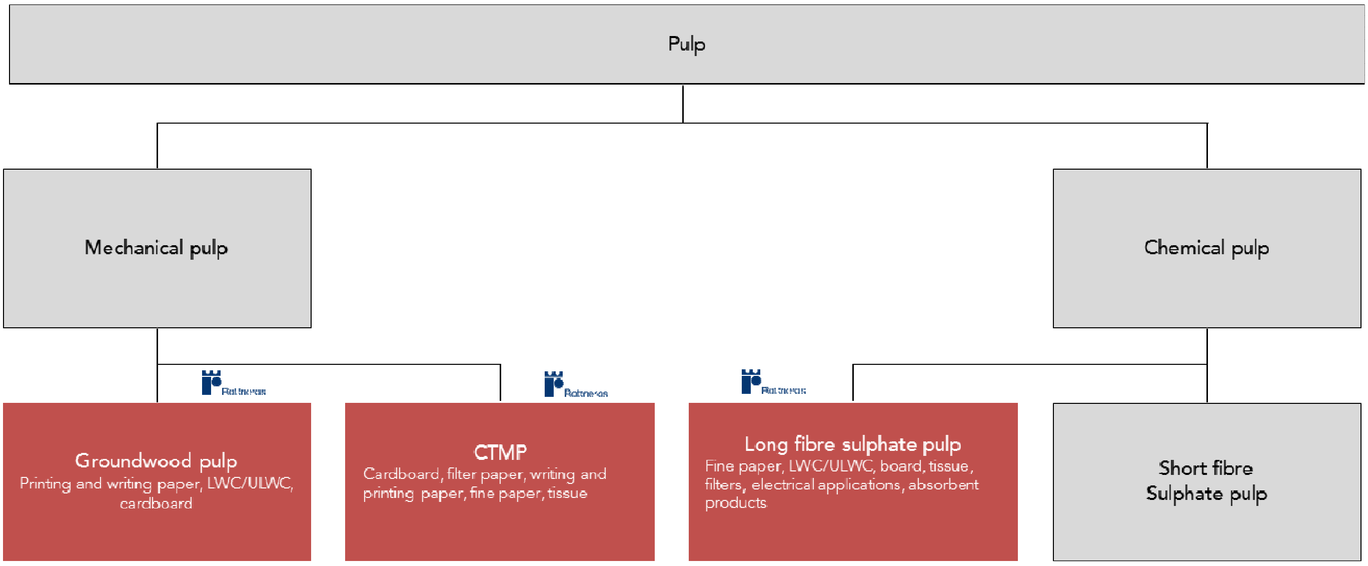
sizing and calandering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper),

- Coated wood-free paper is wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both online and offline, and can be supplemented by super-calandering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations;

- Newsprint is paper primarily used to print newspapers, produced mainly from mechanical pulp or waste paper pulp, without or with low filler content. Grammage usually ranges from 40 g/m^2 to 52 g/m^2. Newsprint is machine-pressed or slightly calandered, white or slightly dyed. This paper is used in reels for letterpress, offset or flexographic printing.
- Magazine paper is wood-containing paper in which pulp fibers extracted using a chemical method constitute less than 90% of pulp, used for printing color magazines with high circulation, brochures, catalogues, flyers, direct mail, maps and posters:
  - Uncoated wood-containing paper is paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.
  - Coated wood-containing paper is coated paper produced from pulp produced by mechanical methods. This paper is also known as ground-wood coated paper. Its use is similar to the use of uncoated wood-containing paper.

Additional information about the market environment is provided further on in this report in the section Information on market tendencies.

Segments of pulp market



Since December 2012, together with acquisition of Rottneros AB, our assortment of products was broadened with:

- fully bleached sulfate pulp and unbleached sulfate pulp, used primarily for production of printing and writing papers, cardboard, toilet paper and white packaging paper.
- chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers.

Development directions and strategy

The Group's main strategies' aims include:

Development in Central and Eastern European markets while maintaining leading position in key markets

Our strategic priority over the next few years is to maintain our present leading position in the field of fine paper intended for Western European markets and also to take advantage of the expected growth of the paper market in Central and Eastern Europe. Given their size, the Western European markets will remain our strategic target although we believe that the paper market in Central and Eastern Europe will grow faster than in Western Europe. We expect this growth to be founded on the long-term rise in paper use per citizen, comparably low at present, and on the expected move of printing houses' production capacity from Western Europe to Central and Eastern Europe. The key elements of this strategy are to take advantage of the competitive edge which we gained thanks to the location and efficient operation of our paper mill in Kostrzyn nad Odrą and our well-developed sales network in Central and Eastern Europe.

Continuous improvement of production and distribution efficiency

One of the key elements for the success of our business will be the ability to sustain cost efficiency. Therefore, we have been taking initiatives to:

- maximize energy efficiency,
- carefully manage human resources,
- take advantage of our strong bargaining position to negotiate lower prices of pulp and other raw materials with external suppliers,
- maximize the capacity of our production lines and the efficiency of the logistics systems.

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Sales structure

In 2014 and 2013 the sales structure divided to main production lines presented as follows:

Sales structure by products

thousand tons	2014	share %	2013	share %
Paper	*760*	*69%*	*757*	*68%*
Amber	335	30%	327	30%
G-Print	151	14%	156	14%
Munken	98	9%	102	9%
Pamo	56	5%	59	5%
Arctic	95	9%	87	8%
L-Print	12	1%	19	2%
AP Tech	11	1%	8	1%
Other	1	0%	-	0%
Pulp	*339*	*31%*	349	32%
NBSK	199	18%	208	19%
Groundwood	54	5%	52	5%
CTMP	69	6%	73	7%
Other	17	2%	16	1%
Total paper and pulp	**1 099**	**100%**	**1 106**	**100%**

Sales structure by products

PLN thousands	2014	share %	2013	share %
Paper	*2 395 323*	*77%*	*2 439 043*	*79%*
Amber	998 442	32%	999 592	32%
G-Print	449 308	14%	478 378	15%
Munken	408 644	13%	422 243	14%
Arctic	157 890	5%	166 283	5%
Pamo	308 192	10%	300 486	10%
L-Print	30 328	1%	45 618	1%
AP Tech	40 436	1%	25 419	1%
Other	2 083	0%	1 024	0%
Pulp	*704 041*	*23%*	*665 858*	*21%*
NBSK	466 679	15%	*329 606*	*11%*
Groundwood	83 698	3%	*88 895*	*3%*
CTMP	114 574	4%	*114 675*	*4%*
Other	39 089	1%	*132 681*	*4%*
Total paper and pulp	**3 099 364**	**100%**	**3 104 901**	**100%**

In 2014, there were no significant changes in the Group's paper and pulp sales structure or in the Group's income structure from sales of paper and pulp by products.

Output markets

In 2014, the market share of sales outside Poland in metric tons was 88% and did not significantly change compared to 2013 (89%). This year, as in previous years, sales focused on European markets. The share of those markets in total sales volume was 91% in 2014 (93% in the previous year).

The geographical structure of sales revenues from the most important sales markets in 2014, as compared to 2013, is shown in explanatory note 10.1 to the consolidated financial statements.

Customers

Our customer base includes both direct and indirect customers. Direct customers purchase the Group's products in our paper mills. Indirect customers do not purchase the Group's products themselves but use the agency services of advertising companies or paper distributors. They are, however, an important target group for Arctic Paper's marketing since indirect customers recommend or request direct customers use the Group's products. Direct and indirect customer groups include:

- printing houses – direct customers that purchase paper produced by the Group directly from paper mills;
- distributors – direct customers that purchase paper produced by the Group in order to resell it;

- publishing houses – direct and indirect customers that purchase paper produced by the Group directly from the Group in order to use it in their publishing activity and order or recommend the use of our paper in printing houses in which they order printing of books or other publishing items;
- advertising agencies – mainly indirect customers that do not purchase our products directly yet play an important role in ordering and recommending that printing houses use our products, particularly fine paper to print company annual reports, brochures, flyers and packaging;
- end users – direct and indirect customers that purchase our products directly and play an important role in recommending the use of our products in printing houses in which they commissioned the printing.

The main customers of our Pulp Mills are printing paper producers and producers of paper hygienic materials, cardboard, electric devices and filters. Our pulp mills supply the entities who do not have the possibility to produce pulp on their own as well as the customers producing the particular type of pulp and seeking for a supplier of other types of pulp.

In our opinion, we do not depend to a significant extent on any specific customer. Based on the Group's consolidated revenues for 2014, the share of our largest customer was not higher than 10% of total sales revenues.

Suppliers

The Group uses the following goods and services in its business:

- pulp for Paper Mills,
- timber for Pulp Mills
- chemicals,
- electricity,
- transportation services.

Pulp

The basic raw material used by the Group to produce paper is pulp. Except for the paper mill in Mochenwangen, all the Group's paper mills are so-called non-integrated producers, i.e. they purchase all their pulp from external producers. The paper mill in Mochenwangen is partly integrated and has its own pulp mill with production capacity of approximately 62,100 metric tons per year, which accounts for about 62% of the paper mill's total requirements. The Group purchases pulp on the basis of renewable annual contracts executed under framework agreements or in one-off transactions.

In connection with acquisition of Rottneros Group in December 2012, part of pulp is delivered to Paper Mills from Pulp Mills of Rottneros.

Timber

The main raw material for pulp production in Pulp Mills is timber. Rottneros Group has its purchases department, who places orders to Swedish sawmills, as well as a subsidiary - SIA Rottneros Baltic, who orders timber for the pulp mill in Vallvik in Eastern Europe, particularly in Latvia and Russia.

Chemicals

The basic chemicals used in paper production are fillers (mainly calcium carbonate), starch (corn, potato, tapioca), optical bleaching agents and other chemicals. Chemicals are also used for pulp production, particularly NBSK.

Electric power

The Group uses heat and power in the production process. Kostrzyn paper mill's total demand for heat and power is satisfied from the mill's combined heat and power plant fuelled by natural gas. Gas is supplied under an agreement with a Polish supplier (PGNiG) at prices adjusted annually to reflect changes in the industry indexes published by the Main Statistics Office (GUS); however, the index formula may be renegotiated if the changes exceed the level set out in the agreement. The gas is mined from gas deposits near Kostrzyn nad Odrą and transmitted to the paper mill through local gas pipes.

In the analyzed period, electricity for the paper mill in Munkedal was mainly purchased from external suppliers. The Group also purchased fuel oil in order to satisfy part of the Group's demand for heat.

The paper mill in Mochenwangen satisfies the total demand for heat and about a half the electricity demand by using mineral coal. The remaining part of the demand for electricity is satisfied by purchasing from external suppliers.

The energy source In Arctic Paper Grycksbo AB paper mill is biomass and electricity partly purchased from outside suppliers.

Rottneros mill satisfies fully its demand for electricity with purchases from external suppliers.

Vallvik mill satisfies app. 75% of its electricity demand with their own powers. The rest demand for electricity is satisfied with purchases from external suppliers.

Transportation services

The Group does not have its own trucks and uses professional outsourcing services to distribute products from paper mills and warehouses to its customers.

The Group entities are not dependent on their suppliers. Based on the Group's consolidated revenues for 2014, the share of the largest supplier was not more than 10% of total sales revenues.

Business seasonality and cycles

Demand for the Group's products fluctuates slightly during the year.

Lower demand for paper is reported each year during summer holidays and in Christmas season when a number of printing houses, particularly those in Western Europe, are closed for business. The changes in the demand for paper are not significant compared to the demand in the rest of year.

R&D

R&D in the Arctic Paper Group is primarily intended to advance and innovate production processes and to improve products' quality and increase product assortment. In the period covered by this report, Paper and Pulp Mills carried out R&D work to streamline the production process, particularly by shortening machine idle time, and to improve paper/pulp quality along with expanding the assortment range as well as the increase of products' qualities.

A material purpose of R&D work in 2014 was development of new products.

Natural environment

Our Group observes the environmental standards laid down in numerous legal regulations and administrative decisions. These standards are intended to protect soil, air and water against pollution, noise and the impact of electromagnetic fields. We describe below how the environmental regulations affect the operations of our paper and pulp mills.

Kostrzyn Paper Mill

Based on the decision of the Lubuskie Voivode of 8th December 2005, Kostrzyn obtained an integrated permit for a paper production installation combined with a fuel combustion installation located in the mill in Kostrzyn nad Odrą. For Kostrzyn, the requirement to obtain this permit was due to the mill's paper production capacity of over 20 metric tons a day. In order to meet the requirements set out in the permit and other environmental waste management standards, Kostrzyn executed a number of agreements for industrial waste collection and utilization.

In May 2008 a new sewage treatment plant was opened in the paper mill in Kostrzyn nad Odrą. Based on the decision of the Lubuskie Voivode of 14 August 2007, Kostrzyn obtained a water permit to discharge rainwater and run-off water and to build a water structure in the form of a dock discharging waters to the Warta River (permit valid until 1st August 2017).

AP Kostrzyn participates in the EU Greenhouse Gas Emissions Trading Scheme (EU Emission Allowances Trading Scheme) based on a permit granted in the decision of the Lubuskie Voivode of 17th February 2006 (amended by the decisions of 28th March 2006, 1st June 2006, 13th December 2006, 4th May 2007 and 6th January 2009) for the paper production installation with production capacity of over 20 metric tons a day located in the mill in Kostrzyn nad Odrą. The permit was granted until 31st December 2015. Under the permit, Kostrzyn has to monitor carbon dioxide emissions and submit annual emission reports.

In view of the environmental protection policy, Kostrzyn made significant investments, including an investment in a new gas-fuelled heat and power plant which was opened in 2007 (first stage) and 2009 (second stage). The paper mill in Kostrzyn nad Odrą holds environmental compliance certificates: OHSAS 18001, ISO 14001, ISO 9001 and EMAS. Moreover, the paper produced in this mill is FSC and PEFC certified. These certificates are granted to certify that the pulp used to produce paper comes from forests managed in a balanced manner. The FSC certificate (Forest Stewardship Council) is one of the most important certificates granted to paper companies. The first FSC certificate for the paper produced by the Kostrzyn mill was granted in 2006. At present, Amber paper from the paper mill in Kostrzyn nad Odrą is produced from FSC certified pulp – 85%, and from PEFC (Programme for the Endorsement of Forest Certification) certified pulp - 15%.

Munkedals Paper Mill

The Munkedals business complies with environmental management systems EMAS and ISO 14001. EMAS (Eco- Management and Audit Scheme) is a voluntary system applied in the EU to distinguish businesses that constantly improve environmental protection levels as part of their operations. Businesses registered in EMAS observe environmental regulations, maintain an environmental management system and inform the public about environmental protection as part of the activity carried out in the form of an independent audited statement on environmental protection compliance. The ISO (International Organization for Standardization) has developed various standards, among them ISO 14000, some of the most recognized standards for environmental protection (i.e. actions taken by business to (i) limit their negative impact on the environment; and (ii) ensure constant improvement of environmental protection levels).

Some of the real properties owned by Munkedals are located in Natura 2000 areas. These Natura 2000 areas are wild nature reserves established on the basis of a decision issued by the Munkedal District Council (Sweden) in 2005. Natura 2000 areas were established to preserve the most endangered natural habitats and fauna and flora in Europe. The scope of protection and the restriction on business activities are laid down in Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (the Habitats Directive) and Council Directive 79/409/EEC of 2nd April 1979 on the conservation of wild birds (the Birds Directive) and relevant domestic regulations. The level of habitat and bird conservation in the Natura 2000 areas depends on the species and/or habitats in those areas under conservation.

Mochenwangen Paper Mill

Mochenwangen obtained a permit to produce a daily maximum of approximately 475 metric tons gross of paper.

Wood used to produce book and specialty papers obtained certificates of FSC and PEFC. The FSC certificate is issued after independent agencies have assessed whether forest production complies with international standards of balanced management, environmental and social welfare protection.

Mochenwangen participates in the EU Emission Allowances Trading Scheme when producing paper and generating power in coal-fuelled power plants. For the period started in 2013 Mochenwangen was allocated free of charge app. 38 thousand emission allowances per year, which means that the mill will have to buy additional app. 60 thousand allowances annually to meet the requirements of the EU. Mochenwangen has to monitor carbon dioxide emissions and submit annual emission reports to the German Emission Allowances Trading Authority.

Grycksbo Paper Mill

Paper production In the Arctic Paper AB Grycksbo is performed In accordance with the environmental permit in march 2007. The permit is issued by the Swedish Environmental Court and allows production up to 310,000 tons per year. In addition, the mill has also a permit to emit carbon dioxide released by authorities of the regional province of Dalarna.

Since 1997, Arctic Paper Grycksbo AB has had certificate ISO 14001 and our environmental activities are reported in accordance with EMAS. The primary objective of EMAS is to encourage member organizations to improve environmental protection in a systematic and consistent way, even in excess of legislative requirements. This is done by setting up a program consisting of specific action programs and evaluate all significant environmental impacts associated with the business. Companies are required to prepare annual reports on the results of their pro-environmental activities. Independent auditors ensure that the companies keep their commitments.

Arctic Paper AB Grycksbo takes part In the European Union Emissions Trading Scheme for greenhouse gas pollutant. In 2010 the factory reported zero carbon dioxide emissions from fossil fuels for the first time in its history. It was made possible thanks to a substantial reconstruction of the boiler in conjunction with investment in equipment to handle biofuels, electric exhaust particulate filters and conversion turbines to produce electricity from renewable sources.

As far as figures are concerned, the shift to biofuels translates to an annual reduction of carbon dioxide emissions from fossil fuels by about 70,000 tons. Rebuilt turbo allows to meet 20% of our electricity needs through renewable sources of energy, which is produced by the mill itself, which in turn leads to an annual reduction in carbon dioxide emissions by a further 4,000 tons.

The mill has implemented energy management system in accordance with SS 62 77 50 (Swedish standard for energy management) and participates in PFE (Swedish Energy Efficiency Programme), which ended in 2014. Our products are reviewed under the „Chain of Custody" under FSC (Forest Stewardship Council) and in accordance with PEFC (Programme for the Support of the Principles for Sustainable Forest Management). They meet the requirements of the new Nordic Ecolable standards, as well.

Pulp mills

Our pulp mills mind that the timber used for pulp production comes from reliable and certified sources. Our pulp is marked with "FSC" and "PEFC" symbols, representing two systems functioning in Europe and guarding the sources of pulp to be compliant with law principles.

Summary of consolidated financial results

Consolidated income statement

Selected items of the consolidated income statement

PLN thousand	2014	2013	Change % 2014/2013
Revenues	**3 099 364**	**3 104 901**	**(0,2)**
including:			
Sales of paper	*2 395 323*	*2 439 043*	*(1,8)*
Sales of pulp	*704 041*	*665 858*	*5,7*
Gross profit on sales	430 793	190 886	125,7
Sales revenue %	*13,90*	*6,15*	*7,8 p.p.*
Selling expenses	(289 419)	(298 091)	(2,9)
Administrative expenses	(74 954)	(76 177)	(1,6)
Other operating income	81 343	63 173	28,8
Other operating cost	(31 145)	(31 432)	(0,9)
EBIT	**116 618**	**(151 641)**	**(176,9)**
Sales revenue %	*3,76*	*(4,88)*	*8,6 p.p.*
EBITDA	**238 540**	**72 862**	**227,4**
Sales revenue %	*7,70*	*2,35*	*5,3 p.p.*
Financial income	844	1 255	(32,7)
Financial cost	(39 608)	(32 333)	22,5
EBT	**77 854**	**(182 719)**	**(142,6)**
Corporate income tax	320	30 566	(99,0)
Net profit/ (loss)	**78 175**	**(152 153)**	**(151,4)**
Sales revenue %	*2,52*	*(4,90)*	*7,4 p.p.*
Profit/(Loss) attributable to equity holders of the parent	50 459	(132 266)	(138,1)
Earnings per share (in PLN) attributable to equity holders of the parent	0,73	(1,92)	n.a.

Revenue

In 2014 consolidated sales revenue amounted to PLN 3,099,364 thousand compared to PLN 3,104,901 thousand in the previous year. Consolidated sales revenue did not significantly change compared to sales realized in 2013, while paper sales revenue decreased by 1.8% and pulp sales revenue increased by 5.7% compared to 2013.

Sales volume in 2014 amounted to 760 thousand tons and was higher by 3 thousand tons than in the previous year. This change represents an increase of sales volume by 0.4%.

Pulp sales volume in 2014 amounted to 339 thousand tons (in 2013: 349 thousand tons).

Profit on sales, cost of sales, selling expenses and administrative expenses

Profit on sales in 2014 was 125.7% higher than in the previous year. Sales profit margin in the current year stood at 13.90% compared to 6.15% (+7.75 p.p.) in the previous year.

In 2013 the Group recognized impairment allowances of non-financial tangible and intangible assets in the amount of PLN 102,981 thousand, which were taken to cost of sales. Profit on sales corrected with aforementioned impairment amounted to PLN 293,867 thousand in 2013.

Increase of profit on sales in 2014 compared to corrected profit on sales in 2013 was due to decrease of standalone costs of pulp, chemicals and energy use, as well as to achieving income from cogeneration certificates, which decreased sales cost in 2014 (in 2013 the Group did not achieve significant income from cogeneration certificates).

In 2014 selling expenses amounted to PLN 289,419 thousand which represents a decrease by 2.9% compared to costs incurred in 2013. The main reason for the decrease in selling expenses in the analyzed period was the decrease of variable sales costs dependent on sales volume, particularly transportation cost. Transportation cost per ton of paper sold decreased in the analyzed period by 5.3% compared to 2013.

In 2014 administrative expenses amounted to PLN 74,954 thousand compared to PLN 76,177 thousand in 2013, which represents a decrease by 1.6%. The main reason for decrease of these expenses in 2014 was lower cost related to consulting services rendered to the Group by external parties.

Other operating income and cost

Other operating income in 2014 amounted to PLN 81,343 thousand which means an increase compared to the previous year by PLN 18,170 thousand.

Increase of other operating income in 2014 compared to operating income in 2013 results mainly from profit on sale of an unused paper machine by Rottneros.

Other operating income comprises, apart from the profit on sale of tangible assets, mostly heat and electricity sales income as well as income from sales of other materials.

Other operating expenses in 2014 amounted to PLN 31,145 thousand compared to PLN 31,432 thousand in 2013. Sales cost of energy and other materials had a major share in other operating expenses.

Financial income and cost

In 2014 financial income amounted to PLN 844 thousand and were lower comparing to financial income recorded in 2013 by PLN 411 thousand.

Financial cost in 2014 amounted to PLN 39,608 thousand compared to PLN 32,332 thousand in 2013. Higher financial cost in 2014 resulted from higher net exchange differences.

Income tax

Income tax in 2014 amounted to PLN +320 thousand while in 2013 it amounted to PLN +30,566 thousand.

Positive effect of the income tax in 2014 resulted mostly from use of financial losses, on which a deferred tax asset had not been recognized before. Positive effect of the income tax in 2013 resulted the decrease of deferred tax liability due to Swedish tax rate decrease.

Profitability analysis

EBITDA in 2014 amounted to PLN 238,540 thousand while in 2013 it amounted to PLN 72,862 thousand. Increase of EBITDA in 2014 was due to higher profit on sales compared to 2013. In the reporting period EBITDA margin amounted to 7.70% compared to 2.35% in 2013.

Profit on operating activities in 2014 amounted to PLN 116,618 thousand. In 2013, the Group recorded operating loss in the amount of PLN 151,641 thousand. Operating profit margin in 2014 amounted to +3.76%, while in 2013 it amounted to -4.88%.

Net profit in 2014 amounted to PLN 78,175 thousand. In 2013 there was a net loss of PLN 152,153 thousand. Net profit margin amounted to +2.52% compared to -4.90% in 2013.

Profitability analysis

PLN thousand	2014	2013	Change % 2014/2013
Gross profit on sales	430 793	190 886	125,7
Sales revenue %	*13,90*	*6,15*	*7,8 p.p.*
EBITDA	**238 540**	**72 862**	**227,4**
Sales revenue %	*7,70*	*2,35*	*5,3 p.p.*
EBIT	**116 618**	**(151 641)**	**(176,9)**
Sales revenue %	*3,76*	*(4,88)*	*8,6 p.p.*
Net profit/ (loss)	**78 175**	**(152 153)**	**(151,4)**
Sales revenue %	*2,52*	*(4,90)*	*7,4 p.p.*
ROE - Return on equity (%)	10,8	(22,7)	33,4 p.p.
ROA - Return on assets (%)	4,4	(8,5)	13,0 p.p.

In 2014, return on equity amounted to +10.8%, while in 2013 it reached a level of -22.7%. In 2014, return on assets amounted to +4.4%, while in 2013 it reached -8.5%.

Report on financial situation

Selected items of the consolidated balance sheet

PLN thousand	31/12/2014	31/12/2013	Change 31/12/2014 -31/12/2013
Non-current assets	843 745	924 650	(80 905)
Inventory	376 486	397 373	(20 887)
Receivables, therein:	345 964	328 848	17 115
Trade and other receivables	*339 440*	*319 784*	*19 655*
Other current assets	38 184	15 553	22 631
Cash and equivalents	158 412	118 033	40 379
Total assets	**1 762 790**	**1 784 458**	**(21 668)**
Equity	725 071	671 532	53 538
Short-term liabilities	590 567	684 774	(94 207)
therein:			
Trade and other payables	*364 992*	*367 267*	*(2 276)*
Interest-bearing loans and borrowings	*120 566*	*219 932*	*(99 365)*
Other non-financial liabilities	*105 009*	*97 575*	*7 434*
Long-term liabilities	447 152	428 151	19 001
therein:			
Interest-bearing loans and borrowings	*306 380*	*290 377*	*16 003*
Other non-financial liabilities	*140 772*	*137 775*	*2 998*
Total equity and liabilities	**1 762 790**	**1 784 458**	**(21 668)**

As on 31st December 2014 total assets amounted to PLN 1,762,790 thousand compared to PLN 1,784,458 thousand at the end of 2013.

Non-current assets

As at the end of December 2014 non-current assets amounted to PLN 843,745 thousand and represented 47.9% of total assets, while as at the end of 2013 it amounted to PLN 924,650 thousand (51.8% of total assets).

Decrease of fixed assets was mainly due to amortization and depreciation higher than investment expenses.

Current assets

At the end of December 2014 current assets amounted to PLN 919,045 thousand compared to PLN 859,808 thousand as at the end of December 2013. Within current assets there was a decrease in inventories by PLN 20,887 thousand, an increase in receivables by PLN 17,115 thousand, an increase in other current assets by PLN 22,631 thousand and an increase in cash and cash equivalents by PLN 40,379 thousand.

As at the end of December 2014 current assets represented 52.1% of total assets (48.2% at the end of 2013), therein inventories 21.4% (22.3% at the end of 2013), receivables 19.6% (18.4% at the end of 2013), other current assets 2.1% (0.9% at the end of 2013) and cash and cash equivalents 9.0% (6.6% at the end of 2013).

Equity

As at the end of 2014 equity amounted to PLN 725,071 thousand compared to PLN 671,532 thousand as at the end of 2013. As at the end of 2014, equity represented 41.1% of the total equity and liabilities (37.6% as on 31st December 2013).

Increase of equity was due to net profit for 2014 and positive measurement of financial instruments used for hedging future cash flows, partially decreased with actuarial losses and negative differences on translations of foreign operations.

Current liabilities

As at the end of December 2014 current liabilities amounted to PLN 590,567 thousand (33.5% of the total balance sheet amount) compared to PLN 684,774 thousand (38.4% of the total balance sheet amount) at the end of 2013. In 2014 there was a decrease in current liabilities by PLN 94,207 thousand, which was mostly due to repayment of short-term bank loans and lesser debt in overdrafts.

Non-current liabilities

As at the end of December 2014 long-term liabilities amounted to PLN 447,152 thousand (25.4% of the total balance sheet amount) compared to PLN 428,151 thousand at the end of 2012 (accordingly 24.0% of the balance sheet amount). In the analyzed period, there was an increase of long-term liabilities by PLN 19,001 thousand.

The increase of long-term loans and borrowings was particularly due to taking a loan from Mr. Thomas Onstad, the largest indirect shareholder of the Company and a member of the Supervisory Board, and the increase of provisions, including the provision on employee post-employment benefits, partially balanced with the decrease of deferred tax liability and financial lease liabilities.

Debt analysis

Debt analysis

	2014	2013	Change % 2014/2013
Debt-to-equity ratio (%)	143,1	165,7	(22,6) p.p.
Equity-to-non-current assets ratio (%)	85,9	72,6	13,3 p.p.
Interest-bearing debt-to-equity ratio (%)	58,9	76,0	(17,1) p.p.
Net borrowings-to-EBITDA (times)	1,13x	5,38x	(4,26)
EBITDA-to-interest (times)	8,5x	2,6x	5,9

As at the end of December 2014 debt to equity ratio was 143.1% and was by 22.6 p.p. lower than at the end of December 2013. The decrease of this ratio resulted mainly from the increase of equity due to net profit in 2014, as well as the decrease of liabilities, particularly short-term bank debts.

Equity to non-current assets ratio at the end of 2014 stood at 85.9% and was higher by 13.3 p.p than at the end of December 2013, as a result of the increase of equity and the decrease of non-current assets.

The interest-bearing debt to equity ratio at the end of 2014 stood at 58.9% and was by 17.1 p.p. lower than at the end of December 2013, due to both the increase of equity and the decrease of interest-bearing liabilities.

Net borrowings to EBITDA ratio for the last 12 months of 2014 amounted to 1.13x compared to 5.38x for 2013. The improvement of this ratio was influenced by the increase of equity and the decrease of net borrowings.

EBITDA to interest ratio for the last 12 months of 2014 increased from 2.6x for 2013 to 8.5x in 2014. The improvement of this ratio was influenced mostly by the increase of equity.

Liquidity analysis

Liquidity ratios

	2014	2013	Change % 2014/2013
Current liquidity ratio	**1,6x**	**1,3x**	**0,3**
Quick liquidity ratio	**0,9x**	**0,7x**	**0,2**
Acid test ratio (cash liquidity)	**0,3x**	**0,2x**	**0,1**
Inventory turnover DSI (days)	50,8	49,1	1,7
Receivables turnover DSO (days)	39,4	37,1	2,3
Liabilities turnover DPO (days)	49,2	45,4	3,9
Operating cycle (days)	90,2	86,2	4,0
Cash conversion cycle (days)	**41,0**	**40,8**	**0,2**

Current liquidity ratio, quick ratio and acid test ratio increased as at the end of 2014 compared to the end of 2013, which was mostly due to the decrease of short-term liabilities.

Cash conversion cycle for the current year did not materially change compared to 2013.

Consolidated cash flow statement

Selected items of the consolidated cash flow

PLN thousand	2014	2013	Change % 2014/2013
Cash flow from operations	206 433	14 857	1 289,5
including:			
EBT	*77 854*	*(182 719)*	*(142,6)*
Amortization, depreciation and impairment of non-current assets	*121 922*	*224 503*	*(45,7)*
∆ in working capital	*(11 088)*	*(58 441)*	*(81,0)*
Other corrections	*17 745*	*31 514*	*(43,7)*
Cash flow investing activities	(60 206)	(85 797)	(29,8)
Cash flow financing activities	(104 354)	(8 705)	1 098,8
Total Cash Flow	**41 873**	**(79 645)**	**(152,6)**

Cash flow from operating activities

In 2014, net cash flow from operating activities amounted to PLN 206,433 thousand compared to PLN 14,857 thousand in 2013. Higher cash flow from operating activities in 2014 resulted primarily from gross profit increased by amortization and depreciation.

Cash flow from investing activities

In 2014, cash flow from investing activities amounted to PLN -60,206 thousand compared to PLN -85,797 thousand in 2013 and were mainly related to expenses for purchasing of property, plant and equipment, balanced with inflows from sales of property, plant and equipment as well as an investment property. Cash flows from investing activities also include the opening of a bank deposit for the period over three months.

Cash flow from financing activities

In 2014, cash flow from financing activities amounted to PLN -104,354 thousand compared to PLN -8,705 thousand in 2013. In twelve months of 2014 cash flow from financing activities related mostly to repayment of debt under current bank accounts, loans and interest, and the inflows were particularly connected with the loan taken.

Relevant information and factors influencing financial results and evaluation of financial standing

Key factors affecting the performance results

The Group's operating activity has been historically and will be in the future influenced by the following key factors:

- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for Paper Mills, timber for Pulp Mills and energy;
- currency exchange rates fluctuations.

Macroeconomic and other economic factors

We believe that a number of macro-economic and other economic factors have a material impact on the demand for fine papers, and they may also influence the demand for the Group products and our operating results. Those factors include:

- GDP growth;
- net income – as a measure of income and prosperity of the population;
- production capacities – oversupply lingering in the segment of fine papers and decline of margins on paper sales;
- paper consumption;
- technological development.

Paper prices

Paper prices undergo cyclic changes and fluctuations, depend on global changes in demand and overall macroeconomic and other economic factors, as those indicated above. The prices of paper are also influenced by a number of factors connected with the supply, primarily changes in production capacities at the international and European level.

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses are costs of raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Paper and Pulp Mills and chemical agents used for paper and pulp production. Our energy costs, historically, include mostly costs of electricity, natural gas, coal and fuel oil. Costs of transportation include the costs of transportation services rendered to the Group mostly by external service providers.

Taking into account the share of those costs in the total operating expenses of the Group and the limited possibility of controlling those costs by the companies of the Group, the fluctuations of the costs may have a significant impact on Group's profitability.

Part of pulp supplies to our Paper Mills is realized from Rottneros Pulp Mills. The rest of pulp produced in Pulp Mills is sold to external customers.

Currency exchange fluctuations

Our operating results are significantly influenced by currency exchange rates fluctuations. In particular, our revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of currencies in which we incur costs towards currencies in which we generate revenues, will have an adverse effect on our results. We sell our products in all EURO zone countries, the Nordic countries, Poland and UK; therefore, our revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of pulp mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals and a majority of costs related to the operations of the Mochenwangen paper mill), PLN (the majority of other costs incurred by the mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as Rottneros and Vallvik pulp mills).

Exchange rates also have an important influence on results reported in our financial statements because of changes in exchange rates of currencies in which we generate revenues and incur costs, and the currency in which we report our financial results (PLN).

Unusual developments and factors

In 2014, no unusual developments occurred and there were no unusual factors.

Impact of changes in the Arctic Paper Group's structure on the financial result

In 2014 there were no significant changes in the Arctic Paper Group's structure, which would have a material impact on the financial results achieved.

Other material information

Negotiations with Swedish banks

On 19th March 2014, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities.

As a result of the negotiations, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th September 2014 and granted Arctic Paper Grycksbo AB a covenant waiver concerning solidity ratio and interest coverage ratio as set in the loan agreement until 30th September 2014.

In connection with the fact that as on 30th September 2014 APG kept covenants, i.e. solidity ratio and interest coverage ratio, determined in a loan agreement with Svenska Handelsbanken AB ("Bank"), the Parties agreed for the original wording of the agreement to be binding. Therefore, APG is obliged to keep the hitherto covenants. The loan agreement provides for an unspecified repayment date of overdraft in APG account with the possibility to give notice regarding termination of the loan agreement in case covenants have not been met on verification date.

As on 31st December 2014, the company kept the covenants as agreed.

On 11th March 2015, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities. As a result of the negotiations, Svenska Handelsbanken AB set new levels of solidity ratio and interest coverage ratio for the existing loan agreement.

According to forecasts prepared, new covenants will be met by Arctic Paper Grycksbo in 2015.

Factors influencing Arctic Paper Group development

Information on market tendencies

Supplies, demand and capacity

In 2014, supplies of fine papers to the European market were at a very similar level to 2013. During this period, supplies in the segment of uncoated wood-free paper (UWF) were 1.0% higher, while those in the segment of coated wood-free paper (CWF) 1.2% lower.

Sales volume of Arctic Paper Group in 2014 was 0.4% higher than in 2013.

Data source: EuroGraph, an analysis of Arctic Paper.

Paper prices

In 2014, fine paper prices in Europe experienced decrease compared to the prices as at the end of 2013. The decrease of average prices in December 2014 amounted to 1.2% for UWF papers and to 0.5% for CWF, compared to average prices in December 2013.

Between January and December 2014 average UWF prices declared by producers for the selected markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, decreased within the range of -1.8% to -1.1%, compared to average prices in December 2013. In the same period, the average CWF prices decreased within the range of -2.5% to -0.4%.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper changed as at the end of 2014 by from -0.2% to 0.5%, and in the segment of coated wood-free paper by from -6.0% to -2.5%, compared to the previous year.

Source: For market data - RISI, price changes for chosen markets in Germany, France, Spain, Italy and United Kingdom in local currencies for graphic papers similar to product portfolio of the Arctic Paper Group. Prices are expressed excluding specific rebates for individual clients and they include neither additions nor price reductions in relation to publicly available price lists. Estimated prices for particular month reflect orders made in that month, whereas their deliveries may take place in the future. Because of that, RISI price estimations for a particular month do not reflect real prices by which deliveries are realized buy only express ordering prices. For Arctic Paper products the average invoiced sales prices for all served markets in EUR.

Pulp cost

At the end of 2014 pulp prices reached a level of USD 932 per ton for NBSK and USD 743 per ton for BHKP. The average pulp price in 2014 was higher by 7.9% for NBSK and lower by 5.8% for BHKP, compared to the previous year.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 2014 decreased by 2.9% compared to 2013. The share of pulp costs in sales costs in 2014 amounted to 49% and was higher than in 2013 (48%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 64%, NBSK 18% and other 18%.

Source: www.foex.fi, Arctic Paper analysis

Currency exchange rates

The EUR/PLN exchange rate at the end of 2014 amounted to 4.2623 and was higher by 2.8% than at the end of 2013. The average exchange rate EUR/PLN in 2014 was very similar to 2013 and amounted to 4.1845 compared to 4.1976 (-0.3%).

EUR/SEK rate increased from 8.8351 as at the end of 2012 to 9.4049 (+6.4%) at the end of 2014. For this pairing, the average rate in 2014 was higher by 5.2% than in 2013.

At the end of 2014 USD/PLN exchange rate was higher by 16.4% than at the end of the previous year and amounted to 3.5072. In 2014, the average USD/PLN rate amounted to 3.1537 compared to 3.1615 in the previous year. It means that the average exchange rate remained almost unchanged (-0.2%).

At the end of 2014, USD/SEK rate amounted to 7.7387 and was 20.6% higher than as at the end of 2013. The average exchange rate in 2014 amounted to 6.8601 and was higher by 5.3% compared to the average exchange rate from the previous year.

At the end of December 2014, EUR/USD rate amounted to 1.2153 compared to 1.3769 (-11.7%) at the end of December 2013. In 2014, the average exchange rate equaled 1.3292 compared to 1,3283 (+0.1%) in the previous year.

In 2014, EUR/PLN and EUR/USD average annual exchange rates remained at similar levels therefore did not materially influence changes in results of particular paper mills. Throughout the almost whole year SEK appreciated towards EUR and had a positive impact on the levels of revenues invoiced in Swedish mills (AP Munkedals and AP Grycksbo).

Factors influencing the financial results in the perspective of the new year

Material factors which have an impact on the financial results in the perspective of the next year include:

- Demand for fine papers in Europe. In 2014, the demand for fine papers in Europe (levels of orders realized) remained at a similar level compared to 2012. Further development of the market situation will have an impact on levels of orders filed at our Paper Mills and, as a result, on financial results of the Group.
- The levels of high quality paper prices, in particular, being able to raise the prices of Arctic Paper products from the current levels in local currencies, in reference to deliveries/demand in Europe and in connection with exchange rates fluctuations, may have an influence on financial results. Paper prices will have particular importance for mills in Grycksbo and Mochenwangen, who greatly suffer the market changes – changes of sales volume and prices.
- Pricing of raw materials, including pulp for Paper Mills and electricity for all operating units; in particular, negative impact on Paper Mills' financial results may be due to increasing pulp prices, particularly BHKP. On the other hand, increasing NBSK pulp prices should positively influence

financial results of Pulp Mills. A material impact on results achieved by the Group may be caused by fluctuations of electricity prices in Sweden. In future, such market changes may translate to changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.

- Currency rates fluctuations; in particular, the strengthening of PLN and SEK in relation to EUR and GBP, the strengthening of PLN in relation to SEK, and depreciation of PLN and SEK in relation to USD, can have an adverse effect on the financial results, while appreciation of USD towards SEK may have a positive impact on the results of our Pulp Mills.

Risk factors

Significant changes in risk factors

In 2014, there were no significant changes regarding risk factors.

Risk factors connected with the Group's environment

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

Risk of growing competition in the paper market in Europe

Our Group operates in a highly competitive market. The accomplishment of the strategic objectives assumed by the Group can be difficult because of the activities of competitors, in particular, integrated paper producers operating on a scale larger than our Group. A potential growth of competition resulting from a possible increase in production capacities of our competitors, and thus, in the paper supply in the market, can have an adverse effect on the achievement of planned revenues and the ability to achieve financial and operating assumptions made.

Risk of changes in law

Our Group operates in a legal environment characterized by a high level of uncertainty. Regulations concerning our activities are often amended and there is no uniform interpretation, which involves a risk of a breach of applicable regulations and related consequences, even if the breach of law is inadvertent. Furthermore, changes in environmental protection and other regulations may result in significant expenditures to ensure compliance, among other things, with more restrictive regulations or stricter implementation of applicable regulations concerning surface water, ground water, soil and air protection.

Foreign exchange rates risk

The Group's revenues, costs and results are exposed to the risk of a change of currency exchange rates, in particular, PLN and SEK to EUR, GBP and other currencies. Our Group exports a large part of the produced paper to the European markets, generating a significant part of its sales revenues in EUR, GBP, PLN, and SEK. Revenues from sales of pulp in Pulp Mills are dependent on USD. The costs of procurement of raw materials for paper production, in particular pulp for Paper Mills, are paid mainly in USD and EUR. Furthermore, we have obligations on account of loans taken in PLN, EUR and SEK. The currency used in financial statements is PLN, and therefore, our revenues, costs and results achieved by the subsidiaries situated abroad are dependent on the levels of currency exchange rates. Thus, currency exchange rates may have an adverse effect on the Group's results, financial standing and outlook.

The risk of changes of interest rates

The Group is exposed to the risk of changes of interest rates, mainly due to an existing interest debt. This risk results from fluctuation in the benchmark interest rate such as WIBOR for debt in PLN, EURIBOR for the debt in EUR and STIBOR for debt in SEK. Adverse changes of interest rates may adversely affect the results, financial situation and prospects of the Group.

Risk of the growing importance of alternative media

The trends in advertising, electronic transmission and storage of data, as well as Internet, may have an adverse effect on traditional print media, and in consequence, on the products of the Group and its customers. Continuation of these trends may adversely affect the results, financial situation and prospects of the Group .

Risk factors connected with the Group's activities

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

Risk connected with relative low operating margins

Historically the Group's operating results have been characterized by relatively high volatility and low operating margins. The decline in revenues caused, among other things, by a change of production capacities, productivity, pricing policy or increase in operating expenses, the main components of which are the costs or raw materials (mainly pulp for Paper Mills) and energy, may lead to the loss of Group's ability to generate profits. Material adverse changes of profitability can lead to a decline in the value of our shares and limit our ability to generate working capital, bringing about serious damage to our business and significantly worsening our prospects.

Risk of changes of prices of raw materials, energy and products

We are exposed to risk of changes of prices of raw materials and energy primarily in connection with the changing prices of pulp, fuel oil, diesel oil, coal and electricity. Paper Mills buy pulp under framework agreements or one-time transaction and do not hedge against pulp price fluctuations. A part of pulp deliveries for our paper mills is realized from Pulp Mills of Rottneros Group. Neither does the Group hedge against the risk of an increase in coal and fuel oil prices used at AP Mochenwangen mill. The risk of change of prices of products is connected primarily with changes of paper prices in markets where we sell our products. Any significant increase in the prices of one or more than one raw material and energy can have an adverse effect on the Group's results on operating activities and financial standing.

Risk of disturbance in production process

Our Group has four paper mills with ten production lines in total, with the aggregate annual production capacities of approx. 800,000 tons of paper and two pulp mills with the aggregate production capacities of 400,000 tons of pulp. Any lasting disturbance of the production process can be caused by a number of factors, including an emergency failure, human errors, unavailability of raw materials, a natural disaster and other, which often are beyond our control. Any distortion, even relatively short, may have a material impact on our production and profitability and may involve significant costs such as repair, liability towards customers, whose orders we are not able to carry out and other expenditures.

Risk connected with our investment projects

The Group's investment projects in order to enhance the Group's production capacities generally require significant investments and relatively long period of implementation. Therefore, the market conditions in which we operate can change significantly between the time when we make a decision on making investments in increasing production capacities and the time when the increased production capacities become operational. A change of market conditions can lead to fluctuations of demand for our products, which may be too low in the context of the additional production capacities. The differences between the future demand and investments in new production capacities may lead to the increased production capacities not being fully used. This may have an adverse effect on the Group's operations and financial standing.

Risk connected with the Group's debt

Our Group has indebtedness on account of a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) dated 6th November 2012, of loans in Svenska Handelsbanken and Danske Bank as well as of leasing agreements.

Failure to keep the level of financial ratios (covenants) defined in the loan agreement and leasing agreements, or lack of prolongation by Svenska Handelsbanken of short-term loan agreements and factoring agreements, may give rise to breaches of the agreement. If an event of default occurs, it could lead in particular to bring in a state of maturity of our debt, the bank can take over control over critical assets such as the Paper Mills and/or Pulp Mills, loss of other collateralized assets, credibility reduction and a loss of access to external sources of finance, and consequently, a loss of financial liquidity, which may have an adverse effect on our business and outlook, and our stock prices.

Risk connected with insurance limits

In connection with the declining situation in paper industry and the worsening Arctic Paper Group financial results, our suppliers, particularly of such raw materials as pulp, may not fulfill the insurance limits (credited sales), and, as a result, lose the ability to offer favorable payment terms to Arctic Paper Group. Such situation may lead to worsening of financial situation and losing of financial liquidity by particular operating entities and, consequently, have an adverse influence on the situation in the whole Group.

Risk of limitations on natural gas supplies

The only supplier of natural gas used by AP Kostrzyn to generate thermal and electric energy for paper production purposes is Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). Therefore, the availability and prices of natural gas have a significant effect on the operations and costs of paper production at AP Kostrzyn. Any distortions in gas supplies to the paper mill at Kostrzyn nad Odrą may have an adverse effect on the Group's production, operating results and financial standing.

Risk of loss of tax reliefs in connection with AP Kostrzyn operations

AP Kostrzyn enjoys a significant tax relief thanks to conducting its business activity within the Kostrzyńsko-Słubicka Special Economic Zone. The relief was granted until 2017 and depends on AP Kostrzyn's compliance with the statutory provisions, regulations and other conditions for using a tax relief, including the compliance with certain criteria related to employment and investments. Changes of tax regulations in Poland are particularly frequent. Changes in regulations concerning that tax relief or any breach by AP Kostrzyn of the conditions of the permit based on which the relief has been granted may result in the loss of the relief and have a material adverse effect on the Group's operating results and financial standing.

Risk connected with consolidation and liquidity of the key customers

Consolidation tendencies among our present and potential customers may result in the emergence of a more concentrated customer base consisting of several large customers. Those customers may take advantage of a more favorable negotiating position when negotiating conditions of paper purchase or make a decision regarding change of a supplier and buy products of our competitors. Moreover, in connection with the worsening situation in polygraphy industry, our customers such as paper distributors, printing houses or publishers may not reach insurance limits (credit sales) or have problems with financial liquidity, which can result in their bankruptcy and might have an adverse impact on our financial results. The above factors can have an adverse effect on the Group's operating results and financial standing.

Risk connected with compliance with environmental regulations and adverse impact of the production process on the environment

The Group meets the environmental protection requirements, however, it is not certain that it will always perform its obligations and that in the future it will not incur significant costs or other material obligations in connection with those requirements or that it will be able to obtain all permits, approvals or other authorizations necessary for it to carry out its activities in the intended manner. Similarly, given that paper and pulp production involves potential threats related to waste discharged by Paper and Pulp mills or pollution with chemical substances, we cannot be certain that in the future the Group will not be held liable because of environmental pollution or that an event which will be a basis for holding the Group liable has not occurred yet. Thus, the Group may incur significant expenditures when having to remove pollution and reclaim land.

Risk connected with CO2 emission limits

Our Paper and Pulp mills get carbon dioxide emission allowances for a given period. Emission allowances are granted as part of the European Union Emission Trading Scheme. If free of charge carbon dioxide allowances are eliminated and replaced with a system of buying emission allowances against payment, the energy generation costs incurred by us will increase accordingly. Furthermore, we may be forced to incur other costs, which are now hard to predict, in connection with emission allowances or changes in legal regulations and requirements resulting from that. For that reason we may be forced to reduce the volume of energy generated or to increase the costs of production, which may have an adverse effect on our business, financial standing, operating results or development prospects.

Risk connected with the Company's ability to pay dividend

The Issuer is a holding company, thus its ability to pay dividend depends on the level of distributions it receives from operational subsidiaries and the level of its cash balances. Some of the Group's subsidiaries conducting operating activity may in certain periods be subject to limitations concerning distributions to the Issuer. It is not certain that such limitations will not have a material adverse effect on the Group's activities, operating results and ability to pay dividend.

Moreover, by the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

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 forecast of financial results for 2014, and has not published and does not plan to publish forecast of financial results for 2015.

Information on dividend

In 2014, the Company did not pay dividend.

Changes in Arctic Paper S.A. company governing and supervising bodies

On 12th February 2014, the Supervisory Board appointed Mr. Michał Sawka as a Member of the Management Board (current report 1/2014).

On 16th September 2014, Mr. Kjell Olsson was dismissed from being a Member of the Supervisory Board (current report 20/2014).

At the same time, the Extraordinary Shareholders Meeting appointed Mr. Roger Mattsson as a Member of the Supervisory Board from 16th September 2014 (current report 21/2014).

As on the day of publishing of the hereby financial statements, the Management Board of the Parent Company comprises the following persons:

- Wolfgang Lübbert – President of the Management Board

- Małgorzata Majewska - Śliwa – Member of the Management Board

- Jacek Łoś – Member of the Management Board

- Per Skoglund – Member of the Management Board

- Michał Sawka - Member of the Management Board

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

In 2014, no changes of the share capital of the Company occurred.

Purchase of treasury shares

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution (current report 12/2012), in which it authorizes the Management Board of the Company to purchase the Company's treasury shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the treasury shares on conditions and in the course determined as below:

a) The total amount of purchased shares shall not exceed 5,500,000 (five million five hundred thousand) shares;

b) the total amount assigned by the Company for purchase of treasury shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;

c) the price for which the Company will purchase its treasury shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;

d) the authorization for purchase of the Company's treasury shares is valid for 60 (sixty) months since the day the resolution has been resolved;

e) purchase of treasury shares may occur with the mediation of investment company, in stock and non-stock transactions.

The Management Board, acting for the benefit of the Company, upon the opinion of the Supervisory Board, may:

a) stop the purchase of shares before 60 days starting from the day the resolution was resolved or before the funds assigned for the purchase have been fully utilized,

b) refrain from purchase in part or in whole.

In case of a decision being made as mentioned above, the Management Board is bound to submit the information regarding the decision for public knowledge in a manner determined in the Public Offering Act.

The conditions of purchase of treasury shares for the purpose of its redemption or further relocation or resale shall be in compliance with the principles of Commission Regulation (EC) No 2273/2003 dated 22nd December 2003.

After the process of purchase of the Company's treasury shares, in compliance with conditions determined by the Shareholders Meeting, has ended, the Management Board will call a Shareholders Meeting for the purpose of adopting resolution regarding redemption of the Company's treasury shares and adequate decrease of share capital, or – in case of assignment of the purchased shares to further relocation or resale – the Management Board will make a decision regarding further relocation or resale of treasury shares. Redemption of the Company's treasury shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's treasury shares.

The Ordinary Shareholders Meeting, acting by virtue of article 362 § 2 item 3 of the Code of Commercial Codes, 348 § 1 in connection with article 396 § 4 and 5 of the Code of Commercial Companies, for the purpose of financing of the purchase of the Company's treasury shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu" for the purchase of treasury shares. The amount of "Fundusz Programu Odkupu" is set to PLN 27,500,000. "Fundusz Programu Odkupu" is assigned to purchase of treasury shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the "Fundusz Programu Odkupu" from the reserve capital.

Until the day of the hereby report, the Management Board of the Company has not performed any purchase of treasury shares by the Company for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale on conditions and in the course determined as mentioned above.

Loan agreements and bonds

Annex to a loan agreement

On 15th October 2014, Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks ("Financing Banks") consisting of: Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. concluded the Annex no 5 ("Annex") to the Loan Agreement dated 6th November 2012 ("Loan Agreement").

The Company reported the conclusion of the Loan Agreement and its amendments in annual reports for 2012 and 2013.

By the power of the Annex:

- Financing Banks waived the condition to increase the Issuer's share capital by no less than PLN 50,000,000 and agreed for the Issuer to take a subordinate loan in the amount of app. PLN 42,000,000 (EUR 10,000,000) from the indirect majority shareholder Mr. Thomas Onstad (through a subsidiary of the Issuer) ("Subordinate Loan"). The parties agreed that the funds from the Subordinate Loan shall be transferred to the Issuer no later than 30th October 2014;
- A commitment to assign funds from the Subordinate Loan and from sale of assets to be reinvested in the Issuer's group in the amount up to PLN 60,000,000 was reinforced;
- A commitment of the Issuer to assign funds from the Subordinate Loan and from sale of assets (in the amount of the excess over PLN 60,000,000) for prepayments of liabilities resulting from the Loan Agreement was reinforced;
- Financing Banks agreed for the payment of dividend from Arctic Paper Kostrzyn S.A. to the Issuer, in the amount of 75% of net profit achieved by Arctic Paper Kostrzyn S.A. in the financial year preceding the dividend payment, on condition the funds thus received by the Issuer shall be assigned for repayments of liabilities on the grounds of a loan agreement concerning the loan taken by the Issuer from Arctic Paper Kostrzyn S.A.

Other material financing conditions specified in the Loan Agreement remained unchanged.

Collaterals established in the Loan Agreement remained unchanged.

Subordinated loan

On 27th October 2014, by the agency of Arctic Paper Finance AB, the Company concluded a subordinated loan agreement with Mr. Thomas Onstad, an indirect majority shareholder of the Company. The loan agreement was concluded in connection with the Annex to the loan agreement concluded by and between the Company together with its subsidiaries and a consortium of banks consisting of Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. dated 15th October 2014 (current report 24/2014 dated 16th October 2014). The amount of the loan totaled EUR 10,000 thousand. The loan was concluded on market conditions and its purpose is financing of the Group's operations. According to the agreement, the loan shall be repaid until 30th September 2019. The funds were transferred to the Issuer immediately after the agreement was concluded.

During the period covered by this report no other significant events occurred, that would have an influence on evaluation of HR, capital and financial position, as well as of financial results and their changes, and which would be relevant for assessment of the Company's ability to fulfill its liabilities.

Remuneration paid to Management Board and Supervisory Board Members

The table below presents the information on total remuneration and other benefits paid or to be paid to members of the Management Board and Supervisory Board of the parent entity for the period from 1st January 2014 to 31st December 2014 (figures in PLN).

Remuneraton of the Management Board and Supervisory Board Members

Managing and supervising personnel	Remuneration (including other contributions paid by the employer) for working in Arctic Paper S.A.	Pension plan	Other	Total
Management Board				
Wolfgang Lübbert	1 387 622	-	401 711	1 789 333
Per Skoglund	1 248 943	296 967	567 411	2 113 321
Jacek Łoś	842 436	-	195 118	1 037 554
Małgorzata Majewska-Śliwa	1 090 278	-	6 829	1 097 106
Michał Sawka*	790 489	-	4 672	795 161
Supervisory Board**				
Rolf Olof Grundberg	574 635	-	-	574 635
Rune Roger Ingvarsson	180 314	-	-	180 314
Thomas Onstad	242 310	-	-	242 310
Mariusz Grendowicz	180 000	-	-	180 000
Kjell Olsson**	103 147			103 147
Roger Mattsson***	50 000	-	-	50 000
Dariusz Witkowski	152 833	-	-	152 833

*from 12.02.2014 until 31.12.2014
**from 01.01.2014 until 16.09.2014
***from 16.09.2014 until 31.12.2014

Agreements with Management Board Members on financial compensation

As on 31st December 2014 and as on the date this annual report is approved, Members of the Management Board were entitled to severance pay in the event of their resignation or removal from their positions without good cause, or if their removal or resignation is due to the Issuer's merger through acquisition. The severance pay corresponds to 6-24 months' salary.

Statement of changes in the issuer's shareholding or rights to shares of persons managing and supervising Arctic Paper S.A.

Statement of changes to the holdings of the Company's shares and rights thereto by managing and supervising personnel

Managing and supervising personnel	Number of shares or rights thereto as at 23/03/2015	Number of shares or rights thereto as at 31/12/2014	Number of shares or rights thereto as at 14/11/2014	Change
Management Board				
Wolfgang Lübbert	-		-	-
Jacek Łoś	-		-	-
Per Skoglund	-		-	-
Małgorzata Majewska-Śliwa	-		-	-
Michał Sawka	-		-	-
Supervisory Board				
Rolf Olof Grundberg	12 102	12 102	12 102	-
Rune Roger Ingvarsson	-	-	-	-
Thomas Onstad	5 848 658	5 848 658	5 848 658	-
Roger Mattsson	-	-	-	-
Dariusz Witkowski	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Information on material agreements

Supplies agreement

On 17th June 2014, the Company received an agreement dated 12th June 2014, concluded by and between Arctic Paper S.A. and Fibria International Trade GmbH seated in Lustenau, Austria ("Supplier"). The subject of the agreement is pulp supplies realized by the Supplier ("Supplies Agreement").

The Supplies Agreement has been concluded for the period of 1st January 2014 – 31st December 2014. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive 90 thousand metric tons of pulp, whereas the parties of the Supplies Agreement allowed the possibility of both increase and decrease of the total deliveries' volume by 10%. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive pulp of total estimated value of PLN 170 million. The price for a metric ton was calculated based on FOEX PIX USD (U.S. dollar) index for Europe and the discounts agreed by the parties of the Supplies Agreement. The Agreement does not provide for penalties and does not include any stipulations of terms and conditions.

Financial resources management

In 2014 the Company took loans and borrowings as described in section "Loans and borrowings".

As on the day of preparation of the hereby report the Company held sufficient cash and creditability to guarantee financial liquidity of Arctic Paper S.A.

Capital investment and investment

In 2014, Arctic Paper Group entities used their cash resources for standard short-term investments, including overnight deposits. The Group did not make any financial investments in 2014.

Information on guarantees and pledges

As on 31st December 2014 the Capital Group reported:

- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge of movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge of real estate of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand;
- a pledge of shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 161,141 thousand;
- a pledge of shares of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,478 thousand in Arctic Paper Grycksbo AB and in the amount of SEK 747 thousand in Arctic Paper Munkedals AB;
- a pledge of real estates of Arctic Paper Munkedals AB on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 50,000 thousand;
- a limitation of liabilities under factoring contract in Arctic Paper Munkedals set to SEK 120,301 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 3,265 thousand;
- mortgages on Kalltorp Kraft HB in the amount of SEK 8,650 thousand;
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand;
- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand;
- a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS) in the total amount of EUR 900 thousand,
- a guarantee in favor of WBW GmbH & Co.KG – a supplier of machines to Arctic Paper Mochenwangen GmbH in the amount of EUR 300 thousand;
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3 million;
- pledges on Rottneros Group subsidiaries' shares in the amount of SEK 245,000 thousand;
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand;
- a pledge on 39,900,000 Rottneros AB shares resulting from a loan agreement for the amount of EUR 4,000 thousand, concluded by and between Arctic Paper S.A. and Mr. Thomas Onstad.

Moreover, the following collaterals securing the loan agreement (Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. who acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors, concluded a loan agreement with Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. as Lenders) dated 6th November 2012 were established:

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH and on shares of holding companies in Germany;
- pledges on bank accounts of all companies;
- mortgages on real estates of Arctic Paper Kostrzyn S.A.;
- land debt on real estates of Arctic Paper Mochenwangen GmbH;
- pledge on components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- cession of rights under insurance policy;
- cession of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
- submission to enforcement on the basis of art. 97 banking law (separate in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

As on 30th June 2014, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. The European Union considered if such help is compliant with EU law. On 1st August 2014 the legality of German Government actions was approved by EU organs, therefore the contingent liability of Arctic Paper Mochenwangen GmbH expired.

Significant off-balance sheet items

Information regarding off-balance sheet items is given in the supplementary note 36 to the consolidated financial statements.

Evaluation of the possibility to implement investment plans

In connection with positive changes which occurred in the market environment and the improvement of the Group's financial results in 2014 and on condition that the current financial targets are fulfilled, the Company intends to realize investments according to financial plans. The main purpose of investments realized in 2015 will be to develop new products, minimize production costs, including electricity costs, and to improve the efficiency of production process. The investment plan for 2015 is intended to be realized from the Group's own funds.

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

During the period covered by this 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 unit or joint value of which would equal to or exceed 10% of the entity's equity.

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

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

Information on agreements resulting in shareholding changes

The Issuer is not aware of any agreements which may in the future lead to changes in the present shareholding of shareholders, except for the ones that have been described in the hereby report.

Information on acquisition of treasury shares

In 2013 and 2014 the Parent Company did not acquire any treasury shares. In 2013, the Company borrowed treasury shares from Trebruk AB the purpose of Rottneros AB shares purchasing. The Company returned the borrowed shares once the newly issued shares had been registered.

Information on entity authorized to audit the financial statements

Information on the entity authorized to audit the financial statements is given in the additional information in note 37 of the consolidated financial statements.

Employment

Information regarding employment is given in the additional information in note 42 of the consolidated financial statements.

Statement on application of corporate governance rules

Corporate governance rules

Pursuant to § 29 item 2 of the Warsaw Stock Exchange Rules adopted by Resolution no. 19/1307/2012 by the Stock Exchange Board on 21st November 2012, Arctic Paper S.A. is obliged to apply corporate governance rules contained in the document – "Best practices of companies listed on the SE", available on the website www.corp-gov.SE.pl.

Information on the extent to which the Issuer does not apply corporate governance rules

Arctic Paper S.A. has been doing its very best to apply corporate governance rules contained in the document – "Best practices of companies listed on the SE". In 2014 Arctic Paper S.A. did not comply to the following rules:

Recommendations concerning best practices

Recommendation no I.5:

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Explanation: The principles of granting remuneration to members of the Management Board as well as its level are determined by the Supervisory Board. Remuneration of the Management Board members is subject to negotiations, while remuneration of the Supervisory Board is decided by Shareholders Meeting (General Meeting). The amount of remuneration should be dependent on scope of duties and responsibilities entrusted to particular members of supervisory and management bodies of the Company. Information regarding remuneration of members of the Company's organs are presented in annual reports.

Recommendation no I.9:

The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.

Explanation: This recommendation is not being applied in the Company at the moment. It results from the fact that the functions of supervisory and management bodies' members have been entrusted to particular persons regardless of their gender and based on qualifications and professional experience. Nevertheless, the composition of the Company's bodies depends to a great extent on the Company's shareholders, therefore it cannot be excluded that this recommendation will be applied in the future.

Recommendation no I.12:

A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.

Explanation: Taking into account the necessity of conducting of many actions of technical and organizational nature, the costs and rosk related, as well as little experience of the market in this subject, the Company has not yet decided to ensure shareholders with the possibility of participation in Shareholders Meetings via means of electronic communication. When the application of this solution is widespread and the security is assured, the Company will consider to apply it.

Best practice for Management Boards of Listed Companies

Principles no 1.9 a).

A company should operate a corporate website and publish on it, in addition to information required by legal regulations, a record of the General Meeting in audio or video format.

Explanation: Publishing of full minutes of Shareholders Meeting in audio or video format could infringe best interests of particular shareholders. When the application of this solution is widespread and the security is assured, the Company will consider to apply it.

Best practices of Shareholders

Principle no IV.10:

A company should enable its shareholders to participate in a General Meeting using electronic communication means through:

- real-life broadcast of General Meetings,
- real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.

Explanation: In 2014 Arctic Paper S.A. did not apply principle IV.10, as introduction of the possibility of electronic participation in Shareholders Meeting would in the present situation translate to high cost of Shareholders Meeting organization. Because of the actual threats of technical and legal nature to proper and effective execution of Shareholders Meeting, it is not possible for the Management Board to ensure shareholders with participation in Shareholders Meeting via means of electronic communication.

The Management Board does not exclude the possibility of execution of Shareholders Meetings via means of electronic communication.

Internal control and risk management system with regard to the process of preparing financial statements

The Management Board of Arctic Paper S.A. is responsible for the Group's internal control system and its effectiveness in the process of preparing consolidated financial statements and periodical reports prepared and published in accordance with the Regulation of Minister of Finance dated 19th February 2009 on current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state. The Group's consolidated financial statements and periodical reports are the responsibility of the Company's financial department managed by the Chief Financial Officer. Financial data constituting the basis for preparing the Group's consolidated financial statements come from monthly reporting blocks and extended quarterly blocks sent to the Issuer by the Group companies. After the accounts of each calendar month are closed, senior management of the Group companies analyzes the financial results of the companies in the light of the budget projections and results achieved in the previous financial year.

The Group carries out an annual review of its strategies and growth perspectives. The process of establishing the budget is supported by medium-level and senior management of the Group companies. The budget for the following year is adopted by the Company's Management Board and approved by its Supervisory Board. During the year, the Company's Management Board compares the financial results achieved with the budget projections.

The Company's Management Board systematically evaluates the internal control and risk management system quality in reference to the process of preparing consolidated financial statements. Based on the evaluation the Company's Management Board states that as on 31st December 2014 there were no weaknesses which could materially impact the effectiveness of internal control in financial reporting.

Shareholders holding directly or indirectly significant blocks of shares

Information regarding shareholders holding directly or indirectly significant blocks of shares is given in the table below – the table presents the situation as on the day of publishing of the annual report (23rd March 2015).

as at 23.03.2015

Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Nemus Holding AB	41 356 449	59,69%	41 356 449	59,69%
Thomas Onstad	5 848 658	8,44%	5 848 658	8,44%
Others	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 carrying special control rights

The Company does not have any securities which carry special control rights, particularly the Company's shares are non-preferred.

Restrictions on transfer of ownership of the Issuer's securities any restrictions on exercise of the voting right

The Company's Articles of Association do not provide for any restrictions on the transfer of the ownership of the Issuer's securities. Such restrictions follow from legal regulations, including Chapter 4 of the Act on Offering, articles 11 and 19 and Section VI of the Act on Trading in Financial Instruments of 29th July 2005, the Act on Protection of Competition and Consumers of 16th February 2007, and the (EC) Council Regulation no. 139/2004 of 20th January 2004 on control of concentrations between undertakings.

Each Arctic Paper S.A. share carries one vote at the Shareholders Meeting. The Company's Articles of Association do not provide for any restrictions on the exercise of a vote from Arctic Paper S.A. shares, e.g. restriction on vote by holders of a certain part or number of votes, time restrictions on exercising the voting right, or provisions under which, with the Company's cooperation, equity rights related to securities are separated from possession of securities.

A prohibition on a shareholder to vote may arise from article 89 of the Act on Public Offering and on Terms and Conditions of Introducing Financial Instruments to Organized Trading System and on Public Companies of 29th July 2005 (the "Act on Offering") if the shareholder violates certain regulations contained in Chapter 4 of the Act on Offering. Furthermore, according to article 6 § 1 of the Code of Commercial Companies, if a parent company does not inform a capital subsidiary company that a controlling relationship has arisen within two weeks of such relationship arising, the voting right attached to the shares of the parent company representing more than 33% of the subsidiary's share capital is suspended.

Principles of amending the Issuer's Articles of Association

The Company's Articles of Association may be amended by the Shareholders Meeting only.

If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, Shareholders Meeting resolutions are adopted by a simple majority of votes cast.

Description of the action manner of the Shareholders Meeting

The operating procedure of a Shareholders Meeting and its basic rights arise directly from legal regulations which are partly included in the Company's Articles of Association.

The Company's Articles of Association are available at:

http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/

Shareholders Meetings are held in accordance with the following basic rules:

- Shareholders Meetings are held in the Company's registered office or in Warsaw.
- A Shareholders Meeting may be annual or extraordinary.
- An annual Shareholders Meeting should be held within six months of the end of reach financial year.
- A Shareholders Meeting is opened by the Supervisory Board Chairman or a person designated by him, followed by the election of the Chairman of the Shareholders Meeting.
- Voting is open unless any Shareholder demands secret ballot or secret ballot is required by the Code of Commercial Companies.
- If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, Shareholders Meeting resolutions are adopted by a simple majority of votes cast.

- According to the Company's Articles of Association, the following issues are within the Shareholders Meeting's exclusive powers:
  - considering and approving the Management Board report on the Company's operations and the Company's financial statements for the previous financial year;
  - acknowledging fulfillment of duties by Management Board members and Supervisory Board members;
  - decisions on allocation or profits or absorption of losses;
  - amending the Company's objects;
  - amending the Company's Articles of Association;
  - increasing or reducing the Company's equity;
  - merging the Company with another company or companies, or transforming the Company;
  - dissolving and liquidating the Company;
  - issuing senior convertible bonds and subscription warrants;
  - acquiring and selling real estate;
  - selling and leasing an enterprise or an organized part thereof and establishing a limited property right thereon;
  - any other issues which under the Articles of Association or the Code of Commercial Companies require a Shareholders Meeting resolution.

A Shareholders Meeting may adopt resolutions in the presence of shareholders representing at least half of the Company's share capital.

A Shareholders Meeting adopts resolutions by an absolute majority of votes cast unless the Articles of Association or legal regulations require a qualified majority of votes.

Shareholders' rights and the way in which they are exercised basically arise directly from the legal regulations which have been partly incorporated into the Company's Articles of Association.

Activities of the Issuer's managing and supervisory authorities and their committees, and information on the composition of those authorities

Management Board

Management Board composition

- The Management Board is composed of one to five members, including the President of the Management Board.
- The Management Board is appointed and removed by the Supervisory Board for a common term of office.
- The term of office of Management Board members is 3 (three) years.
- If the Management Board is composed of more than one member, the Supervisory Board may, at the President's request, appointed up to three Vice Presidents from among Management Board members. A Vice President is removed under a Supervisory Board resolution.
- A Management Board member may be removed at any time by the Supervisory Board.
- A Management Board member may be removed or suspended at any time also by the Shareholders Meeting.

Basic powers of the Management Board

- The Management Board runs the Company's affairs and represents it before third parties.
- If the Management Board is composed of more than one member, declarations of intent may be made and documents may be signed on the Company's behalf by the Management Board President individually, or by two Management Board members acting jointly, or one Management Board member acting jointly with a commercial proxy.
- The Management Board is obliged to perform its duties with due care and to abide by the law, the Company's Articles of Association, by-laws and resolutions of the Company's authorities, and to take decisions within reasonable business risk, bearing in mind the interest of the Company and its shareholders.
- The Management Board is obliged to manage the Company's assets and affairs and to perform its duties with due care required in business transactions, in accordance with all legal regulations, the Articles of Association, by-laws, and resolutions adopted by the Shareholders Meeting and the Supervisory Board.
- The Management Board of the Company is not authorized to decide about issue of shares.
- Each Management Board member is liable for damage caused to the Company by his actions or omissions in breach of the law or the Company's Articles of Association.
- According to the Code of Commercial Companies, the powers of the Management Board include all issues of the Company which are not reserved for the Shareholders Meeting and the Supervisory Board.
- Guided by the Company's interest, the Management Board sets forth the Company's strategy and main operating goals.
- The Management Board is obliged to abide by the legal regulations on confidential information within the meaning of the Act on Trading and to perform all duties arising from those regulations.

To all other extent, particular Management Board members are liable individually for running the Company's affairs in accordance with the internal allocation of duties and functions set out in a Management Board decision.

The Management Board may adopt resolutions at meetings or without holding a meeting in writing or with the use of distance communication. The Management Board adopts resolutions by a majority of votes cast. Resolutions are valid if at least half the Management Board members are present at the meeting. In the case of a voting deadlock, the President of the Management Board has the casting vote.

The special Management Board procedure is set out in the Management Board By-laws which are available at:
http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/
The composition of the Company's Management Board and any changes thereto are described in the consolidated financial statements.

As on the day of publishing of the hereby report, the following constitute the Company's Management Board:

- Wolfgang Lübbert – President of the Management Board appointed on 27th November 2013 (as Member of the Management Board appointed on 5th June 2013;
- Małgorzata Majewska - Śliwa – Member of the Management Board appointed on 27th November 2013;
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;

- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

On 12th February 2014, the Supervisory Board of the Company appointed Mr. Michał Sawka as the Member of the Management Board (current report 1/2014).

Supervisory Board

Composition and organization of Supervisory Board composition and organization

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the Shareholders Meeting for a common three-year term of office. A Supervisory Board member may be removed at any time.
- The Supervisory Board is composed of a Chairman, Deputy Chairman, and other members. The Supervisory Board Chairman and Deputy Chairman are elected by the Supervisory Board from among its members at the first meeting or – if needed – during the term of office, in supplementary elections.
- From the moment the Shareholders Meeting adopts resolutions constituting grounds for the first public share issue and for introducing the shares to stock exchange trading, two Supervisory Board members should be independent members.
- If an independent Supervisory Board member has been appointed, without the consent of at least one independent Supervisory Board member, the following resolutions cannot be adopted:
  - any performances by the Company or any related entity to Management Board members;
  - consent for the Company or its subsidiary to execute a key agreement with an entity related to the Company, Supervisory Board member or Management Board member and their related entities, other than agreements executed during the normal course of the Company's business on regular terms applied by the Company;
  - election of a certified auditor to audit the Company's financial statements.
- In order to avoid doubts, it is assumed that the loss of independence by a Supervisory Board member, or failure to appoint an independent Supervisory Board member do not result in the invalidity of decisions taken by the Supervisory Board. The loss of independence by an Independent Member during the term of being a Supervisory Board member does not invalidate or extinguish his mandate.
- The Supervisory Board Chairman and Deputy Chairman:
  - maintain contact with the Company's Management Board;
  - manage the Supervisory Board's work;
  - represent the Supervisory Board before third parties and the Company's authorities, including particular Management Board members,
  - implement initiatives and motions addressed to the Supervisory Board,
  - take other activities arising from the By-laws and the Company's Articles of Association.
- A Supervisory Board member should not resign from his position during the term of office if this could prevent the Supervisory Board operations, or preclude the timely adoption of a significant resolution.

- Supervisory Board members should be loyal to the Company. If there is a conflict of interest, a Supervisory Board member is obliged to inform the remaining Board members thereof and to refrain from speaking and voting on the resolution on the matter of conflict of interest.
- Supervisory Board members are obliged to abide by the law, the Company's Articles of Association and the Supervisory Board By-laws.

Supervisory Board powers

- The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its operations.
- The Supervisory Board adopts resolutions, gives instructions and issues opinions and submits motions to the Shareholders Meeting.
- The Supervisory Board may not give the Management Board binding instructions regarding the running of the Company's affairs.
- Disputes between Supervisory Board and Management Board are resolved by the Shareholders Meeting.
- In order to exercise its rights, the Supervisory Board may review any aspect of the Company's operations, demand presentation of any documents, reports, and explanations from the Management Board and issue opinions on matters concerning the Company, and submit conclusions and initiatives to the Management Board.
- Apart from other issues set out by law of the Company's Articles of Association, the powers of the Supervisory Board include:
  - evaluating the Company's financial statements;
  - evaluating the Management Board report on the Company's operations and Management Board motions regarding allocation of profit or absorption of losses;
  - submitting to the Shareholders Meeting an annual written report on the results of the evaluations;
  - appointing and removing Management Board members, including the President and Vice Presidents, and setting remuneration for Management Board members;
  - electing a certified auditor for the Company.
- Each year the Supervisory Board submits to the Shareholders Meeting a brief report of the Company's situation, and renders access to this report for all shareholders in a period which allows them to become acquainted with it before the Annual Shareholders Meeting.
- The Supervisory Board executes, on the Company's behalf, agreements with Management Board members and represents the Company in disputes with Management Board members. The Supervisory Board may, in a resolution, authorize one or more members to carry out such legal transactions.

The Supervisory Board may adopt resolutions in writing or with the use of direct distance communication. A resolution so adopted is valid if all Board members have been informed of the wording of the draft resolution. The date on which such a resolution is adopted is the date on which the last Supervisory Board member signs it.

Supervisory Board resolutions may be adopted if all members have been notified by registered mail, fax or e-mail, sent at least 15 days in advance and most of the Board members are present at the meeting.

Resolutions may be adopted without a formal convening of a meeting if all Board members consent to a vote on a given issue or to the wording of the resolution which is to be adopted.

Supervisory Board resolutions are adopted by a simple majority of votes cast; in the case of a voting deadlock, the Supervisory Board Chairman has the casting vote.

The detailed operations of the Supervisory Board are laid down in the Supervisory Board By-laws which are available at:

http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/

As on the day of publishing of the hereby report, the Supervisory Board was composed of the following persons:

- Rolf Olof Grundberg – Chairman of the Supervisory Board appointed on 30th April 2008 (independent member);
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008 (independent member);
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012 (independent member);
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013 (independent member);
- Roger Mattsson – Member of the Supervisory Board appointed on 16th September 2014;

On 16th September 2014, Mr. Kjell Olsson was dismissed from being a Member of the Supervisory Board (current report 20/2014).

At the same time, the Extraordinary Shareholders Meeting appointed Mr. Roger Mattsson as a Member of the Supervisory Board starting from 16th September 2014 (current report 21/2014).

Audit Committee

Audit Committee composition and organization

- The Audit Committee is composed of at least three Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws. At least one Audit Committee member is an independent member and has qualifications and experience in accounting and finance.
- Audit Committee members are appointed for a three-year term of office; no longer, however, than the Supervisory Board term of office.
- The Audit Committee Chairman elected by a majority of votes from among its members must be an independent member.
- The Audit Committee operates based on the Act on Certified Auditors, Best Practices, Supervisory Board By-laws and Audit Committee By-laws.
- The Audit Committee performs advisory and opinion-giving functions, operates collectively as part of the Company's Supervisory Board.

- The Audit Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, and reports on its tasks.

Audit Committee powers

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues or proper implementation and control of the financial reporting processes in the Company, effectiveness of internal control and risk management systems and cooperating with certified auditors.
- The Audit Committee tasks arising from supervision over the Company's financial reporting process, ensuring effective internal control systems and monitoring financial audit activities include in particular:
  - control of the correctness of financial information delivered by the Company, including the correctness and cohesion of the accounting principles applied in the Company and its Capital Group, and criteria of consolidation of those financial statements,
  - evaluation, at least once a year, the internal control and management system in the Company and its Capital Group in order to ensure proper recognition and management of the Company,
  - ensuring effective functioning of internal control, especially by issuing recommendations to the Supervisory Board with regard to:
    - strategic and operating plans of internal audit and significant corrections to those plans,
    - internal audit policy, strategy and procedures prepared in accordance with the adopted internal audit standards,
  - inspecting specific aspects of the Company's operations.
- The tasks of the Audit Committee arising from monitoring the independence of a certified auditor and the entity authorized to audit financial statements include in particular:
  - giving recommendations to the Supervisory Board on issues concerning, election, appointment and re-appointment and removal of the entity performing the function of a certified auditor,
  - inspection of independence and objectiveness of the entity performing the function of a certified auditor, especially with regard to a change of the certified auditor, remuneration received, and other relation with the Company,
  - verifying the effectiveness of the entity performing the function of a certified auditor,
  - examining the reasons for resignation of an entity performing the function of a certified auditor.
- The Audit Committee may rely on the advice and assistance of external legal, accounting or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board, by 30 September of each calendar year.

Audit Committee meetings are held at least twice a year.

Since 27th November 2013, the following persons constitute the Audit Committee:

- Rolf Olof Grundberg
- Rune Ingvarsson
- Mariusz Grendowicz

The detailed operations of the Audit Committee are laid down in the Audit Committee By-laws.

Remuneration Committee

Remuneration Committee composition and organization

- The Remuneration Committee is composed of at least two Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws.
- Remuneration Committee members are appointed from three-year terms of office, not longer, however, than until the end of the Supervisory Board term of office.
- The Remuneration Committee Chairman is elected by a majority vote from among Committee members.
- The Remuneration Committee operates based on the Supervisory Board By-laws and the Remuneration Committee By-laws.
- The Remuneration Committee performs advisory and opinion-giving functions, acts collectively as part of the Company's Supervisory Board.
- The Remuneration Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, recommendations, and reports on issues which are within its powers.

Remuneration Committee powers

- The basic tasks of the Remuneration Committee is advisory 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 arising from supervision of the Company's remuneration policy and ensuring effective functioning of the Company's remuneration policy including giving the Supervisory Board recommendations in particular on:
  - approving and changing the principles of remuneration for members of the Company's authorities,
  - the total remuneration for the Company's Management Board members,
  - legal disputes between the Company and Management Board members on the Committee's tasks,
  - proposal of remuneration and granting additional benefits to particular members of the Company's authorities, especially, as part of management option plan (convertible into Company's shares),
  - remuneration and bonus policy strategy and staff policy.
- The Remuneration Committee may also rely on advice and assistance of external legal or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board by 30th September of each calendar year.

Remuneration Committee meetings are held at least twice a year, on a date set by the Chairman.

Since 17th September 2014, the following persons constitute the Remuneration Committee:

- Rolf Olof Grundberg;

- Roger Mattsson.

The detailed operating procedure of the Remuneration Committee is laid down in the Remuneration Committee By-laws.

Risk Committee

Risk Committee composition and organization

- The Risk Committee is composed of no less than three Members of Supervisory Board, including the Committee Chairman. Members of the Risk Committee are appointed by Supervisory Board from among its members. At least one Member of the Risk Committee needs to be an independent member who is qualified and experienced in the financial field;
- Members of the Risk Committee are appointed from three-year terms of office, not longer, however, than until the end of the Supervisory Board term of office;
- The Risk Committee Chairman is elected by a majority vote from among Committee members;
- The Risk Committee operates based on the commonly accepted models of corporate risk management (for example, COSO-ERM);
- The Risk Committee performs advisory and opinion-giving functions, acts collectively as part of the Company's Supervisory Board;
- The Risk Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, and reports on issues which are within its powers;

Risk Committee powers

- The basic tasks of the Risk Committee is advisory to the Supervisory Board on issues related to proper identification, assessment and control of potential risks, i.e. opportunities and threats of the Company strategy goals' realization, 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 arising from supervision of the Company's risk management policy are, in particular:
  - Supervision of proper identification, analysis and classification based on importance of risk categories, resulting from strategy of operation and nature of business activities of the Company;
  - Decision regarding correctness of determining the acceptable risk levels for the Company;
  - Assessment if the actions implemented for the risk reduction purposes have been planned and implemented so that the risk levels are acceptable for the Company;
  - Periodic verification of the Management Board risk assessment propriety and the effectiveness of risk control instruments;
  - Supervision over proper information provided to stakeholders regarding the risk, its strategies and the instruments of risk control.

- The Risk Committee may also rely on advice and assistance of external advisors if it deems necessary to perform its duties;

Risk Committee meetings are held at least twice a year.

Since 27th November 2013, the following persons constitute the Risk Committee:

- Rolf Olof Grundberg;
- Mariusz Grendowicz;
- Dariusz Witkowski.

Information pursuant to the Swedish Code of Corporate Governance

Arctic Paper S.A. is a Polish company whose shares are admitted to trading on Warsaw Stock Exchange as well as on NASDAQ OMX Stockholm. The primary listing is on Warsaw Stock Exchange, and the Company is secondary listed on NASDAQ OMX Stockholm. Non-Swedish companies whose shares are admitted to trading on NASDAQ OMX Stockholm are required to apply

- the corporate governance code in force in the country where the company has its registered office, or
- the code applicable in the country in which its shares have their primary listing, or
- the Swedish Code of Corporate Governance (the "Swedish Code").

Arctic Paper S.A. applies the Code of Best Practice for WSE Listed Companies (the "Best Practices") applicable for companies listed on Warsaw Stock Exchange, and not the Swedish Code. As a consequence thereof, Arctic Paper S.A.'s conduct deviates from what is stipulated in the Swedish Code in the following material aspects.

Shareholders Meeting

The main documentation in relation to a Shareholders Meeting, such as notices, minutes and adopted resolutions, are prepared in Polish as well as in English, but not in Swedish.

Appointment of the board and statutory auditor

The Polish corporate governance model provides for a two-tier board system, comprising the Management Board, an executive body which is appointed by the Supervisory Board, which in turn is supervising the company's activities and is appointed by the shareholders' meeting. The statutory auditor is elected by the Supervisory Board.

Neither the Best Practices nor other applicable Polish rules require a company to establish a nomination committee, and therefore Arctic Paper S.A. does not have such committee. Each shareholder in the Company is entitled to propose a candidate for the Supervisory Board. Relevant information about proposed Supervisory Board members is published on the Company's website within a timeframe sufficiently long to enable the shareholders to make an informed decision in relation to a resolution.

The tasks of the board

In accordance with the principles of the Polish two-tier board system, the tasks typically performed by the board of a Swedish company are performed either by the Company's Supervisory Board or its Management Board.

Pursuant to Polish law, the members of the Management Board, including the chief executive officer who is the chairman of the Management Board, are prohibited from engaging in competitive activities outside the Company.

Other activities are not regulated by the Best Practices or other applicable Polish regulations, but restrictions are generally included in the individual employment agreements.

The size and composition of the board

The composition of the Supervisory Board complies with the independence criteria set out in the Swedish Code. However, as the Management Board – being the executive corporate body – consists of persons holding executive positions within Arctic Paper S.A., such persons cannot be considered independent of the Company. The term of office for Management Board members as well as Supervisory Board members is three years.

The chairman of the board

The Supervisory Board, and not the shareholders' meeting, elects the chairman and vice chairman of the Supervisory Board.

Board procedures

The rules of procedure for the Management Board are adopted by the Supervisory Board, and the Supervisory Board's rules of procedure are adopted by the shareholders' meeting. The rules of procedure are not reviewed annually, but are reviewed and changed when appropriate. The same applies for rules of procedure for committees within the Supervisory Board, which are adopted by the Supervisory Board. There is no separate instruction for the chief executive officer, as the chief executive officer is the chairman of the Management Board.

Remuneration of the board and executive management

Polish corporate governance rules do not restrict share and share-price related incentive schemes for the executive management. In the Company, such schemes are resolved upon by the Supervisory Board. Supervisory Board members are entitled to take part in incentive schemes designed for the executive management. There are no limitations as to the size of salary during an employment notice period or the size of severance pay.

Information on corporate governance

Polish corporate governance rules do not require the same level of detail of the information to be published as is required in the Swedish Code. However, information about board members, articles of association, internal bylaws and a summary of relevant differences between Swedish and Polish corporate governance and shareholder rights are published on the Company's website.

Management Board's representations

Accuracy and reliability of presented reports

Members of the Management Board of Arctic Paper S.A. declare that according to their best knowledge:

- Consolidated Financial Statements of Arctic Paper S.A. Capital Group for the year ended 31st December 2014 and the comparative information were prepared in accordance with applicable accounting principles and reflect the true, reliable and fair situation of assets and financial position of the Capital Group and its financial results for 2014,
- Management Board report on the activity of the Arctic Paper S.A. Capital Group to the report for 2014 contains a true picture of development, achievements and situation of Arctic Paper S.A. Capital Group, including a description of major threats and risks.

Appointment of the Licensed Auditor of the Consolidated Financial Statements

The Management Board Members of Arctic Paper S.A. hereby declares that Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. - a company entitled to audit financial statements, the licensed auditor of the consolidated financial statements of Arctic Paper S.A. Capital Group, has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited statements in compliance with the relevant regulations and professional standards.

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	23 March 2015	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	23 March 2015	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	23 March 2015	
Member of the Management Board Chief Operating Officer	Per Skoglund	23 March 2015	
Member of the Management Board Sales Director	Michał Sawka	23 March 2015	

Consolidated Financial Statements for the year ended 31st December 2014 to the Annual Report for 2014

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Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2014 to 31.12.2014 000'PLN	For the period from 01.01.2013 to 31.12.2013 000'PLN	For the period from 01.01.2014 to 31.12.2014 000'EUR	For the period from 01.01.2013 to 31.12.2013 000'EUR
Revenues	3 099 364	3 104 901	740 678	739 685
Operating profit (loss)	116 618	(151 641)	27 869	(36 126)
Profit (loss) before tax	77 854	(182 719)	18 605	(43 529)
Profit (loss) from continuing operations	78 175	(152 153)	18 682	(36 248)
Profit (loss) for the period	78 175	(152 153)	18 682	(36 248)
Profit (loss) for the period attributable to equity holders of the parent	50 459	(132 266)	12 058	(31 510)
Net operating cash flow	206 433	14 857	49 333	3 539
Net investing cash flow	(60 206)	(85 797)	(14 388)	(20 439)
Net financing cash flow	(104 354)	(8 705)	(24 938)	(2 074)
Net change in cash and cash equivalents	41 873	(79 645)	10 007	(18 974)
Weighted average number of shares	69 287 783	68 905 218	69 287 783	68 905 218
Weighted average diluted number of shares	69 287 783	68 905 218	69 287 783	68 905 218
EPS (in PLN/EUR)	0,73	(1,92)	0,17	(0,46)
Diluted EPS (in PLN/EUR)	0,73	(1,92)	0,17	(0,46)
Average PLN/EUR rate*			4,1845	4,1976

	As at 31 December 2014 000'PLN	As at 31 December 2013 000'PLN	As at 31 December 2014 000'EUR	As at 31 December 2013 000'EUR
Assets	1 762 790	1 784 458	413 577	430 280
Long-term liabilities	447 152	428 151	104 909	103 238
Short-term liabilities	590 567	684 774	138 556	165 117
Equity	725 071	671 532	170 113	161 924
Share capital	69 288	69 288	16 256	16 707
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	10,46	9,69	2,46	2,34
Diluted book value per share (in PLN/EUR)	10,46	9,69	2,46	2,34
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**	-	-	4,2623	4,1472

* - Income statements items were converted using the rate calculated as arithmetical mean of the average exchange rates announced by the National Bank of Poland in the period being reported.
** - Balance sheet items and book value per share were converted using the average exchange rate announced by the National Bank of Poland on the balance sheet date.

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated income statement

	Note	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Continuing operations			
Sales of paper and pulp	10.1	3 099 364	3 104 901
Revenues		3 099 364	3 104 901
Cost of sales	11.5	(2 668 571)	(2 914 015)
Gross profit (loss) on sales		430 793	190 886
Selling and distribution expenses	11.5	(289 419)	(298 091)
Administrative expenses	11.5	(74 954)	(76 177)
Other operating income	11.1	81 343	63 173
Other operating expenses	11.2	(31 145)	(31 432)
Operating profit / (loss)		116 618	(151 641)
Financial income	11.3	844	1 255
Financial costs	11.4	(39 608)	(32 333)
Profit / (loss) before tax		77 854	(182 719)
Income tax	13	320	30 566
Net profit (loss) for the year from continuing operations		78 175	(152 153)
Discontinued operations			
Profit (loss) for the period from discontinued operations		-	-
Net profit (loss) for the year		78 175	(152 153)
Attributable to:			
Equity holders of the parent		50 459	(132 266)
Non-controlling interest		27 716	(19 887)
		78 175	(152 153)
Earnings per share:			
– basic from the profit (loss) for the period attributable to equity holders of the parent		0,73	(1,92)
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent		0,73	(1,92)
– diluted from the profit (loss) for the period attributable to equity holders of the parent		0,73	(1,92)
– diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent		0,73	(1,92)

Summary of the main accounting policies and other explanatory notes included on pages 80 to 178 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Net profit / (loss) for the year		78 175	(152 153)
Items to be recognized in profit/loss of future periods:			
Exchange difference on translation of foreign operations	30.2	(14 955)	(8 059)
Deferred tax on derivatives' valuation	13.1	(2 825)	2 067
Valutation of derivatives	30.4	10 438	(8 952)
Items not to be recognized in profit/loss of future periods:			
Actuarial gains/ losses on defined benefits programs	11.7	(22 205)	12 103
Deferred tax on actuarial gain/losses on defined benefits programs	13.1	4 911	(658)
Other comprehensive income		(24 637)	(3 499)
Total comprehensive income		53 538	(155 651)
Attributable to:			
Equity holders of the parent		27 851	(133 456)
Non-controlling interest		25 686	(22 196)

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated balance sheet

	Note	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	18	726 448	790 779
Investment properties	20	3 982	11 181
Intangible assets	21	50 692	49 379
Shares in joint ventures	22	5 037	5 093
Other financial assets	24.1	2 088	1 155
Other non-financial assets	24.2	1 238	1 174
Deferred tax asset	13.3	54 259	65 891
		843 745	924 650
Current assets			
Inventories	27	376 486	397 373
Trade and other receivables	28	339 440	319 784
Corporate income tax receivables		6 524	9 064
Other non-financial assets	24.2	16 872	13 868
Other financial assets	24.1	21 312	1 685
Cash and cash equivalents	29	158 412	118 033
		919 045	859 808
TOTAL ASSETS		1 762 790	1 784 458
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent company			
Share capital	30.1	69 288	69 288
Share premium	30.3	472 748	652 659
Other reserves	30.4	136 557	132 697
Foreign currency translation	30.2	8 958	18 132
Retained earnings / Accumulated (unabsorbed) losses	30.5	(143 939)	(357 015)
Non-controlling interest	30.6	181 459	155 772
Total equity		725 071	671 532
Non-current liabilities			
Interest-bearing loans and borrowings	32	269 138	245 438
Provisions	33	100 179	79 455
Other financial liabilities	32	37 241	44 939
Deferred tax liabilities	13.3	13 959	28 979
Accruals and deferred income	34.2	26 634	29 340
		447 152	428 151
Current liabilities			
Interest-bearing loans and borrowings	32	59 727	142 430
Provisions	33	8 794	3 086
Other financial liabilities	32	60 839	77 502
Trade and other payables	34	364 468	365 932
Income tax payable		524	1 335
Accruals and deferred income	34.2	96 215	94 489
		590 567	684 774
TOTAL LIABILITIES		1 037 719	1 112 925
TOTAL EQUITY AND LIABILITIES		1 762 790	1 784 458

Summary of the main accounting policies and other explanatory notes included on pages 80 to 178 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated cash flow statement

	Note	12 months period ended 31 December 2014 (audited)	12 months period ended 31 December 2013 (audited)
Cash flow from operating activities			
Profit (loss) before taxation		77 854	(182 719)
Adjustments for:			
Depreciation	11.6	121 922	121 521
Foreign exchange differences		5 149	(275)
Imapirment of non-current assets		-	102 981
Net interest and dividends		30 776	29 249
Gain/loss from investing activities		(21 577)	(362)
Increase / decrease in receivables and other non-financial assets		(28 627)	13 927
Increase / decrease in inventories		11 807	11 302
Increase / decrease in payables except for loans and borrowings		8 251	(60 110)
Change in accruals and prepayments		(2 519)	(23 560)
Change in provisions		8 248	(4 234)
Income tax paid		(551)	1 111
Derecognition of emission rigths to CO2 identified in a business combination		(165)	2 758
Energy certificates		(4 367)	2 968
Other		233	299
Net cash flow from operating activities		206 433	14 857
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		20 359	1 541
Purchase of property, plant and equipment and intangible assets		(68 853)	(87 337)
Bank deposits for period over 3 months		(21 312)	-
Proceeds from sale of investment property		9 600	-
Net cash flow from investing activities		(60 206)	(85 797)
Cash flow from financing activities			
Change in bank overdrafts		(80 627)	34 906
Repayment of finance lease liabilities		(2 810)	(5 706)
Proceeeds from other finance liabilities		-	23 961
Repayment of other finance liabilities		(16 592)	-
Proceeds from loans and borrowings		57 580	16 589
Repayment of loans and borrowings		(35 028)	(35 083)
Interest paid		(26 876)	(41 224)
Acqusition of non-controlling interest		-	(6 126)
Proceeds from sale of non-controlling interest		-	3 979
Net cash flow from financing activities		(104 354)	(8 705)
Net increase/(decrease) in cash and cash equivalents		41 873	(79 645)
Net foreign exchange differences		(1 494)	(5 032)
Cash and cash equivalents at the beginning of the period	29	118 033	202 710
Cash and cash equivalents at the end of the period	29	158 412	118 033

Summary of the main accounting policies and other explanatory notes
included on pages 80 to 178 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

Consolidated statement of changes in equity

		Attributable to equity holders of the Parent Company								
	Note	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2014 (audited)		69 288	652 659	18 132	132 697	(357 015)	515 760	155 772	671 532
Net profit (loss) for the year		-	-	-	-	50 459	50 459	27 716	78 175
Net other comprehensive income for the year		-	-	(9 173)	3 860	(17 294)	(22 607)	(2 030)	(24 637)
Total comprehensive income		-	-	(9 173)	3 860	33 165	27 851	25 686	53 538
Profit distribution	30.5	-	(179 911)	-		179 911	-	-	-
As at 31 December 2014 (audited)		69 288	472 748	8 958	136 557	(143 939)	543 612	181 459	725 071

Summary of the main accounting policies and other explanatory notes

Included on pages from 80 to 178 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2014 PLN thousand

	Note	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Parent Company							
As at 1 January 2013 (audited)		55 404	580 875	26 312	189 688	(245 859)	606 419	223 067	829 487
Net profit (loss) for the year		-	-	-	-	(132 266)	(132 266)	(19 887)	(152 153)
Net other comprehensive income for the year		-	-	(8 180)	(4 455)	11 445	(1 190)	(2 309)	(3 499)
Total comprehensive income for the period		-	-	(8 180)	(4 455)	(120 820)	(133 456)	(22 196)	(155 651)
Registration of shares issued in 2012	30.1	10 741	54 242	-	(64 983)	-	-	-	-
Acquisition of non-controlling interests	23.2	3 143	16 460	-	-	29 353	48 956	(55 084)	(6 128)
Profit distribution	30.5	-	1 082	-	12 447	(13 529)	-	-	-
Sale of non-controlling interests	23.2	-	-	-	-	(6 160)	(6 160)	9 985	3 825
As at 31 December 2013 (audited)		69 288	652 659	18 132	132 697	(357 015)	515 760	155 772	671 532

Summary of the main accounting policies and other explanatory notes

Included on pages from 80 to 178 are an integral part of these consolidated financial statements

Accounting policies and additional explanatory notes

1. General information

Arctic Paper Group is the second largest, in terms of production volume, European producer of bulky book paper, offering the widest range of products in this segment and one of the leading producers of high-quality graphic paper in Europe. We produce many types of wood-free coated and uncoated paper, wood uncoated paper for printing houses, paper distributors, publishers of books and periodicals and advertising industry. At the day of publication of this report, Arctic Paper Group (exluding Rottneros Group) employs app. 1,800 people in four Paper Mills and fifteen companies involved in the distribution and sale of paper. Our Paper Mills are located in Poland, Sweden and Germany and have a combined capacity of more than 800,000 tons of paper annually. Pulp Mills are located in Sweden and have a combined capacity of more than 400,000 tonnes of pulp anually. The Group has three Distribution Companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe. Our consolidated sales revenues for twelve months of 2014 amounted to PLN 3,099 million.

Arctic Paper S.A. is a holding company established in April 2008. As a result of capital restructuring carried out in 2008, the paper mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Arctic Paper AB (current name Trebruk AB), the indirect parent company of the Issuer. In addition, under the expansion, the Group acquired paper mill Arctic Paper Mochenwangen (Germany) in December 2008 and paper mill Grycksbo (Sweden) in March 2010. In December 2012, Arctic Paper S.A. acquired controlling share over Rottneros AB, a company listed on NASDAQ in Stockholm, and holding shares in two pulp companies in Sweden.

The Parent Company is entered in the Register of Entrepreneurs kept by the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Economic Department of the National Court Register, Entry No. KRS 0000306944.

The Parent Company was granted statistical REGON number 080262255.

Business activities

The main area of Group's business activities is paper production.

The additional business activities of the Group subordinated to paper production are:

- Production and sales of pulp,
- Production of electric energy,
- Transmission of electric energy,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Paper distribution.

Consolidated financial statements for the year ended 31st December 2014 PLN thousand

Shareholding structure

	as at 31.12.2014				as at 31.12.2013			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of
Trebruk AB	-		-		41 360 449	59,69%	41 360 449	59,69%
Nemus Holding AB	41 356 449	59,69%	41 356 449	59,69%	5 857 286	8,45%	5 857 286	8,45%
Thomas Onstad	5 848 658	8,44%	5 848 658	8,44%	-		-	
Others	22 082 676	31,87%	22 082 676	31,87%	22 070 048	31,85%	22 070 048	31,85%
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

On 5th September 2014, the hitherto parent entity of the Issuer, Trebruk AB sold 41,360,449 Shares to Nemus Holding AB, therefore Nemus Holding AB is currently the majority shareholder of Arctic Paper S.A., holding 41,356,449 shares of the Company as on 31st December 2014, which constitute 59.69% of its share capital and representing 59.69% of total number of votes in the Shareholders Meeting. Thus Nemus Holding AB became the parent entity of the Issuer. Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds 5,848,658 Shares constituting 8.44% of total number of the Company's Shares.

Until the day of publishing of the hereby report, the share of the main shareholder Nemus Holding AB in Arctic Paper S.A. has not changed compared to as on 31st December 2014, and as on 23rd March 2015 amounts to 59.69%.

Trebruk AB is the parent company in relation to the Arctic Paper S.A.

The ultimate parent of the Group is Incarta Development S.A.

The duration of Arctic Paper S.A. is unlimited.

2. Composition of the Group

The Group is composed of Arctic Paper S.A. and the following subsidiaries:

Consolidated financial statements for the year ended 31st December 2014 PLN thousand

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at		
			23 March 2015	31 December 2014	31 December 2013
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Grycksbo Paper (Deutschland) GmbH	Germany, Max-Brauer-Allee 52, 22765 Hamburg	Trading services	-	-	0%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy,Via Cavriana 7, 20 134 Milano	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Ørestads Boulevard 73 2300 København	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%

Consolidated financial statements for the year ended 31st December 2014 PLN thousand

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at 23 March 2015	31 December 2014	31 December 2013
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	na	na	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Property and machinery rental	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%
Rottneros AB	Sweden, Vallvik	Holding company	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnosand	Dormant activity	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia	Company for purchase of timber	51,27%	51,27%	51,27%

* - entities formed for purpose of acquisition of Arctic Paper Mochenwangen GmbH
** - entity formed for purpose of acquisition of Grycksbo Paper Holding AB

As on 31st December 2014 and as well as on the day of publishing of this report, the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities. All subsidiaries within the Group, are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day of losing control.

On 7th July 2014, a merger of Grycksbo Paper Holding AB and Arctic Paper Investment AB occurred.

3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As on 31th December 2014, the following constitute the Company's Management Board:

- Wolfgang Lübbert – President of the Management Board appointed on 27th November 2013 (appointed as a Member of the Management Board on 5th June 2012);

- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Małgorzata Majewska - Śliwa – Member of the Management Board appointed on 27th November 2013.
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

On 12th February 2014, the Supervisory Board of the Company appointed Mr. Michał Sawka as the Member of the Management Board (current report 1/2014).

From 31st December 2014 until the day of publishing of the hereby report, no other changes in the composition of the Management Board of the Parent Company occurred.

3.2. Supervisory Board of the Parent Company

As on 31st December 2014 the Company's Supervisory Board consisted of the following members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012;
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013;
- Roger Mattsson – Member of the Supervisory Board appointed on 16th September 2014;

On 16th September 2014, Mr. Kjell Olsson was dismissed from being a Member of the Supervisory Board (current report 20/2014).

At the same time, the Extraordinary Shareholders Meeting appointed Mr. Roger Mattsson as a Member of the Supervisory Board starting from 16th September 2014 (current report 21/2014).

Until the day of publishing of the hereby report, no other changes in the composition of the Supervisory Board of the Parent Company occurred.

3.3. Audit Committee of the Parent Company

As on 31st December 2014 the Parent Company's Audit Committee consisted of the following members:

- Rolf Olof Grundberg – President of the Audit Committee appointed on 3rd December 2009;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 27th November 2013;
- Rune Roger Ingvarsson – Member of the Audit Committee appointed on 3rd December 2009.

Until the day of publishing of the hereby report, no other changes in the composition of the Audit Committee of the Parent Company occurred.

4. Approval of the financial statements

These consolidated financial statements were authorized for issue by the Management Board on 23rd March 2015.

5. Significant Professional judgment and estimates

5.1. Professional judgment

In the process of applying the Group's accounting policies to the topics listed below, the most significance is attributed to, apart from those involving accounting estimations, the professional judgment of the management officers.

Obligation under operating and finance leases – the Group as a lessee

The Group has leasing agreements which, in the Management Board's judgment, meet the criteria of operating leases and agreements which meet the criteria of finance leases. The Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each agreement.

Control identification over acquired entities

In case of acquisition of shares in other entities, the Management Board of the Parent Company uses professional judgment as for the method of recognition of such transaction in consolidated financial statements based on guidelines included in IFRS 10 and IFRS 11.

Gas Agreement

The Group enters into „take or pay" transactions in respect of receipt of supplies of gas to Arctic Paper Kostrzyn S.A. for own use purposes. For these transactions, on each balance sheet date, the Management Board, using its professional judgment, assesses the probability of use of outstanding amounts within the granted limits, after considering the production plans for the ensuing periods and the optimum possibilities of utilization of alternative sources of materials for production. Where no real possibility of future use of outstanding amounts of gas are ascertained, the asset arising from paid for but uncollected amounts of gas is subject to the write-down.

5.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are being discussed below.

Impairment of fixed assets in Arctic Paper Mochenwangen and Arctic Paper Grycksbo

On 31st December 2012 impairment test was conducted in the production company Arctic Paper Mochenwangen in respect of fixed assets and intangible assets. As a result of the test, an allowance was recorded in the amount of net value of fixed assets and intangible assets as on 31st December 2012. On 31st December 2013 an allowance was recorded in the amount of investment expenditures made in 2013. Investment expenditures made in 2014 were fully written-off when incurred.

On 30th June 2013 and 31st December 2013 impairment tests were conducted in the production company Arctic Paper Grycksbo in respect of tangible assets and intangible assets.

A detailed description of the impairment test as on 30th June 2013 and 31st December 2013 is included in note 25 of these financial statements.

As on 31st December 2014 the Management Board decided after annual assessment if premises for impairment of tangible and intangible assets occurred that premises for further impairment did not occur and decided that premises for decreasing earlier recognized impairment allowances did not occur also

Retirement benefits and other post-employment benefits

The cost of the program for retirement benefits is determined using actuarial valuations. The assumptions made are presented in note 26. In making the actuarial valuation, certain assumptions must be made concerning discounting rates, forecasted rate of salary increases, mortality ratio or forecasted growth in retirement benefits. Due to the long-term nature of such programs, actuarial valuations are burdened with a degree of uncertainty.

Deferred tax assets

The Group recognizes deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Depreciation and amortization rates

Depreciation and amortization rates are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually by the Group based on current estimates.

6. Basis of preparation of consolidated financial statements

The hereby consolidated financial statements have been prepared in accordance with historical cost method with the exception of investment properties and derivative financial instruments which have been valued at fair value. Financial instruments measured at fair value through profit or loss include foreign exchange forward contract, contract for purchase of electric energy, contract for sale of pulp, and SWAP interest contract, in case they do not follow hedging principles (note 40).

The hereby consolidated financial statements are being presented in Polish zloty (“PLN”) and all values are given in PLN thousand (PLN ‘000) except indicated otherwise.

The hereby consolidated financial statements have been prepared on the assumption that the Group will continue as going concerns in the foreseeable future.

6.1. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), in particular in accordance with IFRSs endorsed by the European Union. On the date of authorization of these consolidated financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group and the IFRSs endorsed by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some of the Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act dated 29th September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards") or in accordance with other local accounting policies applicable for foreign operations. The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRS.

6.2. Functional currency and presentation currency

Functional currencies of the parent company and other entities included in these consolidated financial statements are: Polish zloty (PLN), Swedish crown (SEK), Euro (EUR), Norway crown (NOK), Latvian lats (LVL, replaced by EUR since 1st of January 2014)), Danish crown (DKK), Pound sterling (GBP), Swiss franc (CHF).

Presentation currency of the consolidated financial statements is Polish zloty (PLN).

7. Changes in hitherto accounting policies and data comparability

7.1. Changes in existing accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2013, except for the following application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2014.

- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1st January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31st October 2012) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 36 *Recoverable Amounts Disclosures for Non-Financial Assets* (issued on 29th May 2013) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27th June 2013) – effective for financial years beginning on or after 1st January 2014.

The adoption of the aforementioned changes to standards did not cause changes of the comparative data.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

7.2. Comparability of data

In the hereby consolidated financial statements comparable data for the year ended 31st December 2013 and as on 31st December 2013 are consistent with the data published in the consolidated financial statements for the year ended 31st December 2013.

8. New standards and interpretations issued and not yet effective

The following standards and interpretations were issued by the IASB or IFRIC but are not yet effective:

- IFRIC 21 Levies (published on 20th May 2013) – effective for annual periods beginning on or after 1st January 2014; within the EU, effective at the latest for annual periods beginning on or after 17th June 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on 21st November 2013) – effective for annual periods beginning on or after 1st July 2014; within the EU, effective at the latest for annual periods beginning on or after 1st February 2015,
- Amendments resulting from review of IFRS 2010-2012 (published on 12th December 2013) – some of the amendments are effective for annual periods beginning on or after 1st July 2014, while some are effective prospectively for transactions entered into on or after 1st July 2014; within the EU, effective at the latest for annual periods beginning on or after 1st February 2015,
- Amendments resulting from review of IFRS 2011-2013 (published on 12th December 2013) – effective for annual periods beginning on or after 1st July 2014; within the EU, effective at the latest for annual periods beginning on or after 1st January 2015,
- IFRS 9 Financial Instruments (published on 24th July 2014) effective for annual periods beginning on or after 1st January 2018; until the date of approval of these financial statements, the amendments have not been adopted by the EU
- IFRS 14 Regulatory Deferral Accounts (published on 30th January 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (published on 6th May 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (published on 12th May 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- IFRS 15 Revenue from Contracts with Customers (published on 28th May 2014) – effective for annual periods beginning on or after 1st January 2017; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on 30th June 2014) –

effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,

- Amendments to IAS 27 Equity Method in Separate Financial Statements (published on 12th August 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11th September 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments resulting from review of IFRS 2012-2014 (published on 25th September 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (published on 18th December 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU,
- Amendments to IAS 1 Disclosures (published on 18th December 2014) – effective for annual periods beginning on or after 1st January 2016; until the date of approval of these financial statements, the amendments have not been adopted by the EU

The Management Board assesses the influence of the aforementioned changes on the accounting policies applied by the Company, but does not expect the introduction of the above-mentioned amendments and interpretations to have a significant impact on the Group.

9. Summary of significant accounting policies

9.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of Arctic Paper S.A. and its subsidiaries for each year ended 31st December. The financial statements of the subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intercompany balances and transactions, including unrealized gains arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. The Parent Entity has the control provided:

- it has the power over the subsidiary;

- is exposed, or has rights, to variable returns from its involvement with the subsidiary,
- has the ability to use its power to affect returns generated.

The Company assesses whether or not it controls other entities whenever the circumstances indicate that there are changes to one or more of the aforementioned conditions of control as listed above.

If the company has less than a majority of the voting rights in the entity, but the voting rights are sufficient to give it exclusive practical ability to direct the relevant activities of the entity, it means the company has the power over the entity. The Company considers all material circumstances in assessing if the voting rights in the entity are sufficient to give it powers, including:

- size of the holding of voting rights relative to the size and dispersion of holdings of voting rights of other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights arising from other contractual arrangements; and
- any additional circumstances that may indicate that the Company has, or does not have, the ability to direct the relevant activities whenever decisions need to be made, including voting patterns as seen at previous shareholders meetings.

Changes in the parent's ownership interest that do not result in loss of control of the subsidiary are accounted for as equity transactions. In such cases, to reflect changes in the relative shares in the subsidiary the Group revises the carrying value of controlling and non-controlling interests. Any difference between the amount of correction of non-controlling interests and the fair value of the price paid or received are recognized in equity and attributed to the owners of the parent.

9.2. Share in joint enterprises

Joint enterprises are joint arrangements whereby two or more parties undertake business activities which are subject to joint control.

The Group’s investments in joint enterprises are recognized in the consolidated financial statements using equity method. According to this method, an investment in a joint enterprise is initially recognized at cost and then adjusted in order to consider the Group’s involvement in the financial result and other comprehensive income of the joint enterprise. If the Group’s involvement in losses of the joint enterprise exceeds its interest in the joint enterprise, the Group ceases to recognize its involvement in further losses. Additional losses are recognized only to extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint enterprise.

The investment in joint enterprise is recognized using equity method from the date on which the entity has become a joint enterprise. On acquisition of the investment in a joint enterprise, any excess of the cost of the investment over the Group’s share in the net fair value of the identifiable assets and liabilities of the entity is recognized as goodwill and included in the carrying amount of the investment. Any excess of the Group’s share in the net fair value of the identifiable assets and liabilities of the entity over the cost of the investment is directly taken to profit or loss of the period in which the investment was made.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to Group’s investment in the joint enterprise. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single item of assets by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms a part of the carrying amount of the investment. Any reversal of the impairment is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint enterprise or when the investment is classified as held for sale. The difference between the carrying amount of the joint enterprise at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint enterprise is included in the determination of the gain or loss on disposal of the joint enterprise.

When the Group reduces its ownership interest in a joint enterprise but continues to use the equity method, theGroup reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest, if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Income/costs on evaluation of shares in joint enterprises are recognized as other operating income/costs.

9.3. Fair value measurement

The Group evaluates financial instruments such as derivatives and non-financial assets (for example, investment properties) at fair value on each balance sheet day. Moreover, fair value of financial instruments measured at amortized cost was disclosed in note 40.1.

Fair value is defined as the realizable sales price of a component of assets or payable for the purpose of transferring the liability in a transaction executed in standard conditions of assets component disposal between market players as on evaluation day in current market conditions. Measurement of fair value is based on the assumption that the transaction of assets component disposal or of liability transfer occur:

- in the main market for the particular asset component or liability,
- in case there is no main market, in the most favorable market for the particular asset component or liability.

Both the main and the most favorable markets have to be available to the Group.

Fair value of an asset component or liability is measured based on the assumption that market players act in their best economic interest while determining the price of the asset component or liability.

Fair value measurement of a component of non-financial assets takes into account the ability of a market player to create economic benefits through the best and full use of the asset component or its disposal to another market player who would ensure the best and full use of this asset component.

The Group applies measurement patterns which are appropriate to circumstances and for which there is sufficient data for fair value measurement while maximum use of proper noticeable input data and minimum use of unnoticeable output data is exercised.

All assets and liabilities which are measured at fair value or their fair value is disclosed in the financial statements are categorized in fair value framework as described below based on the least input data level relevant for measurement of fair value treated as a whole:

- Level 1 – quoted (unadjusted) market prices in an active market for identical assets or liabilities,
- Level 2 – Measurement patterns for which the least input data level relevant for measurement of fair

value treated as a whole is directly or indirectly noticeable,

- Level 3 – Measurement patterns for which the least input data level relevant for measurement of fair value treated as a whole is not noticeable.

On each balance sheet date, for the assets and liabilities occurring on particular balance sheet days in the financial statements the Group decides if there were transfers between the framework levels through another assessment of particular framework levels categorization, managing the input data relevance starting from the least level relevant for measurement of fair value treated as a whole.

Adoption of IFRS 13 did not have any impact on financial standing, results or the scope of information disclosed by the Group in the financial statements.

Summary of significant accounting policies concerning fair value measurement

The Management Boards of subsidiaries or the Management Board of Arctic Paper S.A. set the principles and procedures concerning both regular valuation at fair value of, for example, investment properties or non-listed financial assets, as well as one-off valuations.

Independent appraisers are commissioned to perform valuations of material assets such as real estates at the end of each financial year.

Fair value measurement of financial instruments is performed by independent financial institutions with expertise in valuation of such instruments.

For the purpose of disclosure of fair value valuation results, the Group determined classes of assets and liabilities based on kind, characteristics and risk related to particular assets components and liabilities, as well as on the level of fair value framework, as described above.

9.4. Foreign currency translation

Transactions denominated in currencies other than functional currency of the entity are translated into functional currency at the foreign exchange rate prevailing on the transaction date.

On the balance sheet date, monetary assets and liabilities expressed in currencies other than functional currency of the entity are translated into functional currency using the average foreign exchange rate prevailing for the given currency at the end of the reported period. Exchange differences resulting from translation are recorded under finance revenue or finance costs or under capitalized cost of assets, based on defined examples in accounting policy. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated into Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, LVL, DKK, NOK, GBP and CHF. On the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group (Polish zloty) using the rate of exchange prevailing at the balance sheet date and their income statements are translated using the average exchange rates for the given reporting period. The exchange differences arising on the translation are taken directly to other operating income and accumulated in a separate position of equity. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognized in equity and relating to that particular foreign operation shall be recognized in the income statement.

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Exchange differences on loans treated in compliance with IAS 21 as investments in subsidiaries are recognized in consolidated financial statements in other comprehensive income.

The following exchange rates were used for valuation purposes:

	As at 31 December 2014	As at 31 December 2013
USD	3,5072	3,0120
EUR	4,2623	4,1472
SEK	0,4532	0,4694
LVL	n/a	5,9009
DKK	0,5725	0,5560
NOK	0,4735	0,4953
GBP	5,4648	4,9828
CHF	3,5447	3,3816

Average foreign exchange rates for the reporting periods are as follows:

	01/01 - 31/12/2014	01/01 - 31/12/2013
USD	3,1537	3,1615
EUR	4,1845	4,1976
SEK	0,4601	0,4855
LVL	nd	5,9841
DKK	0,5613	0,5628
NOK	0,5011	0,5385
GBP	5,1919	4,9426
CHF	3,4453	3,4101

9.5. Property, plant and equipment

Property, plant and equipment are measured at cost (price of purchase or construction cost) less accumulated depreciation and impairment losses. The initial value of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria have been met. Subsequent expenditures, such as repair or maintenance costs, are expensed as presented in the income statement in the reporting period in which they were incurred.

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

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

Type	Period
Buildings and constructions	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 property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the reporting period that has just ended.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement for the period in which derecognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

9.6. Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, the value of investment properties is presented according to fair value. Any gains or losses resulting from changes of fair value of the investment properties are recognized in gain or loss of the period in which it occurred.

Investment property is derecognized when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

Transfers of assets are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease, and the Group accounts for such property in accordance with the policy stated under Property, Plant and Equipment (note 9.5) up to the date of change in use. For a transfer of assets from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value on the date of change in use.

9.7. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as on the date of combination. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment write-offs. Expenditures incurred for internally generated intangible assets, excluding capitalized development costs, are not capitalized and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

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

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

Research and development costs

Research costs are presented in the profit and loss account as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Any expenditure carried forward is amortized over the period of expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment is identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

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

	Customer relationship	Trademarks	Licences and Software
Useful lives	10 years	Indefinite	2-5 years
Method of amortisation	10 years on a straight-line basis	Not amortised	2-5 years on a straight-line basis
Internally generated or acquired	Acquired	Acquired	Acquired
Impairment testing	Annual assesment to determine whether there is any indication that an assets may be impaired	Annualy and where an indication of impairment exists	Annual assesment to determine whether there is any indication that an assets may be impaired

After analyzing the relevant factors, for trademarks Group does not define the limit of its useful life. The intention of the Group 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 Group does not amortize 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 this asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

9.7.1. Goodwill

Goodwill on acquisition is initially measured at cost being the excess over:

- The sum of:
  - payment transferred,
  - the amount of all non-controlling shares in the entity being acquired and
  - in case of combination of entities performed in stages, the fair value of shares being acquired which previously belonged to the acquired entity, as on the date of acquisition,
- the net amount set as on the day of acquisition of the identifiable value of assets and liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortized.

As on the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination. Each unit, or set of units, to which the goodwill has been allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- not be greater than a single operating segment, on the basis of IFRS 8 “Operating segments”.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. If goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation.

Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.7.2. Emission rights

The Group operating as a business entity owns power plants and for this reason it holds emission rights which are used during the course of its business operations. The group applies the net liability method to recognize emission rights in its books. This means that the rights originally acquired free of charge are recognized in the balance sheet at the "zero" acquisition cost and the provision for the Group obligation to redeem an appropriate number of emission rights is created when the deficit in the emission rights held is ascertained. In the case of emission rights acquired to cover future deficit, such rights are initially recognized at acquisition cost among other intangible assets. Provision for the deficit of emission rights is measured then in accordance with the value of intangibles acquired. Provision is recognized based on the annual limit of emission rights.

Policy for CER/EUA swap transactions

The Group enters into forward swap agreements ("EUA/CER swaps") with third parties to exchange the rights to emit CO2 within European Union Emission Allowances ("EUA") at a future date (prior to the date at which the utility needs to satisfy its obligation for that period) for the same quantity of Certified Emission Reductions ("CER"). If the EUA/CER swap is entered into and will continue to be held to use CER for covering own liabilities for write-off of the emission rights (i.e., to satisfy obligations resulting from the emission of CO2), it is outside the scope of IAS 39.

Accounting when cash is received

If the cash is received before the EUA/CER swap matures deferred income is recognized in respect of that amount as the EUA has not been delivered on that date.

Accounting for the EUA/CER exchange at maturity

The CER are recognized at their fair value. Any difference between (i) the total of the cash received and the fair value of the CER received and (ii) the historical value of the EUA given up is recognized as a gain (or loss). Any deferred income is recognized in the income statement, as part of this gain (or loss).

9.7.3. Cogeneration certificates

The Group as an entity producing electric energy in cogeneration receives "yellow certificates" of origin. Revenues from these certificates are recognized as decrease of cost in the moment of production and valued at current market prices provided the market for such certificates is active. Otherwise, revenues are recognized upon sale of certificates. The value of certificates is recognized under intangible assets. Details concerning the certificates received in the current year were presented in note 44.

9.8. Leases

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the item being the object of the lease and recognized over the lease term on the same basis as lease income. Conditional lease fees are recognized as income in the period in which they become payable.

9.9. Impairment of non-financial assets

An assessment is made on each reporting date to determine whether there is any indication that a non-financial non-current asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group 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 higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. 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 carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing 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 losses of assets used in continuing operations are recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made on each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised immediately in the income statement. 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 carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

9.10. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment, investment properties, intangible assets and finished goods. Borrowing costs include interest calculated using the effective interest 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 costs.

9.11. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale

Financial assets held to maturity

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

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

b) According to IAS 39 upon initial recognition it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value as on the balance sheet date. Any change in the fair value of these instruments is taken to finance costs or finance income. When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met;

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy, or
- the financial asset contains an embedded derivative that would need to be separately recorded.

As on 31st December 2014, the Group designated the hedging instruments as measured at fair value through profit and loss, further described in the note 40 to the consolidated annual report for year 2014.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value as on the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to the other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at acquisition cost, i.e. at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs that are able to be attributed directly to the acquisition.

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

In case the Group:

- holds a legal interest to compensate the recognized amounts, and
- intends to settle in net amount or realize an asset and fulfill a liability simultaneously

the item of financial assets and the financial liability are compensated and reported in the report on financial situation in net amount.

A framework agreement described in IAS 32.50 cannot be a basis for compensation, unless both aforementioned criteria have been fulfilled.

9.12. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

9.12.1. Assets carried at amortized cost

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost on the reversal date.

9.12.2. Financial assets carried at cost

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

9.12.3. Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss, is removed from equity and recognized in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

9.13. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments, which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Group assesses whether embedded derivatives are required to be separated from host contracts at its initial recognition. In case of embedded derivatives acquired as part of business combination, the Group does not re-assess the embedded derivatives as on the combination date (they are assessed upon initial recognition by the acquired company).

9.14. Derivative financial instruments and hedges

The Group uses derivative financial instruments to hedge against the risks associated with interest rate and foreign currency fluctuations such as forward currency contracts and interest rate swap contracts. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when its value is positive and as liabilities when its value is negative.

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

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 on the basis of evaluation model taking into account the perceivable market data, particularly current interest rates with fixed term.

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 recognized asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction, or
- hedges of a net investment in a foreign operation.

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, 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 how the entity will assess 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 financial reporting periods for which it was designated.

9.14.1. Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized 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 gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount 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 recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying amount is amortized through the income statement over the remaining term to maturity.

When an unrecognized 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 recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Group discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization 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.

9.14.2. Cash flow hedges

Cash flow hedges are hedges securing for danger of cash flows fluctuations which can be attributed to a particular kind of risk connected with the given item of assets or a liability or with a planned investment of high probability, and which could influence profit or loss. The part of profit or loss connected with the hedging instrument which constitutes effective hedge is recognized directly in other comprehensive income and the non-effective part is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast 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 recognized directly in equity are reclassified into 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 taken directly to net profit or loss 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 gain or loss on the hedging instrument that has been recognized directly in other comprehensive income and accumulated in equity remains recognized in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is taken to net profit or loss for the period.

9.15. Inventories

Inventories are valued at the lower of purchase price/production cost and net realizable value. Purchase price or production cost of each inventories item includes all purchasing expenses, transformation expenses and other costs incurred in bringing each inventories item to its present location and conditions are accounted for as follows for both the current and previous year:

Materials	at cost determined on weighted average cost basis
Finished goods and work-in-progres	cost of direct materials and labor and a proportion of production overheads based on normal operating capacity, excluding external borrowing costs
Goods for resale	at cost determined on weighted average cost basis

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

9.16. Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts 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 recognized as finance income.

Other receivables include prepayments for future purchases of property, plant and equipment, intangible assets and inventories. Prepayments are recognized in accordance with the character of underlying assets, i.e.

under non-current or current assets. As non-monetary assets, advances are not discounted.

Receivables from public authorities are presented within other non-financial assets, except for company income tax receivables that constitute a separate item in the balance sheet.

9.17. Cash and cash equivalents

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

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

9.18. Interest-bearing loans, borrowings and bonds

All loans, borrowings and bonds are initially recognized at the fair value less transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the effective interest rate method.

9.19. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or
- financial liability contains an embedded derivative that would need to be separately recorded.

As on 31st December 2014 no financial liabilities were classified to fair value through profit and loss category (as on 31st December 2013: zero).

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less directly attributable transaction costs. Gains or losses on these liabilities are recognized in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss, are measured at amortized cost, using the effective interest rate method.

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

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax, advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognized at the amount due.

9.20. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net 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 present value using a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

9.21. Retirement benefits

In accordance with internal remuneration regulations, employees of Group companies are entitled to retirement benefits. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee’s average salary. The Group makes a provision for retirement benefits in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19 retirement benefits are post-employment defined benefits. The carrying amount of the Group’s liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future and accounts for staff turnover, and relates to the period to the balance sheet date. Demographic information and information on staff turnover are based on historical information.

On the basis of valuations carried out by professional actuarial companies, the Group creates a provision for future benefits.

Revaluation of liabilities arising from employee benefits related to programs of particular benefits, which includes actuarial profit and loss, is recognized in other comprehensive income and is not reclassified later to profit or loss.

The Group recognizes the following changes in net liabilities on the grounds of particular benefits under, respectively, own cost of sales, administrative expenses and sales cost, which include:

- employment cots (including current employment cost, past employment cost)
- net interest on net liabilities on the grounds of particular benefits.

9.22. Shares payments

Employees (including members of the Management Board) of the Group receive bonuses in the form of shares.

9.22.1. Transactions settled in capital instruments

Cost of transactions with employees settled in capital instruments is evaluated in relation with fair value at the date of granting rights. Fair value is determined by an independent assessor based on binomial pricing model. On assessment of transactions settled in capital instruments, considered are market conditions of rights acquisition (related to share price of the parent company) and the conditions other than of rights acquisition.

Cost of transactions settled in capital instruments is accounted together with related increase of equity in the period when conditions concerning effectiveness of results and work or service rendered were met, ending on the day on which particular employees achieve full rights to benefits ("day of rights acquisition"). Accumulated costs accounted on the grounds of transactions settled in capital instruments on each balance day until the rights acquisition day reflect the level of rights acquisition period lapse as well as the number of bonuses, the rights for which – in the opinion of the Management Board of the parent company as on this day, based on possibly best evaluations of capital instruments numbers – will be eventually acquired.

No costs are accounted on the grounds of bonuses, the rights for which will not be fully acquired, except for the bonuses regarding which the acquisition of rights depends on market conditions or conditions other than rights acquisition conditions, which are treated as acquired regardless of the fact whether market conditions or conditions other that rights acquisition conditions were met, on condition all other conditions were met regarding effectiveness of results and work or service rendered.

In case the conditions of granting bonuses settled in capital instruments are modified, under fulfilling the minimum requirement costs are accounted the same as if these conditions would not have changed. Moreover, accounted are the costs on the grounds of every increase of transaction value in a result of a modification, evaluated as on the modification day.

In case the bonus settled in capital instrument is cancelled, it is treated as if the rights to this bonus were acquired on the day of cancellation, and all the costs on the grounds of the bonus, that had not yet been accounted, are immediately accounted. It concerns also the bonuses for which the conditions other than rights acquisition conditions under the control of the parent company or the employee have not been met. However, in case the cancelled bonus is replaced with another bonus – described as replacement bonus on the day of granting, the cancelled bonus and the new bonus are treated as if they were modification to the original bonus, that is in the manner as described in the paragraph above.

9.23. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax, excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognized.

9.23.1. Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

9.23.2. Rendering of sales services

The trading companies within the group are rendering sales services to the paper mills. For these services they receive commission income based on the actual sales of products on each particular market. This means that the income for rendering of services is recognized at the same time as the sales of goods. Only income from paper mills outside the group is presented as sales revenues.

9.23.3. Interest

Revenue is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

9.23.4. Dividends

Revenue is recognized when the shareholders' rights to receive the payment are established.

9.23.5. Rental income (operating lease)

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

9.23.6. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the income statement over the estimated useful life of the relevant asset by way of equal annual installments.

9.24. Income tax

9.24.1. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

9.24.2. Deferred tax

For financial reporting purposes deferred income tax is recognized, using the liability method, on all temporary differences on the balance sheet date between the tax bases of assets and liabilities and their carrying amounts recognized in the financial statements.

Deferred tax liability is recognized for all taxable 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 nor taxable profit or loss; and
- in respect of taxable temporary 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 tax asset is recognized for all deductible 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 utilized:

- except where the deferred tax asset relating to the deductible 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 deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed on 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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as on the balance sheet date.

Deferred income tax relating to items recognized out of profit or loss is recorded out of income statement: in other comprehensive income it related to positions recognized in other comprehensive income. Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Group only if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

9.24.3. Deferred tax relating to operations in the Special Economic Zone

The Group operates in the Kostrzynsko – Slubicka Special Economic Zone and due to this fact it benefits from a tax relief to the amount of the investment expenditure made.

Where the investment expenditure is not covered by the revenue earned in the given fiscal year, then the Group recognizes a deferred tax asset (in the amount the use of which is highly probable) against the discounted excess of the investment expenditure over revenue earned, in accordance with the Decree of the Council of Ministers dated 14th September 2004 concerning the Kostrzynsko – Slubicka Special Economic Zone (Official Journal no. 222 item 2252 dated 13th October 2004).

The created deferred tax asset is utilized in the subsequent fiscal year when the appropriate amount of taxable income has been earned.

9.24.4. Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax except:

- when the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of value added tax included.

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

9.24.5. Excise tax

The amount of excise tax due in respect of the electric energy produced is recognized in income statement in the period to which it relates and in the balance sheet under liabilities.

The excise tax on the energy used for own needs is recognized among costs of sales in the income statement.

9.25. Earnings per share

Earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares during the reporting period.

Diluted earnings per share are calculated by dividing the net profit for the period by the diluted weighted average number of shares in the particular reporting period.

10. Operating segments

The principal business of the Group is paper production, which is produced in four paper mills:

- Arctic Paper Kostrzyn S.A. (Poland) – production of high-quality uncoated fine paper under the brand

Amber, with a production capacity of about 275,000 tons per year;

- Arctic Paper Munkedals AB (Sweden) – produces high-quality uncoated fine paper under the brand Munken, with a production capacity of about 160,000 tons per year;
- Arctic Paper Mochenwangen GmbH (Germany) – produces uncoated wood containing offset papers under brands Pamo, & L-Print, with a production capacity of about 115,000 tons per year;
- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under brands G-Print and Arctic, annual production capacity of 265,000 tons.

In connection with acquisition of Rottneros Group, who owns two companies which produce pulp , in December 2012, starting from 1st January 2013, Arctic Paper Group identifies new operational segment "Pulp".

The Group identifies the following business segments:

- Uncoated paper – paper for printing or other graphic purposes, including wood-free and wood-containing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper, however the Group currently does not produce office papers. Uncoated paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.
- Coated paper - wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both online and offline, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- Pulp - fully bleached sulfate pulp and unbleached sulfate pulp which is used mainly for production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers
- Other – this segment contains results of Arctic Paper S.A. operations.

The division of business segments to uncoated and coated paper, and pulp is caused by the following circumstances:

- Demand for products and its supply, as well as the products prices sold on the market are shaped by factors characteristic for each segment, including i.e. level of the production capacity in each segment of paper and pulp,
- Key operational factors such as e.g. orders inflow or production costs level are determined by factors which are close to each other within each paper segment of paper and pulp,
- Products produced in the Group's paper mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each paper mill,
- Arctic Paper Group results are dominated by global market trends in terms of fluctuations of prices of paper and pulp, and depend on individual

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conditions of production subsidiaries to lesser extent.

The results of paper mills and other entities (excluding Rottneros Group companies) are monthly analyzed by the Group's key management personnel based on internal reporting. The analysis of financial data of Rottneros Group companies is performed based on quarterly financial reports published in Rottneros AB websites. Performance is measured based on the EBITDA level, which is calculated by adding depreciation and impairment to operating profit/loss in each case as determined by IFRS. EBITDA is not a measure of operating profit/loss, operating result or liquidity according to IFRS. EBITDA is a measure used by the Management Board in managing business operations.

Transfer prices in transactions between segments are set on an arm's length basis as if it concerned non related parties.

The following table presents revenue and profit information and certain assets and liabilities information divided into individual Group segments for the twelve months' period ended 31st December 2014 and as on 31st December 2014.

12-months' period ended 31st December 2014 and as on 31st December 2014

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total Group
Revenues							
Sales to external customers	1 721 483	673 839	704 041	-	3 099 364		3 099 364
Inter-segment sales	19 983	42 764	43 308	37 543	143 597	(143 597)	-
Total segment revenues	1 741 466	716 603	747 349	37 543	3 242 961	(143 597)	3 099 364
Segment's Result							
EBITDA	117 531	24 337	92 469	4 666	239 003	(463)	238 540
Interest Income	10 342	155	0	2 350	12 847	(12 062)	785
Interest Costs	(23 049)	(7 138)	(1 380)	(11 286)	(42 854)	14 778	(28 076)
Amortization and depreciation	(61 222)	(26 847)	(33 744)	(110)	(121 922)	-	(121 922)
Positive FX and other financial income	97	-	-	871	969	(909)	60
Negative FX and other financial costs	(9 249)	(2 002)	-	(1 148)	(12 399)	866	(11 533)
Profit / (loss) before tax	34 451	(11 496)	57 345	(4 656)	75 644	2 211	77 854
Segment assets	1 234 380	322 964	451 870	238 909	2 248 124	(544 631)	1 703 493
Segment liabilities	849 377	366 441	130 975	271 741	1 618 534	(594 773)	1 023 760
Capital expenditures	(39 751)	(5 133)	(23 923)	(45)	(68 853)	-	(68 853)

- Inter-segment sales are eliminated on consolidation.

- Segment result does not include financial income (PLN 844 thousand of which PLN 785 thousand constitute interest income) and financial costs (PLN 39,608 thousand of which PLN 28,076 thousand constitute interest expense), amortization and depreciation (PLN 121,922 thousand), impairment of non-financial assets (PLN 0 thousand) as well as income tax charges (PLN +320 thousand). Segment result includes inter-segment profit (PLN 463 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 54,259 thousand and deferred tax liability of PLN 13,959 thousand) as these items are managed on the Group level. Segment assets do not include investments in the entities operating within the Group.

The following table presents revenue and profit information and certain assets and liabilities information divided into individual Group segments for the twelve months' period ended 31st December 2013 and as on 31st December 2013.

Twelve months' period ended 31st December 2013 and as on 31st December 2013

	Continuing Operations						
	Uncoated	Coated		Other	Total	Eliminations	Total Group
Revenues							
Sales to external customers	1 757 955	681 088	665 858	-	3 104 901		3 104 901
Inter-segment sales	21 132	48 087	44 582	40 476	154 276	(154 276)	-
Total segment revenues	1 779 087	729 175	710 440	40 476	3 259 177	(154 276)	3 104 901
Segment's Result							
EBITDA	73 492	(3 802)	(8 341)	11 648	72 997	(135)	72 862
Interest Income	12 426	140	0	21 099	33 665	(32 526)	1 139
Interest Costs	(25 439)	(24 465)	(1 456)	(11 475)	(62 836)	35 011	(27 825)
Depreciation	(52 112)	(34 823)	(34 487)	(99)	(121 521)	-	(121 521)
Impairments of non-current assets	(1 122)	(101 855)	-	(274 752)	(377 728)	274 747	(102 981)
Positive FX and other financial income	4 219	-	-	78 753	82 971	(82 855)	117
Negative FX and other financial costs	(6 283)	(1 293)	(485)	(1 931)	(9 992)	5 484	(4 509)
Profit / (loss) before tax	5 181	(166 098)	(44 770)	(176 757)	(382 444)	199 725	(182 719)
Segment assets	1 246 372	334 510	423 597	209 866	2 214 345	(500 870)	1 713 474
Segment liabilities	906 176	351 758	159 127	215 543	1 632 603	(548 657)	1 083 946
Capital expenditures	(63 858)	(6 418)	(16 991)	(70)	(87 337)	-	(87 337)

- Inter-segment sales are eliminated on consolidation.
- Segment result does not include financial income (PLN 1,255 thousand of which PLN 1,139 thousand constitute interest income) and financial costs (PLN 32,333 thousand of which PLN 27,825 thousand constitute interest expense), amortization and depreciation (PLN 121,521 thousand), impairment (PLN 102,981 thousand) as well as

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income tax charges (PLN +30,566 thousand). Segment result includes, however, inter-segment profit (PLN 135 thousand).

- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,891 thousand and deferred tax liability of PLN 28,979 thousand) as these items are managed on the Group level. Segment assets do not include investments in the entities operating within the Group.

10.1. Revenues and non-current assets by countries and region

The following table presents revenues of the Group from external customers divided by countries and regions in the years 2013-2014 as well as non-current assets of the Group less of deferred tax asset divided by countries and regions as on 31st December 2014 and 31st December 2013:

Geographic information Revenues from external customers:	Year ended 31 December 2014	Year ended 31 December 2013
Germany	681 103	700 125
France	277 969	249 587
UK	229 320	214 470
Scandinavia	409 303	424 021
Western Europe (other than aforementioned)	394 721	431 623
Poland	358 174	331 405
Central and Eastern Europe (other than Poland)	470 910	540 304
Overseas	277 864	213 366
Total Sales	3 099 364	3 104 901

Geographic information Non-current assets:	Year ended 31 December 2014	Year ended 31 December 2013
Germany	1 337	2 185
France	354	328
Scandinavia	415 063	275 340
Western Europe (other than aforementioned)	761	333
Poland	371 731	580 359
Central and Eastern Europe (other than Poland)	240	216
Total non-current assets	789 485	858 760

Sales revenues of the position ‘Western Europe’ relate mostly to sales in Belgium, Netherlands, Austria, Switzerland, Italy and Spain. Sales revenues of the position ‘Central-Eastern Europe’ relate to sales in Ukraine, Czech Republic, Slovakia, Hungary and Bulgaria. Sales revenues of the position “Outside Europe” relate mainly to sales in China and USA. No single customer sales exceed 10% of revenues.

Non-current assets comprise property, plant and equipment, intangibles, investment properties as well as other financial and non-financial assets.

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11. Revenues and expenses

11.1. Other operating income

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Relase of provisions	270	-
Compensation received	558	1 531
Rental income	2 364	2 526
Sales of services	815	860
Government grants	271	220
Sales of energy and water	29 718	28 243
Sales of materials	9 555	16 216
Profit on shares in joint venture	122	107
Profit of sales on tangible assets	17 434	841
Grant settlement income	2 719	2 732
Profit on sales of CO2 emission rights	7 281	2 646
Other	10 235	7 252
Total	81 343	63 173

11.2. Other operating expenses

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Property tax	(1 481)	(2 155)
Cost of sales of energy and water	(25 222)	(20 156)
Cost of sales of materials	(3)	(3)
Redundancy costs	(2 701)	(2 219)
Loss on sale of disposal of fixed assets	(5)	(3 820)
Other	(1 733)	(3 079)
Total	(31 145)	(31 432)

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11.3. Financial income

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Interest income on cash in bank	377	555
interest income on receiv ables	164	220
Other interest income	249	363
Other financial income	54	116
Total	844	1 255

11.4. Financial costs

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Interest on bank loans and loans v alued at amortized cost	(21 556)	(22 207)
Interest on other financial liablities	(182)	(779)
Interest on actuarial prov isions	(3 844)	(2 884)
Financial cost pay able under finance leases	(2 182)	(1 956)
Foreign ex change losses	(5 797)	(284)
Other financial costs	(6 046)	(4 224)
Total	(39 608)	(32 333)

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11.5. Cost by nature

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Depreciation / Amortization	(121 922)	(121 521)
Impairment losses	-	(102 981)
Change in inventory of finished goods	(1 097)	5 445
Reversed inventory write-down	(318)	509
Materials and energy	(1 857 600)	(1 979 243)
External services	(476 143)	(483 621)
Taxes and charges	(12 034)	(11 315)
Employee benefits expense	(424 499)	(457 895)
Other	(88 386)	(82 087)
Cost of goods for resale	(50 947)	(55 572)
Total costs by type, of which:	(3 032 944)	(3 288 283)
Items included in cost of sales	(2 668 571)	(2 914 015)
Items included in selling and distribution expenses	(289 419)	(298 091)
Items included in administrative expenses	(74 954)	(76 177)

11.6. Depreciation/ amortization and impairment losses included in the income statement

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Included in cost of sales:		
Depreciation / Amortization	(118 424)	(118 740)
Impairment of property, plant and equipment	-	(65 629)
Impairment of intangible assets	-	(37 347)
Inventory write-downs	-	-
Included in selling and distribution expenses:		
Depreciation / Amortization	(2 119)	(1 209)
Impairment of property, plant and equipment	-	(5)
Impairment of intangible assets	-	-
Included in administrative expenses		
Depreciation / Amortization	(1 379)	(1 573)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-

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11.7. Employee benefits expenses

		Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (revised)
Wages and salaries		(325 258)	(339 186)
Social security costs		(95 759)	(112 828)
Retirement benefits	26.2	(25 686)	6 221
Total employee benefits expenses, of which:		(446 703)	(445 793)
Items included in cost of sales		(307 829)	(359 485)
Items included in selling and distribution expenses		(21 544)	(21 438)
Items included in administrative expenses		(95 125)	(76 973)
Items included in other comprehensive income		(22 205)	12 103

12. Components of other comprehensive income

Components of other comprehensive income for the year ended 31st December 2014 and the year ended 31st December 2013 are as follows:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Exchange difference on translation of foreign operations	(14 955)	(8 059)
Deferred tax on derivatives' valuation	(2 825)	2 067
Valutation of derivatives	10 438	(8 952)
Actuarial gains/ losses on defined benefits programs	(22 205)	12 103
Deferred tax on actuarial gain/losses on defined benefits programs	4 911	(658)
Total other comprehensive income	(24 637)	(3 499)

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13. Income tax

13.1. Tax burdens

Major components of income tax expense for the year ended 31st December 2014 and the year ended 31st December 2013 are as follows:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Consolidated income statement		
Current income tax		
Current income tax charge	(2 570)	(2 739)
Adjustments in respect of current income tax of previous years	(52)	(179)
Deferred income tax		
Relating to origination and reversal of temporary differences	2 942	33 484
Income tax benefit /(expense) reported in consolidated income statement	320	30 566
Consolidated statement of changes in equity		
Current income tax		
Tax effect of costs related to increase in share capital	-	-
Income tax benefit/ (income tax expense) reported in equity	-	-
Consolidated statement of other comprehensive income		
Deffered income tax		
Deffered tax in respect of valuation in hedging intruments (exchange differences)	(2 825)	2 067
Deffered tax in respect of acturial gain/losses	4 911	(658)
Income tax benefit / (income tax expense) reported in other comprehensive income	2 085	1 409

13.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31st December 2014 and the year ended 31st December 2013 is as follows:

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	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Accounting profit before tax from continuing operations	77 854	(182 719)
Profit before tax from discontinued operations	-	-
Accounting profit before income tax	77 854	(182 719)
At statutory income tax rate in 2008-2014 of 19%	(14 792)	34 717
Adjustments in respect of current income tax from previous years	(52)	179
Difference resulting from different tax rates if different countries	144	11 468
Tax losses on which no deferred tax asset has been recognized	(3 480)	(30 417)
Tax credits in KSSSE	5 042	82
Utilisation of previously unrecognised tax losses	23 089	92
Non-taxable income	1 831	5 305
Non-taxable costs	(11 461)	(2 301)
Derecognized deffered tax asset on temporary diffrences	-	(7 538)
Change in tax rates	-	18 978
At the effective income tax rate of 0% (2013: 17%)	320	30 566
Income tax expense reported in consolidated income statement	320	30 566
Income tax attributable to discontinued operations	-	-

Unrecognized deferred tax asset relates mainly to those tax losses, which are expected to expire rather than to be realized, and temporary differences, which based on the Group's management assessment could not be utilized for tax purposes.

Deferred tax asset is recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable.

Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Group. Thus, each of the Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years.

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

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Year of expiration of tax losses	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
With an indefinite life	234 836	303 011
ended 31 December 2014		15 341
ended 31 December 2015	15 657	15 657
ended 31 December 2016	7 905	7 905
ended 31 December 2017	1 716	1 728
ended 31 December 2018 and later	1 716	1 728
Total	261 830	345 368

13.3. Deferred income tax

Deferred income tax relates to the following:

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2014 (audited)	31 December 2013 (audited)	31 December 2014 (audited)	31 December 2013 (audited)
Deferred income tax liability				
Tangible fixed assets	27 435	57 920	30 485	27
Inventories	-	-	-	-
Trade receivables	-	-	-	37
Accruals and provisions	-	-	-	(567)
Cogeneration certificates	766	-	(766)	922
Untaxed reserves (Swedish tax regulation)	-	-	-	-
Fair value adjustments on acquisition of subsidiary	-	-	-	81 014
Losses utilized on the level of separate financial statements, unrecognized in consolidated financial statements	-	-	-	-
Hedging instruments	-	-	-	-
Gross deffered income tax liability	28 201	57 920	29 719	81 432

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	as at		for the year ended	
	31 December 2014 (audited)	31 December 2013 (audited)	31 December 2014 (audited)	31 December 2013 (audited)
Deferred income tax assets				
Post-employment benefits	7 220	984	6 236	(3 997)
Accruals and provisions	3 234	2 259	975	(979)
Fair value adjustments on imairment of non-current assets	-	37 546	(37 546)	(16 458)
Inventories	1 059	974	85	52
Trade receivables	3 613	4 278	(665)	637
Tax credits in Kostrzynsko - Kostrzynsko Słubicka Special Economic Zone	15 003	18 457	(3 454)	(6 329)
Accruals and provisions	78	2 468	(2 390)	2 468
Fair value adjustments on acquisition of subsidiary	-	-	-	(29 074)
Hedging instruments	952	3 149	(2 198)	(154)
Loss available for offset against future taxable income	37 343	24 718	12 625	1 735
Gross deferred income income tax assets	68 501	94 832	(26 330)	(52 100)
Foreign exchange differences			1 639	5 561
Total, including			5 027	34 894
Changes in deferred tax recognised in other compresensive income			2 085	1 409
Changes in deferred tax recognised in profit and loss			2 942	33 484
Net deferred tax assets / liability				
therein:				
- Presenation adjustment	(14 242)	(28 941)		
- Deferred tax assets	54 259	65 891		
- Deferred tax liability	13 959	28 979		

14. Non-current assets held for trading

As on 31st December 2014 and as on 31st December 2013 the Group did not report any non-current assets held for trading.

15. Social assets and social fund liabilities

The Social Fund Act dated 4th March 1994, with subsequent amendments, requires the companies whose full-time employees' number exceeds 20 to establish and run a Social Fund. Arctic Paper Kostrzyn S.A. creates such a Fund and makes periodical transfers in the basic amounts. The Fund's purpose is to subsidize social activities of Arctic Paper Kostrzyn, loans granted to employees and other social cost.

Arctic Paper Kostrzyn has compensated the assets and liabilities related to the Social Fund, because the assets are not a separate asset of the Group. In relation to the fact mentioned above, the net balance of Social Fund amounted to PLN 2 thousand on 31st December 2014 (on 31st December 2013: PLN 5 thousand).

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The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following table.

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Cash	57	36
Social Fund liability	(55)	(31)
Expenditure of Fund covered by own funds		
Net balance	2	5

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Transfers made to the Social Fund during the period	609	609

From 1st January 2015, Arctic Paper S.A. opened Employee Benefits Fund.

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16. Earnings per share

Earnings per share ratio is calculating by dividing the net profit for the year attributable to the Company's' shareholders by weighted average number of shares during the reporting period. Information regarding net profit and number of shares, which was the base for calculation of earnings per share and diluted earnings per share are presented below:

	Year ended 31 December 2014 (revised)	Year ended 31 December 2013 (revised)
Net profit (loss) for the year from continuing operations attributable to equity holders of the parent	50 459	(132 266)
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-
Net profit (loss) for the year from continuing operations attributable to equity holders of the parent	50 459	(132 266)
Number of shares - A series	50 000	50 000
Number of shares - B series	44 253 500	44 253 500
Number of shares - C series	8 100 000	8 100 000
Number of shares - E series	3 000 000	3 000 000
Number of 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	68 905 218
Weighted average diluted number of shares	69 287 783	68 905 218
Profit/(Loss) per share (in PLN)	0,73	(1,92)
Diluted profit/(loss) per share (in PLN)	0,73	(1,92)

Between balance sheet day and the day of the hereby financial statements no other transactions occurred concerning ordinary shares or potential ordinary shares.

Weighted average diluted number of shares for 2013 was calculated as the number of shares registered as on 31st December 2012 (66,144,483 shares) more of 2,760,735 shares constituting weighted average in time out of 3,143,300 series F shares issued in 2013 for the purpose of Rottneros AB acquisition and registered in National Court Register in 2013.

17. Dividend paid and proposed

Dividends are paid out based on the net profit shown in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes, after covering losses carried forward from the previous years.

In accordance with the provisions of the Code of Commercial Companies, the parent company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the parent company until such time as the balance of the reserve capital reaches at least one third of the share capital of the parent company.

Appropriation of the reserve capital and other reserves depends on the decision of the Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company and shall not be used for any other purpose.

As on the date of this report, the Company had no preferred shares.

The possibility of payment of potential dividend by the Company to shareholders depends on the level of payments received from subsidiaries. Risks associated with the Company's ability to pay dividends have been described in the part "Risk factors" of this report.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

In 2014 and in 2013 Arctic Paper S.A. did not pay dividend.

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18. Property, plant and equipment

	Land and buildings	Plant and equipment	Assets under construction	Total
Net carrying amount at 1 January 2013	235 391	607 704	52 959	896 054
Additions	504	24 007	62 324	86 835
Additions from assets under construction	11 231	60 278	(73 910)	(2 401)
Disposals	(4)	(126)	(399)	(529)
Liquidations	-	(200)	(424)	(624)
Depreciation charge for the period	(14 578)	(105 036)	-	(119 613)
Impairment losses (Note 25)	(32 496)	(33 876)	738	(65 634)
Foreign exchange differences	(148)	(2 707)	(456)	(3 310)
Net carrying amount at 31 December 2013 (audited)	199 901	550 045	40 832	790 779
Net carrying amount at 1 January 2014	199 901	550 045	40 832	790 779
Additions	2 061	15 814	50 567	68 442
Additions from assets under construction	10 015	29 578	(39 594)	-
Disposals	-	(14)	-	(14)
Liquidations	-	(24)	-	(24)
Depreciation charge for the period	(13 408)	(103 993)	(2 595)	(119 996)
Change in classification within tangible and intangible fixed assets	(940)	(6 571)	7 042	(469)
Foreign exchange differences	(2 889)	(8 115)	(1 265)	(12 269)
Net carrying amount at 31 December 2014 (audited)	194 741	476 720	54 987	726 448
At 1 January 2013				
Gross carrying amount	400 835	1 630 391	55 048	2 086 274
Accumulated depreciation and impairment	(165 445)	(1 022 687)	(2 089)	(1 190 220)
Net carrying amount	235 390	607 704	52 959	896 054
At 31 December 2013				
Gross carrying amount	409 691	1 693 856	42 214	2 145 761
Accumulated depreciation and impairment	(209 791)	(1 143 810)	(1 382)	(1 354 982)
Net carrying amount (audited)	199 900	550 045	40 832	790 779
At 1 January 2014				
Gross carrying amount	409 691	1 693 856	42 214	2 145 761
Accumulated depreciation and impairment	(209 791)	(1 143 810)	(1 382)	(1 354 983)
Net carrying amount	199 900	550 045	40 832	790 779
At 31 December 2014				
Gross carrying amount	414 114	1 694 051	58 916	2 167 081
Accumulated depreciation and impairment	(219 373)	(1 217 332)	(3 929)	(1 440 633)
Net carrying amount (audited)	194 741	476 719	54 987	726 448

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There was no impairment of property, plant & equipment as on 31st December 2014.

Impairment of property, plant & equipment as on 31st December 2013 was included in consolidated income statement for 2013 in the amount of PLN 65,629 thousand in cost of sales and in the amount of PLN 5 thousand in selling expenses.

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts on 31st December 2014 totaled PLN 32,530 thousand (on 31st December 2013: PLN 35,933 thousand).

Leased assets and assets under leases or hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

A mortgage security was established on land and buildings with a carrying amount of PLN 614,079 thousand (on 31st December 2013: PLN 617,226 thousand) in respect of bank loans taken by the Company (note 32).

The value of capitalized borrowing costs and foreign exchange differences in the financial year ended 31st December 2014 amounted to PLN 402 thousand (year ended 31st December 2013: PLN 1,257 thousand thousand).

19. Leases

19.1. Operating lease commitments – Group as the lessee

The Group entered into operating lease agreements on certain vehicles and technical equipment. Entering into these contracts does not result in any restrictions for the lessee.

Future minimum rentals payable under non-cancellable operating leases as on 31st December 2014 and 31st December 2013 are as follows:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Within 1 year	4 493	4 990
Within 1 to 5 years	8 115	8 530
More than 5 years	-	12
Total	12 608	13 531

19.2. Finance lease and hire purchase commitments

As on 31st December 2014 and 31st December 2013 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

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	Year ended 31 December 2014		Year ended 31 December 2013	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 1 year	3 049	2 857	2 928	2 775
Within 1 to 5 years	14 592	11 792	14 029	11 587
More than 5 years	27 104	18 763	33 990	22 479
Minimum lease payments, total	44 745	33 411	50 947	36 841
Less financial costs	(11 334)		(14 107)	
Present value of minimum lease payments, of which:	33 411	33 411	36 841	36 841
- short-term		2 857		2 775
- long-term		30 554		34 066

20. Investment properties

	2014 (audtied)	2013 (audited)
Opening balance at 1 January	11 181	10 542
Addititons (subsequent expenditure)	-	-
Sales of an investment property	(7 622)	-
Profit on a fair value adjustment	423	639
Closing balance at 31 December	3 982	11 181

Investment properties are recognized at fair value determined by a valuation performed by accredited appraiser "DWN" Doradztwo i Wycena Nieruchomości Karina Drzazgowska. The valuation used a comparative approach, the adjusted average method.

DWN – Doradztwo i Wycena Nieruchomości Karina Drzazgowska is an expert in real estate, holding a professional certification in the field of property valuation awarded by the President of the Housing and Urban Development.

The market value of property constitutes the price that is most likely to obtain in the market, determined taking into account transaction prices for adoption of the following assumptions:

- parties of the contract were independent of each other, did not act under constraint and had a firm intention to conclude a contract,
- the time necessary to display a property in the market and to negotiate contract terms elapsed.

The market value for valid method of use (WRU0) was estimated taking into account:

- purpose of the valuation,
- the nature and location of the property,
- function in land development plan,
- level of equipment in the technical infrastructure,
- condition of property,
- available data on prices of similar properties.

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For the evaluation purposes, the comparative approach and the adjusted average price method was applied. The average price for comparative transactions amounted to PLN 485 per square meter.

According to fair value framework, the method and the approach applied for the evaluation of investment properties put the evaluation on level 3.

In 2014, the Group sold one investment property of fair value PLN 7,622 thousand for the net sale price amounting to PLN 9,600 thousand.

Costs incurred in 2014 consist of property tax cost amounting to PLN 17 thousand (2013: PLN 22 thousand).

21. Intangible assets

	As at 31 December 2014 (audited)					
	Customer relationship	Trademarks	CER Certificate	CO2 emission rights	Other *	Total
Net carrying amount at 1 January 2014	3 111	35 467	250	468	10 085	49 379
Additions	-	-	11 420	169	852	12 441
Disposals	-	-	(7 317)	(5)	(725)	(8 047)
Change in classification within tangible and intangible fixed assets	-	-	-	-	469	469
Depreciation charge for the period	(494)	-	-	-	(1 431)	(1 925)
Foreign exchange differences	(102)	(1 179)	(1)	(138)	(208)	(1 627)
Net carrying amount at 31 December 2014	2 515	34 288	4 351	495	9 041	50 690
At 1 January 2014						
Gross carrying amount	39 348	93 591	250	468	41 135	174 792
Accumulated depreciation and impairment	(36 237)	(58 124)	-	-	(31 050)	(125 412)
Net carrying amount	3 111	35 467	250	468	10 085	49 379
At 31 December 2014						
Gross carrying amount	38 034	90 407	4 351	495	39 305	172 591
Accumulated depreciation and impairment	(35 519)	(56 118)	-	-	(30 264)	(121 901)
Net carrying amount	2 515	34 288	4 351	495	9 041	50 690

* - 'Other' position includes computer software

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As at 31 December 2013 (audited)

	Customer relationship	Trademarks	CER Certificate	CO2 emission rights	Other *	Total
Net carrying amount at 1 January 2013	16 351	60 573	5 293	2 632	9 078	93 926
Additions	-	-	-	-	2 984	2 984
Disposals	-	-	(5 043)	(2 164)	(1 442)	(8 649)
Depreciation charge for the period	(1 472)	-	-	-	(435)	(1 908)
Impairment losses (Note 25)	(12 170)	(25 177)	-	-	-	(37 347)
Foreign exchange differences	403	69	-	-	(101)	371
Net carrying amount at 31 December 2013	3 111	35 467	250	468	10 085	49 376
At 1 January 2013						
Gross carrying amount	39 841	94 824	5 293	3 614	38 729	182 300
Accumulated depreciation and impairment	(23 491)	(34 250)	-	(982)	(29 651)	(88 374)
Net carrying amount	16 351	60 573	5 293	2 632	9 078	93 926
At 31 December 2013						
Gross carrying amount	39 348	93 591	250	468	41 135	174 792
Accumulated depreciation and impairment	(36 237)	(58 124)	-	-	(31 050)	(125 412)
Net carrying amount	3 111	35 467	250	468	10 085	49 379

* - 'Other' position includes computer software

As on 31st December 2014 no intangible assets were impaired. Impairment of intangible assets as on 31st December 2013 was recognized in consolidated income statement for the period in the position of cost of sales in the amount of PLN 37,347 thousand.

The Company performed a test on impairment of Arctic Paper corporate trademark, as the result of which no need for impairment write-off as on 31st December 2014 was confirmed.

Another test has been scheduled to 31st December 2015.

The value of non-current assets of Rottneros Group adopted for consolidation of Arctic Paper Group is measured below the amounts presented in consolidated financial statements of Rottneros Group. Consolidated financial statements of Rottneros Group for the year ended 31st December 2014 do not show impairment allowances recognized in 2014. Therefore no impairment of non-current assets (including corporate trademark) recognized in the hereby consolidated financial statements was found.

Another test has been scheduled to 31st December 2015.

22. Investment in related parties and joint enterprises valued using equity method

During the years ended 31st December 2014 and 31st December 2013 the Group did not have any associates.

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in the owned hydro-power plant, and the purchase was performed in realization of the strategy of increasing own energy capacities. The shares in Kalltorp Kraft have been recognized as joint arrangement and evaluated in compliance with equity method in consolidated financial data as on 31st December 2014 and 31st December 2013.

The value of shares in joint enterprise amounted to PLN 5,037 thousand as on 31st December 2014 (PLN 5,093 thousand as on 31st December 2013). Profit from the shares held in the joint enterprise amounted to PLN 122 thousand in 2014 and was recognized as other operating income (2013: PLN 107 thousand). Translation differences amounted to PLN -178 thousand as on 31st December 2014 (31st December 2013: PLN -70 thousand).

23. Business combinations and acquisition of minority interests

23.1. Acquisition and sale of non-controlling interests in 2013

On 20th December 2012, Arctic Paper S.A. purchased 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX stock exchange in Stockholm, Sweden. Rottneros AB owns 100% of shares in two pulp mills located in Sweden: Rottneros Bruk AB and Vallviks Bruk AB, as well as in an office dealing in pulp purchases, SIA Rottneros Baltic, seated in Latvia, and in a company producing food packaging – Rottneros Packaging AB, seated in Sweden.

From 1st January 2013 until 26th February 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB under the calling to hitherto shareholders of Rottneros AB and aimed at exchange of Rottneros AB shares for Arctic Paper S.A. shares or in cash purchases. Until 26 February 2013 the Company purchased 22,221,849 Rottneros AB shares and increased the total number of shares to 82,726,339 shares of Rottneros AB in the aggregate and increased its share in Rottneros AB share capital from 39.66% as on 31st December 2012 to 54.20% as on 26th February 2013. The price of shares purchased in 2013 amounted to PLN 25,731 thousand while the value of purchased minority shares amounted to PLN 55,084 thousand. The result of the transaction in the amount of PLN 29,353 thousand increased the position of “Retained earnings/accumulated losses” in equity of Arctic Paper Group.

On 11th November 2013, the Company sold 4,495,456 shares of Rottneros AB and as a result decreased its share in Rottneros AB share capital by 2.9 p.p. Currently Arctic Paper S.A. holds 51.3% of Rottneros Group shares. Revenue from sales of Rottneros shares amounted to PLN 3,979 thousand and the loss on sales in the amount of PLN 6,160 thousand was recorded in the position of “Retained earnings/accumulated losses” in equity of Arctic Paper Group. The sale of Rottneros AB shares did not result in losing control over Rottneros Group.

In 2014, the Group did not enter any transactions which would influence its shareholding in subsidiaries.

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24. Other assets

24.1. Other financial assets

	Note	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Derivatives	39.3	906	1 685
Guarantee deposits		1 096	1 067
Bank deposits over 3 months		21 312	-
Other		85	88
Total		23 399	2 840
- current		21 312	1 685
- non-current		2 088	1 155

24.2. Other non - financial assets

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Insurance costs	2 268	3 883
Lease charges	58	142
Prepayments for services	6 343	5 885
Rental charges	3 068	2 173
Receivables due from pension fund	697	590
Other	5 676	2 368
Total	18 110	15 042
- current	16 872	13 868
- non-current	1 238	1 174

25. Impairment test of tangible and intangible assets

25.1. Arctic Paper Mochenwangen

As on 31st December 2012, as the result of recognized impairment allowances in the amount of PLN 11,021 thousand as on 31st December 2011 and PLN 38,605 thousand as on 31st December 2012, the net value of property, plant & equipment and intangibles at Arctic Paper Mochenwangen GmbH amounted to PLN 0 thousand.

Because no significant improvement of Arctic Paper Mochenwangen financial results occurred in 2013, the Management Board decided to make further allowance of investment expenditures incurred in this mill in 2013. The allowance amounted to PLN 1,122 thousand and was recognized in cost of sales.

In 2014, the investment expenditures incurred by the mills in the amount of PLN 5,263 thousand have been fully written-off and recognized in cost of sales.

25.2. Arctic Paper Grycksbo

As on 30th June 2013 and 31st December 2013 the Group performed impairment tests of property, plant & equipment and intangible assets in the paper mill Arctic Paper Grycksbo.

The performance of the tests in Arctic Paper Grycksbo was connected with achieving by the mill a lower result in 2013 than expected by the management of the Group. This was influenced by market conditions such as increase of raw materials prices and strengthening of competition in the segment of paper produced in Grycksbo mill.

In respect of the above, a decision had been made to perform a test on impairment using discounted cash flows method. The performed test resulted in creating an allowance on the grounds of impairment in the amount of PLN 66,650 thousand as on 30th June 2013 and in the amount of PLN 35,205 thousand as on 31st December 2013.

As on 31 December 2014, the Management Board performed an assessment if any premises for impairment of property, plant and equipment and intangible assets occurred. Despite the visible improvement of the mill's results, the Management Board adopted a cautious approach and decided not to decrease the amounts of hitherto recognized impairment allowances.

Key assumptions and the results of impairment tests performed as on 30th June 2013 and 31st December 2013 are presented below.

Key assumptions used in value in use calculations

The calculation of value in use for Arctic Paper Grycksbo paper sales unit is most sensitive to the following factors:

- Discount rates
- Increase of raw materials prices
- Increase in energy prices
- Currency risk

Discount rate represents the assessment made by the management of the risks specific to the cash-generating unit. The discount rate is used by the management to assess the operating efficiency (results) and future investment propositions. In the budgeted period the discount rate amounts to 7.40%. The discount rate was determined using the weighted average cost of capital (WACC).

Increase in raw material prices (primarily prices of pulp) - assessments of change in raw materials prices are made using the ratios published based on the data regarding pulp prices. The main source of data used as a base for assumptions is Internet site: www.foex.fi. It should be mentioned that pulp prices are featured with high volatility.

Increase in energy prices - increase in energy prices, in particular electricity listed on Nordpool – Swedish commodity exchange, as well as energy from biomass which is a basic source of the energy, results from the assumptions used in the projections approved by the local management of Arctic Paper Grycksbo.

Currency risk - the risk relates to the purchase cost of raw materials used for production of paper, in particular to the purchase of pulp where costs are incurred mainly in USD. In projected period the USD/SEK exchange rate was set at the level of 6.48.

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The table below presents main assumptions used in calculation of value in use:

General assumption	second half of 2013	first half of 2013	2012
Prognosis based on year	2014-2018	2H 2013-2017	2013-2017
Income tax rate	22,00%	22,00%	22,00%
Pre-tax discount rate	7,80%	7,80%	7,80%
Weighted average cost of capital	7,40%	7,40%	7,40%
Growth in residual period	2,00%	2,00%	2,00%

The following table presents the impairment loss recognized as on 30th June 2013:

	Balance vaue as at 30.06.2013	Vaule in used by 30.06.2013
Tangible assets, therein:	242 916	205 217
- land	8 647	8 647
- buildings	74 521	49 152
- machinery and equipment	153 231	140 902
- assets under construction	6 516	6 516
Intangible assets with undetermined useful life	25 582	8 231
Intangible assets with determined useful life	19 206	7 606
Working capital	8 059	8 059
Cash and equivalents	17 817	17 817
Total value	313 579	246 930
Impairment recognized in first half of 2013		66 650

The following table presents the impairment loss recognized as on 31st December 2013:

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	Balance vaue as at 31.12.2013	Vaule in used by 31.12.2013
Tangible assets, therein:	181 637	154 828
- land	7 998	7 998
- buildings	45 784	38 688
- machinery and equipment	127 184	107 472
- assets under construction	671	671
Intangible assets with undetermined useful life	7 826	-
Intangible assets with determined useful life	4 668	4 098
Working capital	27 530	27 530
Cash and equivalents	5 033	5 033
Total value	226 694	191 489
Impairment recognized in secon half of 2013		35 205

Total impairment allowance amounting to PLN 101,855 thousand was recognized in consolidated income statement as on 31st December 2013 in cost of sales.

Total impairment allowance for Arctic Paper Grycksbo as on 31st December 2014 and 31st December 2013 amounted to PLN 311,163 thousand.

The below table presents sensitivity of value in use dependent on changes of particular parameters adopted for testing:

Parameters	Increase in basis points	Effect on value in use
Weighted average cost of capital	+0,1 p.p.	(3 123)
Growth in residual period	+0,1 p.p.	2 566
Sales volume in first year	+ 0,1%	7 655
Sales prices in first year	+ 0,1%	10 500
Weighted average cost of capital	-0,1 p.p.	3 239
Growth in residual period	-0,1 p.p.	(2 472)
Sales volume in first year	- 0,1%	(7 655)
Sales prices in first year	- 0,1%	(10 500)

26. Employees benefits

26.1. Retirement and other post-employment benefits

The Group companies provide retirement benefits to retiring employees in accordance with the Labor Code in Poland applicable to Arctic Paper Kostrzyn S.A. and agreements with labor unions applicable to Arctic Paper Munkedals AB and Arctic Paper Mochenwangen GmbH.

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Arctic Paper Kostrzyn S.A. and Arctic Paper Grycksbo AB also operate Social Funds for future retirees.

As a result, based on the valuation made by professional actuarial companies in each country, the Group have created a provision for these future commitments.

Revaluation of liabilities arising from employee benefits related to programs of particular benefits, which includes actuarial profit and loss, is recognized in other comprehensive income and is not reclassified later to profit or loss.

The Group recognizes the following changes in net liabilities on the grounds of particular commitments under, respectively, own cost of sales, administrative expenses and sales cost, which include:

- employment costs (including current employment cost, past employment cost)
- net interest on net liabilities on the grounds of particular commitments

Net pension costs for the defined benefit plans are summarized in the following table:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Current service cost	547	2 627
Interest on obligation	2 935	3 255
Recognized actuarial gain or loss	22 205	(12 103)
Total pension cost for defined benefit plans, of which:	25 686	(6 221)
recognised in income statement	3 482	5 882
recognised in other comprehansive income	22 205	(12 103)

The table below settles the changes of provisions over the years ending 31st December 2014 and 31st December 2013.

	Benefit plan in Sweden (AP SA branch office)	Benefit plan in Sweden (Munkedals)	Benefit plan in Sweden (Grycksbo)	Benefit plan in Poland (Kostrzyn)	Benefit plan in Germany (Mochenwangen)	Total
Pension provison at 1 January 2014	733	21 162	41 498	5 155	7 648	76 196
Cost of employment during current period	133	-	-	238	176	547
Interest costs	-	805	1 571	224	335	2 935
Actuarial gains or losses	-	6 600	9 841	2 257	3 507	22 205
Pensions paid	-	(321)	(1 794)	(462)	(222)	(2 799)
Foreign exchange diffrences	-	(836)	(1 576)	-	283	(2 129)
Pension provision at 31 December 2014	866	27 410	49 540	7 412	11 726	96 954

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	Benefit plan in Sweden (AP SA branch office)	Benefit plan in Sweden (Munkedals)	Benefit plan in Sweden (Grycksbo)	Benefit plan in Poland (Kostrzyn)	Benefit plan in Germany (Mochenwangen)	Total
Pension provison at 1 January 2013	827	26 757	54 318	6 409	7 403	95 714
Cost of employment during current period	-	898	1 199	346	185	2 627
Interest costs	-	890	1 801	232	332	3 255
Actuarial gains or losses	-	(3 625)	(6 759)	(1 534)	(185)	(12 103)
Pensions paid	(94)	(3 581)	(8 755)	(298)	(193)	(12 921)
Foreign exchange diffrences	-	(176)	(306)	-	106	(375)
Pension provision at 31 December 2013	733	21 162	41 498	5 155	7 648	76 196

The key assumptions adopted by the actuary as on particular balance sheet days to calculate the liability amounts are as follows:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Discount rate (%)		
Plan in Sweden	2,8%	3,4%
Plan in Poland	2,5%	4,5%
Plan in Germany	2,0%	3,7%
Future salary increases (%)		
Plan in Sweden	2,3%	3,0%
Plan in Poland	3,0%	3,0%
Plan in Germany	-	-
Remaining time of duty (in years)		
Plan in Sweden	13,0	14,8
Plan in Poland	18,7	16,7
Plan in Germany	20,7	18,7

In the below table presented is the analysis of sensitivity of provisions on retirement benefits:

Change in discount rate by +(-) 1p.p.

	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2014	in thousands PLN	in thousands PLN
Impact on pension provision	(19 081)	12 781
31 December 2013		
Impact on pension provision	(12 492)	10 835

Change in future salary increase by +(-) 1 p.p.

	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2014	in thousands PLN	in thousands PLN
Impact on pension provision	826	(686)
31 December 2013		
Impact on pension provision	2 744	(4 934)

26.2. Redundancy payments

As on 31st December 2014, the Group recognized a provision on redundancy payments in Arctic Paper Sverige AB in the amount of PLN 2,000 thousand (SEK 4,500 thousand) (as on 31st December 2013: PLN 0).

27. Inventories

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Materials (at cost)	166 699	179 573
Work-in-progress (at cost of development)	9 453	9 347
Finished goods and goods for resale, of which:		
At cost / cost of development	178 567	145 643
At net realisable value	21 187	62 470
Prepayments for supplies	580	340
Total inventories, at the lower of cost (or costs of development) and net realisable value	376 486	397 373
Inventory write-down	7 961	7 643
Inventory before write-down	384 447	405 017

In the year ended 31st December 2014, the Group made additional write-offs of inventories in the amount of PLN 318 thousand. In the year ended 31st December 2013, the Group released write-offs in the amount of PLN 510 thousand.

The change of write-off is recognized in cost of sales in the income statement. The write-off is related to finished goods and materials, slow-moving and burdened with the risk of being impaired, unsold or unusable for own needs.

In the financial year ended 31st December 2014, the Group had pledges on all movable assets amounting to PLN 538,500 thousand, SEK 295,000 thousand, EUR 9,894 thousand, part of which were inventories.

In the financial year ended 31st December 2014, the Group had a pledge on all movable assets amounting to SEK 295,000 thousand, PLN 538,500 thousand, EUR 9,851 thousand, part of which were inventories.

As on 31st December 2014, inventories of finished goods in the amount of PLN 21,187 thousand were stated at net realizable value (as on 31st December 2013: PLN 62,470 thousand).

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28. Trade and other receivables

	Year ended 31 December 2014 (audtied)	Year ended 31 December 2013 (audtied)
Trade receivables	293 554	269 854
Budget receivables - VAT receivables	31 295	28 531
Other receivables from third parties	11 461	15 533
Other receivables from related parties	3 130	5 867
Total receivables, net	339 440	319 784
Doubtful debts allowance	20 157	20 446
Total receivables, gross	359 597	340 230

For terms and conditions of related parties transactions, please see note 37.

Trade receivables are non-interest bearing and are usually due within 30-90 days.

The Group has a policy to sell only to customers who have undergone an appropriate credit verification procedure. Thanks to that, as Management believes, there is no additional credit risk that would exceed the doubtful debts allowance recognised for trade receivables of the Group.

As on 31st December 2014, trade receivables amounting to PLN 20,157 thousand (as on 31st December 2013: PLN 20,446) were considered irrecoverable and impaired.

Movements in the provision for impairment of receivables were as follows:

	Year ended 31 December 2014 (audtied)	Year ended 31 December 2013 (audtied)
Provision for bad debts as at 1 January	20 446	20 722
Charge for the year	944	3 119
Utilisation	(1 070)	(1 983)
Unused amounts reversed	(457)	(1 412)
Result on translation of foreign entities	294	(0)
Provision for bad debts as at 31 December	20 157	20 446

The table below presents the analysis of trade receivables which as on 31st December 2014 and 31st December 2013 were past due but not considered irrecoverable:

	Total	Neither past due nor impaired	Past due but recoverable				
			< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days
As at 31 December 2014	293 554	236 949	50 436	5 764	132	237	36
As at 31 December 2013	269 854	221 728	42 891	4 208	354	373	299

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In long-term perspective's assessment of the Management, the receivables in section of '>120 days' are recoverable and therefore they were not impaired.

29. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earned interest at the respective short-term deposit rates.

Fair value of cash and cash equivalents as on 31st December 2014 amounted to PLN 158,412 thousand (31st December 2013: PLN 118,033 thousand).

As on 31st December 2014, the Group had un-drawn committed borrowing facilities in the amount of PLN 62,376 thousand (as on 31st December 2013: PLN 63,535thousand).

As on 31st December 2014 the Group had an overdraft in the amount of PLN 25,607 thousand (as on 31st December 2013: PLN 107,704 thousand).

Balance of cash and cash equivalents disclosed in the cash flow statement consisted of the following:

	Year ended 31 December 2014 (audited)	Year ended 31 December 2013 (audited)
Cash at bank and in hand	147 593	116 291
Short-term deposits	9 377	-
Cash in transit	1 442	1 742
Total	158 412	118 033

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30. Share capital and reserve/other capital

30.1. Share capital

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Series A ordinary shares of PLN 1 nominal value each	50	50
Series B ordinary shares of PLN 1 nominal value each	44 254	44 254
Series C ordinary shares of PLN 1 nominal value each	8 100	8 100
Series E ordinary shares of PLN 1 nominal value each	3 000	3 000
Series F ordinary shares of PLN 1 nominal value each	13 884	13 884
	69 288	69 288

	Date of registration of capital increase	Volume	Value in PLN
Ordinary shares issued and fully covered			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 6 March 2013	2013-03-22	726 253	726 253
As at 31 December 2014 (audited)		69 287 783	69 287 783

30.1.1. Decrease of the share capital of Arctic Paper S.A

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution regarding decreasing the share capital of the Company by the amount of PLN 498,631,500 that is from the amount of PLN 554,035,000 to the amount of PLN 55,403,500 by decreasing the face value of each share by the amount PLN 9.00 that is from the amount of PLN 10.00 to the amount of PLN 1.00. The amount of the decrease shall be assigned to the Company's reserve capital without payment to shareholders. The decrease of the share capital is purposed to adjust the face value of shares to the one that would allow for increase of the capital and issue of new shares (current report 12/2012).

On 9th November 2012, the decrease of share capital was recorded in National Court Register (current report 23/2012).

30.1.2. Nominal value of shares

Because of the decrease of share capital as described above, all issued shares currently have the nominal value of PLN 1 and have been fully paid.

30.1.3. Purchase of treasury shares

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution (current report 12/2012), in which it authorizes the Management Board of the Company to purchase the Company's treasury shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the treasury shares on conditions and in the course determined as below:

a) The total amount of purchased shares shall not exceed 5,500,000 (five million five hundred thousand) shares;

b) the total amount assigned by the Company for purchase of treasury shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;

c) the price for which the Company will purchase its treasury shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;

d) the authorization for purchase of the Company's treasury shares is valid for 60 (sixty) months since the day the resolution has been resolved;

e) purchase of treasury shares may occur with the mediation of investment company, in stock and non-stock transactions.

The Management Board, acting for the benefit of the Company, upon the opinion of the Supervisory Board, may:

a) stop the purchase of shares before 60 days starting from the day the resolution was adopted or before the funds assigned for the purchase have been fully utilized,

b) refrain from purchase in part or in whole.

In case of a decision being made as mentioned above, the Management Board is bound to submit the information regarding the decision for public knowledge in a manner determined in the Public Offering Act.

The conditions of purchase of treasury shares for the purpose of its redemption or further relocation or resale shall be in compliance with the principles of Commission Regulation (EC) No 2273/2003 dated 22 December 2003.

After the process of purchase of the Company's treasury shares, in compliance with conditions determined by the Shareholders Meeting, has ended, the Management Board will call a Shareholders Meeting for the purpose of adopting resolution regarding redemption of the Company's treasury shares and adequate decrease of share capital, or – in case of assignment of the purchased shares to further relocation or resale – the Management Board will make a decision regarding further relocation or resale of treasury shares. Redemption of the Company's treasury shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's treasury shares.

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The Ordinary Shareholders Meeting, acting by virtue of article 362 § 2 item 3 of the Code of Commercial Codes, 348 § 1 in connection with article 396 § 4 and 5 of the Code of Commercial Companies, for the purpose of financing of the purchase of the Company's treasury shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu" for the purchase of treasury shares. The amount of "Fundusz Programu Odkupu" is set to PLN 27,500,000. "Fundusz Programu Odkupu" is assigned to purchase of treasury shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the "Fundusz Programu Odkupu" from the reserve capital.

Until the date of the hereby report, the Management Board of Arctic Paper S.A. has not purchased any Company's treasury shares.

30.1.4. Shareholders rights

All series shares give right to one vote per share and are equally preferred relating to distribution of dividends or repayment of capital.

30.1.5. Shareholders with significant shareholding

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Trebruk AB		
Share in equity	-	59,69%
Share in votes	-	59,69%
Nemus Holding AB		
Share in equity	59,69%	8,45%
Share in votes	59,69%	8,45%
Thomas Onstad		
Share in equity	8,44%	-
Share in votes	8,44%	-
Other shareholders		
Share in equity	31,87%	31,85%
Share in votes	31,87%	31,85%

30.2. Foreign currency translation reserve

The foreign currency translation reserve is adjusted for exchange differences arising from translation of the financial statements of foreign subsidiaries.

30.3. Share premium

Share premium was created from the excess of emission value above the nominal value in 2009 in the amount of PLN 40,500 thousand, less cost of issue recognized as a reduction of share premium, and has been changing throughout following years as a result of another shares issue and profit write-offs.

In 2010 the share premium was increased by PLN 27,570 thousand resulting from the excess of emission value above the nominal value regarding the issue of Series E shares.

In 2010 a share premium was created to cover loss in the amount of PLN 8,734 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (8% of profit for the given financial year).

In 2011 a share premium was created to cover loss in the amount of PLN 7,771 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (8% of profit for the given financial year).

In 2012 a share premium was created to cover loss in the amount of PLN 2,184 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (8% of profit for the given financial year).

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

On 9th January 2013 a partial issue of series F shares, related to acquisition of Rottneros AB shares in December 2012, was registered in National Court Register. Therefore the excess from issue of 10,740,983 shares with face value of PLN 1 each over the face value of shares in the amount of PLN 54,242 thousand was recognized in share premium.

From 1st January 2013 until 26 February 2013, in connection with further purchases of Rottneros AB shares, Arctic Paper S.A. performed further partial issue of series F shares in total number of 3,143,000 shares. The aggregated difference between the value of issued shares and their face value less of issue cost was recognized in share premium in total amount of PLN 16,460 thousand.

On 28th June 2013, the Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for year 2012, in which a part of profit for year 2012 in the amount of PLN 1,082 thousand was assigned in compliance with provisions of Code of Commercial Companies to share premium.

According to Resolution no 8 of the Ordinary Shareholders Meeting dated 26th June 2014, the Company's loss of PLN 179,911 for 2013 was covered from share premium.

As on 31st December 2014, the total value of the Company's share premium is PLN 472,748 thousand (31st December 2013: PLN 652,659 thousand).

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30.4. Other reserve capital

Other reserve capital consists of a portion of retained profit and accumulated loss resulting from distribution of Arctic Paper S.A. financial result, and the capital from the valuation of hedges. The Group started using hedging transactions in the year 2009. Moreover, as on 31st December 2012 in other reserve capitals, the unregistered increase of share capital was recognized in the amount of PLN 64,983 thousand. On 10th January 2013, the day of registration of share capital increase in National Court Register, this amount was respectively accounted to share capital (PLN 10,741 thousand) and supplementary capital (PLN 54,242 thousand).

The following table shows changes in other reserve capital in the year ended 31st December 2014, as well as comparatives:

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Other reserves at the beginning of the reporting period	132 697	189 688
Changes in cash flow hedges		
Valuation of financial instruments, therein:	**5 361**	**(5 751)**
- FX forward	772	2 246
- Forward for electricity	5 543	(4 853)
- interest SWAP	(3 445)	(653)
- Forward for pulp	2 491	(2 491)
Deferred tax, therein:	**(1 501)**	**1 296**
- FX forward	(229)	(444)
- Forward for electricity	(1 379)	1 068
- interest SWAP	655	124
- Forward for pulp	(548)	548
Other changes		
Distribution of profits	-	12 447
Issuance of shares not registered at 31 December 2012	-	(64 983)
Other reserves at the end of the reporting period	136 557	132 697

30.5. Retained earnings and limits to dividend payment

The position of retained profit/accumulated loss comprises profit/loss from previous years that have not yet been distributed, profit/loss of the current financial year as well as actuarial profit/loss resulting from actuarial evaluation of the retirement benefits provision.

Retained earnings in consolidated financial statements may include amounts that are not subject to distribution i.e. cannot be distributed in the form of dividend. Statutory financial statements of Group subsidiaries are prepared in accordance with local national accounting standards (except of Arctic Paper Kostrzyn S.A.) and companies' articles of association. Dividends may be distributed to the parent company based on the net profits in the local financial statements prepared for statutory purposes. Such local definition of retained earnings available for distribution are very often different from the definition of retained earnings in accordance with IFRS, which can be one factor of limitation of profit distribution. For example, local legal regulations often require certain reserve capital to be created of profits for possible future losses. Different accounting policies might also create different results between statutory local accounts and accounts for consolidation purposes.

Dividends may be distributed based on the net profit reported in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes.

In accordance with the provisions of the Code of Commercial Companies, the parent company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the parent company until such time as the balance of the reserve capital reaches at least one third of the share capital of the parent company. Appropriation of the reserve capital and other reserves depends on the decision of the Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company ad shall not be used for any other purpose.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

As on 31st December 2014 there are no other limitations concerning the payout of the dividend.

Retained earnings/Accumulated losses presented in the balance sheet as on 31st December 2014 consist of the following items:

a) Accumulated consolidated losses/profits, attributable to shareholders of the parent, for the years 2008-2013 in the amount of PLN -243,753 thousand; and distribution of standalone profit of Arctic Paper S.A. for the years 2010-2012 in the amount of PLN -137,969 thousand;.

b) Profit on acquisition of Rottneros AB shares from non-controlling shareholders in the amount of PLN 29,353 thousand and the loss on sales of Rottneros AB shares to non-controlling shareholders in the amount of PLN -6,160 thousand,

c) Actuarial profit/loss as on 31st December 2014 in the amount of PLN -15,780 thousand,

d) Cover of the standalone loss of Arctic Paper S.A. for 2013 in the amount of PLN +179,911 thousand,

e) Consolidated profit attributed to shareholders of the Parent Company, for 2014 in the amount of PLN 50,459 thousand.

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30.6. Non-controlling interests

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
At the beginning of the period	155 772	223 067
Dividends paid by subsidiaries	-	-
Acquisition of a company	-	-
Changes in the shareholding structure of subsidiaries	-	(45 099)
Shares in profit on bargain purchase	-	-
Shares in subsidiaries' net profit or loss	25 686	(22 196)
At the end of the period	181 459	155 772

Non-controlling interests comprise part of the Group's equity attributable mainly to non-controlling shareholders of Rottneros AB. In the table below presented is general financial data of Rottneros Group:

Consolidated income statement	Year ended 31 December 2014	Year ended 31 December 2013
Sales of products	711 723	698 149
Cost of sales	(657 435)	(772 916)
Operating profit / (loss)	54 288	(74 767)
Financial income/(costs)	(1 840)	(1 942)
Profit / (loss) before tax	52 448	(76 709)
Income tax	8 741	-
Net profit (loss) for the year	61 189	(76 709)

Consolidated balance sheet	As at 31 December 2014	As at 31 December 2013
Non-current assets	313 161	331 396
Current assets, including	258 324	213 577
Inventories	115 566	115 472
Trade and other receivables	102 423	81 676
Cash and cash equivalents	40 335	16 429
TOTAL ASSETS	571 485	544 973
Equity	441 870	387 255
Non-current liabilities	17 675	6 102
Current liabilities	111 940	151 616
TOTAL EQUITY AND LIABILITIES	571 485	544 973

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Consolidated casf flow statement	Year ended 31 December 2014	Year ended 31 December 2013
Net cash flow from operating activities	47 847	30 101
Net cash flow from investing activities	(9 201)	(16 993)
Net cash flow from financing activities	(13 802)	(8 739)
Net increase/(decrease) in cash and cash equivalents	24 844	4 370
Cash and cash equivalents at the beginning of the period	16 429	12 368
Net foreign exchange differences	(938)	(309)
Cash and cash equivalents at the end of the period	40 335	16 429

For more information on acquisition and sale of Rottneros AB shares to non-controlling shareholders see note 23.2 to the hereby consolidated financial statements.

31. Conditional increase of share capital

31.1. Calling for purchase of Rottneros AB shares

On 3rd December 2012, by the power of resolution ("Resolution"), the Extraordinary Shareholders Meeting approved Arctic Paper S.A. for the purchase of shares of a Swedish law company Rottneros AB, through conditional calling for applying to sell or exchange the shares. The amount of conditional increase of share capital, in connection with exchange of Rottneros AB shares for the Company's shares, has been set to no more than PLN 30,061,464.00.

The conditional increase of share capital was performed through issue of no more than 28,561,464 series F ordinary bearer shares with nominal value of PLN 1 each (hereinafter: "Series F shares").

The conditional increase of share capital was performed for the purpose of granting the holders of subscription warrant series B (which were issued under the Resolution) with the right to claim Series F shares. The right to claim Series F shares was exercised until 30th June 2013 by the holders of subscription warrants series B on the conditions set in the aforementioned Resolution.

The solely entitled to claim Series F shares were the holders of subscription warrants series B.

All Series F shares could be paid only with cash contribution, in the contractual compensation performed by the holders of subscription warrants series B of the debt the holder has in the Company on the grounds of the loan granted to the Company (by the holder) of the Company's shares for the purpose of the Company's execution of the commitment to release the Company's shares to the shareholders of the Swedish law company Rottneros, in connection with the calling announced by the Company for applying to sell or exchange Rottneros shares for the Company's shares. The release of the Company's shares was made for cash contribution, resulting from the compensation of a cash exchangeable liability with a material liability of the return of the Company's shares.

Series F shares were issued in the form of documents and will be personal bearer securities. The Management Board of the Company was authorized to conclude with the chosen entity, entitled to maintain a depository of securities, an agreement on Series F shares deposit, until their dematerialization and start of trading on a regulated market. Series F shares were issued in portions.

Series F shares take part in dividend and any other distribution of the possessions, conducted by the Company, equally with any other shares in the Company, since the day of issue, which means that if the day of settling the right for dividend, the right for prepayment towards future dividend, the subscription right, the right for bonus shares, or any other right or benefit from the Company related to the shares held on the particular day, will be set to a day that will not be earlier than the day of release of the Series F shares, then Series F shares will be entitled to participate in the right equally with any other shares in the Company.

On condition that the conditional increase of share capital of the Company, which was decided under the hereby Resolution, has been registered, the Shareholders Meeting decided to issue no more than 28,561,464 personal subscription warrants series B, each of which entitled to claim 1 Series F share (hereinafter "Subscription Warrants").

Subscription Warrants were offered to Trebruk AB (a Swedish law company, previously Arctic Paper AB) (hereinafter "Trebruk"), in the number equal to the number of the Company's shares lend to the Company by Trebruk for the purpose of execution of the Company of the commitment to transfer the shares to the shareholders of Rottneros as a result and in settlement of the announced by the Company the calling for applying to sell or exchange of all Rottneros shares.

Subscription Warrants were issued free of charge in the form of documents and were personal securities. Subscription Warrants can be issued in portions, in one series, in the number that shall not exceed 28,561,464, each entitling to claim one Series F share, with the term until 30th June 2013.

Exercise of Subscription Warrants, coverage of Series F shares and release of Series F shares in the execution of the commitment resulting from use of Subscription Warrants occurred simultaneously with the transfer of shares in the Company to the shareholders of Rottneros in the execution of the commitment resulting from the loan agreement of the Company's shares. The Management Board was authorized to release the Subscription Warrants to the entitled persons after the registration of the conditional increase of share capital of the Company, which is mentioned in the hereby Resolution.

For more details see current report 30/2012.

Until 31st December 2012, the Company released 10,740,983 subscription warrants series F, which were exchanged for 10,740,983 series F shares of Arctic Paper S.A. The respective registration of share capital increase in National Court Register occurred on 10th January 2013.

From 1st January 2013 until 26th February 2013 the Company released 3,143,300 series F subscription warrants, which were exchanged for 3,143,300 series F Arctic Paper S.A. shares. Registration of respective share capital increase in National Court Register was performed in portions, the last of which occurred on 22nd March 2013.

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32. Interest-bearing loans, borrowings and bonds

Current liabilities	Maturity	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	31-12-2015	2 857	2 774
Factoring in SEK in SHB		46 626	56 623
Factoring in EUR in GE capital		1 146	1 250
Derivatives		10 018	16 652
Other liabilities	31-12-2015	192	203
Interest-bearing loans, borrowings and bonds:			
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	30-09-2015	9 068	19 247
PLN bank overdraft in BRE Bank S.A.	30-09-2015	3 258	12 040
PLN bank overdraft in BZ WBK	30-09-2015	-	12 736
PLN bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	8 470	8 516
EUR bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	4 353	4 152
PLN bank loan in BRE Bank S.A. (current part)	07-11-2017	6 303	7 012
EUR bank loan in BRE Bank S.A. (current part)	07-11-2017	3 250	3 079
PLN bank loan in BZ WBK (current part)	07-11-2017	7 388	8 237
EUR bank loan in BZ WBK (current part)	07-11-2017	3 803	3 616
SEK bank overdraft in Danske Bank	31-12-2014	-	28 164
SEK bank overdraft in SHB	31-03-2014	13 281	35 517
EUR Loan from the owner of the main shareholder (interest)	31-01-2015	112	114
EUR Loan from the owner of the main shareholder (interest)	30-04-2015	444	-
Total current financial liabilities		120 566	219 932

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Non-current	Maturity	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	21-01-2021	30 554	34 066
Derivatives	31-12-2017	6 687	10 873
Interest-bearing loans, borrowings and bonds:			
EUR Loan from the owner of the main shareholder	31-07-2016	17 049	16 589
EUR Loan from the owner of the main shareholder	30-09-2019	43 124	-
PLN bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	50 890	59 983
EUR bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	23 954	27 632
PLN bank loan in BRE Bank S.A. (long term part)	07-11-2017	37 662	44 442
EUR bank loan in BRE Bank S.A. (long term part)	07-11-2017	17 739	20 512
PLN bank loan in BZ WBK (long term part)	07-11-2017	44 278	52 211
EUR bank loan in BZ WBK (long term part)	07-11-2017	20 846	24 071
SEK bank loan in Danske Bank	after 31-12-2015	13 596	-
Total non-current financial liabilities		306 380	290 377

32.1. Loans and borrowings

The amount of long-term and short-term interest-bearing loans, borrowings and bonds as on 31st December 2014 decreased by PLN 59,002 thousand compared to 31st December 2013.

On 27th October 2014, by the agency of Arctic Paper Finance AB, the Company concluded a subordinate loan agreement with Mr. Thomas Onstad, an indirect majority shareholder of the Company. The loan agreement was concluded in connection with the Annex to the loan agreement concluded by and between the Company together with its subsidiaries and a consortium of banks consisting of Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. dated 15th October 2014 (current report 24/2014 dated 16th October 2014). The amount of the loan totaled EUR 10,000 thousand. The loan was concluded on market conditions and its purpose is financing of the Group's operations. According to the agreement, the loan shall be repaid until 30th September 2019. The funds were transferred to the Issuer immediately after the agreement was concluded.

Other changes in loans and borrowings as on 31st December 2014 compared to as on 31st December 2013 result mainly from balance sheet evaluation and the amount of calculated but not cleared interest on loans, borrowings and bonds.

Annex to a loan agreement

On 15th October 2014, Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks ("Financing Banks") consisting of: Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. concluded the Annex no 5 ("Annex") to the Loan Agreement dated 6th November 2012 ("Loan Agreement").

The Company reported the conclusion of the Loan Agreement and its amendments in annual reports for 2012 and 2013.

By the power of the Annex:

- Financing Banks waived the condition to increase the Issuer's share capital by no less than PLN 50,000,000 and agreed for the Issuer to take a subordinate loan in the amount of app. PLN 42,000,000 (EUR 10,000,000) from the indirect majority shareholder Mr. Thomas Onstad (through a subsidiary of the Issuer) ("Subordinate Loan"). The parties agreed that the funds from the Subordinate Loan shall be transferred to the Issuer no later than 30th October 2014;
- A commitment to assign funds from the Subordinate Loan and from sale of assets to be reinvested in the Issuer's group in the amount up to PLN 60,000,000 was reinforced;
- A commitment of the Issuer to assign funds from the Subordinate Loan and from sale of assets (in the amount of the excess over PLN 60,000,000) for prepayments of liabilities resulting from the Loan Agreement was reinforced;
- Financing Banks agreed for the payment of dividend from Arctic Paper Kostrzyn S.A. to the Issuer, in the amount of 75% of net profit achieved by Arctic Paper Kostrzyn S.A. in the financial year preceding the dividend payment, on condition the funds thus received by the Issuer shall be assigned for repayments of liabilities on the grounds of a loan agreement concerning the loan taken by the Issuer from Arctic Paper Kostrzyn S.A.

Other material financing conditions specified in the Loan Agreement remained unchanged.

Collaterals established in the Loan Agreement remained unchanged.

Negotiations with Swedish banks

On 19th March 2014, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities.

As a result of the negotiations, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th September 2014 and granted Arctic Paper Grycksbo AB a covenant waiver concerning solidity ratio and interest coverage ratio as set in the loan agreement until 30th September 2014.

In connection with the fact that as on 30th September 2014 APG kept covenants, i.e. solidity ratio and interest coverage ratio, determined in a loan agreement with Svenska Handelsbanken AB ("Bank"), the Parties agreed for the original wording of the agreement to be binding. Therefore, APG is obliged to keep the hitherto covenants. The loan agreement provides for an unspecified repayment date of overdraft in APG account with the possibility to give notice regarding termination of the loan agreement in case covenants have not been met on verification date. As on 31st December 2014, the company kept the covenants as agreed.

On 11th March 2015, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities. As a result of the negotiations, Svenska Handelsbanken AB set new levels of solidity ratio and interest coverage ratio for the existing loan agreement.

According to forecasts prepared, new covenants will be met by Arctic Paper Grycksbo in 2015.

32.2. Collaterals

2014

All tranches of the loan taken in the consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), described in details in note 32.1. are submitted to the following collaterals :

- pledges of shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;
- pledges of bank accounts of all companies;
- mortgages on real estates of Arctic Paper Kostrzyn S.A.,
- land debt on real estates of Arctic Paper Mochenwangen GmbH;
- pledge of components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- cession of rights under insurance policy
- cession of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH)
- submission to enforcement on the basis of art. 97 banking law (separate in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

Apart of the above, the Group reported the following as on 31st December 2014:

1) collaterals on assets on the grounds of liabilities of Arctic Paper Grycksbo in bank Svenska Handelsbanken, that is:

- a pledge of assets amounting to SEK 85,000 thousand (PLN 38,522 thousand);
- a mortgage on real estate amounting to SEK 20,000 thousand (PLN 9,064 thousand);
- a pledge of shares of Grycksbo Paper Holding AB amounting to SEK 161,141 thousand (PLN 73,029 thousand);

2) collaterals on assets on the grounds of liabilities of Arctic Paper Munkedals in bank Svenska Handelsbanken, that is:

- a pledge of assets in the amount of SEK 120,301 thousand (PLN 54,520 thousand);
- a pledge of movables in the amount of SEK 160,000 thousand (PLN 72,512 thousand).

3) collaterals on assets on the grounds of liabilities of Rottneros AB in bank Danske Bank, that is

- a pledge of assets amounting to SEK 245,000 thousand (PLN 111,034 thousand);

4) collaterals on assets on the grounds of loan agreement in the amount of EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr. Thomas Onstad.

- a pledge of 39,900,000 Rottneros AB shares.

Apart from the aforementioned collaterals, the Group also reports:

- a pledge of shares of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand (PLN 22,660 thousand);
- a pledge of real estates of Arctic Paper Munkedals AB on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 50,000 thousand (PLN 22,660 thousand);
- a mortgages on real estates of Kalltorp Kraft HB in the amount of SEK 8,650 thousand (PLN 3,920 thousand);

- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand (PLN 1,095 thousand).

2013

All tranches of the loan taken in the consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), described in details in note 32.1. are submitted to the following collaterals:

- pledges of shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;
- pledges of bank accounts of all companies;
- mortgages on real estates of Arctic Paper Kostrzyn S.A.,
- land debt on real estate of Arctic Paper Mochenwangen GmbH;
- pledge of components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- cession of rights under insurance policy
- cession of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH)
- submission to enforcement on the basis of art. 97 banking law (separate in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

Apart of the above, the Group reported the following as on 31st December 2013:

1) collaterals on assets on the grounds of liabilities of Arctic Paper Grycksbo in bank Svenska Handelsbanken, that is:

- a pledge of assets amounting to SEK 85,000 thousand (PLN 39,899 thousand);
- a mortgage on real estate amounting to SEK 20,000 thousand (PLN 9,388 thousand);
- a pledge of shares of Grycksbo Paper Holding AB amounting to SEK 174,057 thousand (PLN 81,702 thousand);

2) collaterals on assets on the grounds of liabilities of Arctic Paper Munkedals in bank Svenska Handelsbanken, that is:

- a pledge of assets in the amount of SEK 109,898 thousand (PLN 51,586 thousand);
- a pledge of movables in the amount of SEK 160,000 thousand (PLN 75,104 thousand).

3) collaterals on assets on the grounds of liabilities of Rottneros AB in bank Danske Bank, that is

- a pledge of assets amounting to SEK 245,000 thousand;

4) collaterals on assets on the grounds of loan agreement in the amount of EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr. Thomas Onstad.

- a pledge of 39,900,000 Rottneros AB shares.

Apart from the aforementioned collaterals, the Group also reports:

- a pledge of shares of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand (PLN 23,470 thousand);
- a pledge of real estates of Arctic Paper Munkedals AB on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 50,000 thousand (PLN 23,470 thousand);
- a mortgages on real estates of Kalltorp Kraft HB in the amount of SEK 8,650 thousand (PLN 4,060 thousand);

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- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand (PLN 1,065).

33. Provisions

33.1. Movements in provisions

The table below presents movements in provisions in the years 2013-2014.

	Post-employment benefits	Other provisions	Total
At 1 January 2014	76 196	6 345	82 541
Recognised during the year	25 686	8 040	33 726
Utilised	(2 799)	(2 502)	(5 301)
Unused amounts reserved	-	-	-
Released	(2 129)	139	(1 990)
At 31 December 2014, therein:	96 954	12 021	108 973
- current	-	8 794	8 794
- non-current	96 954	3 226	100 179
At 1 January 2013	95 714	11 623	107 337
Recognised during the year	(6 221)	3 459	(2 763)
Utilised	(12 921)	(8 682)	(21 603)
Released	-	(164)	(164)
Foreign exchange adjustment	(375)	109	(267)
At 31 December 2013, therein:	76 196	6 345	82 541
- current	-	3 086	3 086
- non-current	76 196	3 260	79 455

The single largest item among other provisions is the provision on redemption of emission rights in the amount of PLN 3,069 thousand, the provision for future claims, return and loss in the amount of PLN 1,385 thousand, a warranty provision in the amount of PLN 1,360 thousand, and the provision for restructuring costs in the amount of PLN 2,000 thousand.

The single largest item among other provisions in the financial statements for the year ended 31st December 2013 is the provision on redemption of emission rights in the amount of PLN 1,223 thousand, the provision for future claims, return and loss in the amount of PLN 1,256 thousand, and a warranty provision in the amount of PLN 1,408 thousand.

33.2. Claims and returns provisions

A provision is recognized for expected warranty claims and returns of products, based on past experience of the level of claims and returns. Claims and returns provision at the end of 2014 amounted to PLN 1,385 thousand (as on 31st December 2013: PLN 1,256 thousand), and related only to Arctic Paper Mochenwangen.

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34. Trade and other payables, other liabilities, accruals and deferred income

34.1. Trade and other payables (short-term)

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Trade payables:		
To related parties	13	-
To third parties	324 996	324 134
	325 009	324 134
Taxations, customs duty, social security and other payables		
VAT	8 502	2 977
Excise tax	1 110	1 099
Personnel withholding tax (Personnel income tax)	5 036	5 220
Property taxes	870	1 649
Dividend tax	-	930
Liabilities for social security contributions	8 635	13 188
Customs liabilities	21	47
	24 174	25 110
Other liabilities		
Renumeration payable to employees	4 516	4 264
Pension liabilities	2 853	2 576
Investment liabilities	4 963	6 673
Environmental liabilities	774	456
Prepayments	1 745	2 059
Other liabilities	434	661
	15 285	16 688
TOTAL	364 468	365 932

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, refer to note 37.3;
- trade payables are non-interest bearing and are normally settled within 60 days;
- other payables are non-interest bearing and have an average payment term of 1 month.
- the amount which results from the difference between liabilities and VAT receivables is paid to appropriate tax authorities on a monthly basis.

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34.2. Accruals and deferred income

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Accruals		
Employee costs	61 733	58 898
Audit and legal services	760	833
Transportation costs	2 591	2 641
Claims	1 853	2 464
Costs of energy	2 061	3 567
Other	21 325	19 598
	90 323	88 001
Deferred income		
Grant from Ekofundusz	16 721	18 124
Grant from NFOŚiGW	12 632	13 949
Accrued income	-	-
Other	3 172	3 755
	32 525	35 828
TOTAL	122 849	123 829
- short-term	96 215	94 489
- long-term	26 634	29 340

The main items included in accruals for employee costs are vacation pay liabilities and bonuses to employees.

35. Capital commitments (unaudited)

As on 31st December 2014, the Group has commitments of no less than PLN 10 million for capital expenditures related to property, plant & equipment in 2015. These expenditures will be incurred for acquisition of new plant and equipment.

As on 31st December 2013, the Group planned to bear expenditures for the purchase of property, plant & equipment of no less than PLN 10 million.

36. Contingent liabilities

As on 31st December 2014 the Group reported the following contingent liabilities:

- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,478 thousand (PLN 670 thousand) in Arctic Paper Grycksbo AB and in the amount of SEK 747 thousand (PLN 339 thousand) in Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 3,265 thousand (PLN 1,480 thousand);

- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand (PLN 61 thousand;
- a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS) in the total amount of EUR 900 thousand (PLN 3,836 thousand),
- a guarantee in favor of WBW GmbH & Co.KG – a supplier of machines to Arctic Paper Mochenwangen GmbH in the amount of EUR 300 thousand (PLN 1,279 thousand);
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand (PLN 1,360 thousand);
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,438 thousand).

As on 30th June 2014, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. The European Union considered if such help is compliant with EU law. On 1st August 2014 the legality of German Government actions was approved by EU organs, therefore the contingent liability of Arctic Paper Mochenwangen GmbH expired.

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36.1. Legal claims

Currently, there is no material legal case filed in the court against Arctic Paper S.A. or any of the companies of the Group.

36.2. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. In Group’s opinion as on 31st December 2014 proper provision was created to cover recognized and countable tax risk.

37. Related party disclosures

Arctic Paper S.A. Group's related parties are:

- Trebruk AB (previously Arctic Paper AB) – parent company of Arctic Paper S.A. Group,
- Arctic Paper Håfreströms – paper mill (within the process of liquidation), subsidiary of Trebruk AB.
- Nemus Holding AB – parent company of Trebruk AB,
- Progessio S.C. – from 1st January 2014 a company related to the Member of the Management Board,
- Galileus Sp.z o.o. Sp.k. – until 26th July 2013 a company related to the Member of the Management Board.
- IPM Sp. z o.o. Sp.k. – until 15th July 2013 a company related to the Member of the Management Board.

The key management staff comprises the President and the Members of the Management Board of the Parent Entity as well as the Chairman and the Members of the Supervisory Board of the Parent Entity within their terms of office.

The table below presents the total values of transactions with related parties entered into during the years 2014-2013:

Data for the period from 1 January 2014 to 31 December 2014 and as at 31 December 2014 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables from related parties	Loans granted	Payables to related parties
Nemus Holding AB	23	1 373	-	-	3 130	-	-
Thomas Onstad	-	-	-	1 431	-	-	60 729
Progressio S.C.	-	81	-	-	-	-	13
Total	23	1 454	-	1 431	3 130	-	60 742

As on 31st December 2014, the receivables of Trebruk AB are overdue, but they are settled by means of compensation with liabilities on services rendered.

Data for the period from 1 January 2013 to 31 December 2013 and as at 31 December 2013 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables from related parties	Loans granted	Payables to related parties
Trebruk AB (Arctic Paper AB)	-	-	-	-	3 613	-	-
Arctic Paper Håfreström AB	-	-	-	-	2 253	-	-
Thomas Onstad	-	-	-	689	-	-	16 703
IPM Sp. z o.o. Sp.k.	-	4 219	-	-	n/a	n/a	n/a
Galileus Sp. z o.o. Sp.k.	-	251	-	-	n/a	n/a	n/a
Total	-	4 470	-	689	5 867	-	16 703

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37.1. The ultimate parent

The ultimate parent of the Group is Incarta Development S.A. There were no transactions between the Group and Incarta Development S.A. during the years ended 31st December 2014 and 31st December 2013.

37.2. The parent company

The parent company of the Arctic Paper S.A. Group is Nemus Holding AB (in 2013 Trebruk AB), which as on 31st December 2014 holds 59,69% of ordinary shares in Arctic Paper S.A.

37.3. Terms and conditions of transactions with related parties

Trade receivables and payables are normally settled within 60 days with related parties.

Related party transactions are made at an arm's length.

37.4. Remuneration of the Parent Entity's key management personnel

37.4.1. Remuneration paid or due to the members of the Management Board and the members of the Supervisory Board of the Parent Entity

Key management personnel as on 31st December 2014 comprise five people: President of the Management Board and four Members of the Management Board. The financial data for the reporting period include remuneration of the people who in 2014 served function in the Management Board of Arctic Paper starting from the later of the two moments: the day of appointment or 1st January 2014 until the earlier of the two moments: 31st December 2014 or the day of dismissal/resignation.

Remuneration of the executives in the year ended 31st December 2014 amounted to PLN 5,360 thousand (PLN 5,300 thousand in the year ended 31st December 2013).

During years 2013 and 2014, no entities within the Group granted any loans to their executives.

The table below presents the remuneration of key executives of the Parent Entity:

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Short-term employee benefits	6 535	5 974
Post-employment pension and medical benefits	297	313
Termination benefits	-	-
Total compensation paid to key management personnel	6 832	6 287
Supervisory Board		
Short-term employee benefits	1 483	360

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37.5. Loans granted to the Management Board members

In 2013-2014 either the Parent Entity or any of the subsidiaries did not grant any loans to members of the Management Board.

37.6. Other transactions with the Management Board's members

During the period covered by these consolidated financial statements, there were no other transactions between subsidiaries and the Management Board members and no such transactions were reported in any of the periods presented.

38. Information about the contract and remuneration of auditor or audit company

On 14th August 2014 Arctic Paper S.A. concluded an agreement with Ernst&Young Audyt Polska Sp. z o.o. sp.k. with registered office in Warsaw to audit the annual standalone financial statements of Arctic Paper S.A. and the annual consolidated financial statements of the Group for 2014.

The table below presents the audit company's fees, paid or payable for the year ended 31st December 2014 and 31st December 2013 by category of services:

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Service		
Obligatory audit of annual financial statements	317*	305*
Obligatory audit of annual financial statements (AP S.A. branch)	32	28
Tax advisory	-	-
Other services	134	93
Total	483	426

* - relates to Ernst&Young Audyt Polska Sp. z o.o Sp.k.

The fees do not include services provided to other Group companies.

39. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and borrowings, bonds, finance leases and hire purchase contracts. The main purpose of these financial instruments is to raise finance for Group operations.

The Group also uses recourse factoring in scope of trade receivables. The main purpose of this financial instrument is quick obtaining of financial means.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks and they are summarized below.

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In the Management Board opinion – compared to consolidated financial statements prepared as on 31st December 2013 there were no significant changes of financial risk. Moreover, there were no changes of goals and principles of risk management.

39.1. Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). Included in the calculation are foreign currency loans with variable interest rate. For each currency, the same increase in interest rate, i.e. by 1p.p., was adopted. At the end of each reporting period, loans and borrowings were grouped by currency and on each total currency value and increase of 1pp was calculated. Change of interest rate does not have direct impact on the Group's equity.

	Increase in basis points	Effect on profit before tax
Year ended 31 December 2014		
PLN	+1%	(860)
EUR	+1%	(914)
SEK	+1%	(301)
Year ended 31 December 2013		
PLN	+1%	(999)
EUR	+1%	(126)
SEK	+1%	(723)

39.2. Foreign currency risk

The Group is exposed to transactional foreign currency risk. The risk arises from transactions run by an operating unit in currencies other than its functional currency.

The following table demonstrates the sensitivity of profit before tax and total comprehensive income on reasonably possible change of exchange rate of USD, EUR, GBP and SEK with all other variables held constant. In the estimation were taken every balance positions measured in foreign currencies, than for every currency was adopted an increase or decrease of 5% in exchange rate. At the end of each reporting period assets and liabilities were grouped in the same currencies and for every currency balance "assets deduct liabilities" an increase or decrease of 5% in exchange rate were counted. During the year assets and liabilities measured in foreign currencies remained at comparable level.

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2014

Impact of change in exchange rates on profit before tax	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – EUR	+5%	(1 394)	-5%	1 394
PLN – USD	+5%	(1 743)	-5%	1 743
PLN – GBP	+5%	666	-5%	(666)
PLN – SEK	+5%	(247)	-5%	247
SEK – EUR	+5%	2 287	-5%	(2 287)
SEK – USD	+5%	(384)	-5%	384
SEK – GPB	+5%	400	-5%	(400)

Impact on total comprehensive income (on foreign entities translation)	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – SEK	+5%	6 191	-5%	(6 191)
PLN – EUR	+5%	1 033	-5%	(1 033)

2013

Impact of change in exchange rates on profit before tax	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – EUR	+5%	(1 241)	-5%	1 241
PLN – USD	+5%	(1 402)	-5%	1 402
PLN – GBP	+5%	369	-5%	(369)
PLN – SEK	+5%	(115)	-5%	115
SEK – EUR	+5%	(655)	-5%	655
SEK – USD	+5%	(610)	-5%	610
SEK – GBP	+5%	317	-5%	(317)

Impact on total comprehensive income (on foreign entities translation)	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – SEK	+5%	10 334	-5%	(10 334)
PLN – EUR	+5%	2 026	-5%	(2 026)

39.3. Commodity prices risk

The Group is exposed to the risk of drop in selling price due to higher market competition and due to the risk of increase of raw materials prices because of restricted access to commodities on the market.

39.4. Credit risk

The Group trades only with recognized, creditworthy third parties with good credibility. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group assesses and recognizes all receivables which are not overdue and which are not subject to impairment write-downs as recoverable.

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With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

39.5. Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various sources of financing, such as bank overdrafts, bank loans, finance leases and hire purchase contracts.

The table below summarizes the maturity profile of the Group’s financial liabilities as on 31st December 2014 and 31st December 2013 based on contractual undiscounted payments.

As at 31 December 2014	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest bearing loans, borrowings and bonds	-	9 161	63 314	292 562	-	365 037
Financial leasing	-	51	2 997	14 592	27 104	44 744
Trade and other payables	28 118	328 826	7 524	-	-	364 468
Other financial liabilities	1 341	24 926	31 715	6 687	-	64 669
	29 459	362 964	105 550	313 841	27 104	838 918

As at 31 December 2013	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest bearing loans, borrowings and bonds	-	36 988	119 931	271 044	-	427 964
Financial leasing	-	19	2 905	14 022	34 001	50 947
Trade and other payables	26 852	320 077	19 003	-	-	365 932
Other financial liabilities	1 459	32 953	40 315	10 873	-	85 600
	28 312	390 037	182 154	295 940	34 001	930 443

Moreover, as on 31st December 2014 the Group has contingent liabilities in the total amount of PLN 14,463 thousand (31st December 2013: PLN 44,613 thousand).

40. Financial instruments

The Group has the following financial instruments: cash on hand and cash in bank, loans and borrowings, issued bonds, receivables, liabilities, financial leases, interest SWAP contracts, as well as currency forward contract, and electricity purchase forward contract.

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40.1. Fair values of each class of financial instruments

Due to the fact that the carrying amounts of financial instruments do not materially differ from their fair values, the table below shows all financial instruments in their balance sheet amounts, divided by class and category of financial assets and liabilities.

		Book value		Fair value	
	Category complaint with IAS 39	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Financial Assets					
Granted loans	*L&R*	-	-	-	-
Trade and other receivables	*L&R*	308 145	291 253	308 145	291 253
Hedging instruments*	*FVTCI*	906	1 685	906	1 685
Other financial assets (excluding loans and hedging intruments)	*L&R*	22 493	1 155	22 493	1 155
Cash and cash equivalents	*FVTCI*	158 412	118 033	158 412	118 033
Financial Liabilities					
Interest bearing bank loans and borrowings therein:	*OFL*	328 865	387 868	328 865	387 868
- long-term interest-bearing	*OFL*	269 139	245 438	269 139	245 438
- short-term interest-bearing	*OFL*	59 726	142 430	59 726	142 430
Liabilities form financial leasing title and lease agreement with purchase option, therein:		33 412	36 840	33 412	36 840
- long-term		30 554	34 066	30 554	34 066
- short-term		2 857	2 774	2 857	2 774
Trade and other financial payables	*OFL*	340 294	340 822	340 294	340 822
Hedging instruments*	*FVTCI*	16 705	27 525	16 705	27 525

* derivative hedging instruments complying to hedging principles

Abbreviations used:

HtM – Financial assets held to maturity,
FVTCI – Financial assets/ financial liabilities at fair value through comprehensive income,
L&R – Loans and receivables,
AFS – Available-for-sale assets,
OFL – Other financial liabilities measured at amortized cost.

Framework of fair value of financial instruments held by the Group, as on 31st December 2014 and as on 31st December 2013, is presented below:

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	31 December 2014	Level 1	Level 2	Level 3
Financial assets at fair value through comprehensive income				
Derivatives		-	906	-
Other financial assets				
Trade and other receivables		-	-	308 145
Other financial assets (excluding loans and hedging instruments)		-	-	22 493
Cash and cash equivalents		-	-	158 412
		-	-	-
Financial liabilities valued through comprehensive income		-	-	-
Derivatives		-	16 705	-
Other financial liabilities				
Interest bearing bank loans and borrowings		-	-	328 865
Liabilities from financial leases and hire purchase contracts		-	-	33 412
Trade and other financial payables		-	-	340 294

	31 December 2013	Level 1	Level 2	Level 3
Financial assets at fair value through comprehensive income		-	-	-
Derivatives		-	1 685	-
Other financial assets				
Trade and other receivables		-	-	291 253
Other financial assets (excluding loans and hedging instruments)		-	-	1 155
Cash and cash equivalents		-	-	118 033
Financial liabilities valued through comprehensive income				
Derivatives		-	27 525	-
Other financial liabilities				
Interest bearing bank loans and borrowings		-	-	387 868
Liabilities from financial leases and hire purchase contracts		-	-	36 840
Trade and other financial payables		-	-	340 822

The table below presents items of revenue, cost, gains and losses as recognized in the income statement by separate categories of financial instruments for the years ended 31st December 2014 and 31st December 2013.

Consolidated financial statements for the year ended 31st December 2014 PLN thousand

Period ended 31 December 2014	Interest income/(cost)	Profit/(loss) on exchange differences	Release/(creation) of write-offs	Profit/(loss) on valuation	Profit/(loss) on sales of financial instruments	Other	TOTAL
Financial assets							
Derivatives	-	-	-	-	-	-	-
Trade and other receivables	164	13 726	(487)	-	-	-	13 402
Other financial assets (excluding loans and hedging intruments)	-	611	-	-	-	-	611
Cash and cash equivalents	377	(1 616)	-	-	-	-	(1 239)
Financial liabilities							
Derivatives	-	-	-	(6 365)	-	-	(6 365)
Interest bearing bank loans and borrowings	(21 556)	(2 117)	-	-	-	-	(23 673)
Liabilities form financial leases and hire purchase contracts	(2 182)	-	-	-	-	-	(2 182)
Trade and other financial payables	(53)	(12 940)	-	-	-	-	(12 993)

Period ended 31 December 2013	Interest income/(cost)	Profit/(loss) on exchange differences	Release/(creation) of write-offs	Profit/(loss) on valuation	Profit/(loss) on sales of financial instruments	Other	TOTAL
Financial assets							
Derivatives	-	-	-	(131)	-	-	(131)
Trade and other receivables	220	2 988	(20)	-	-	-	3 189
Other financial assets (excluding loans and hedging intruments)	-	-	-	-	-	-	-
Cash and cash equivalents	555	(2 875)	-	-	-	-	(2 320)
Financial liabilities							
Derivatives	-	-	-	(4 261)	-	-	(4 261)
Interest bearing bank loans and borrowings	(22 207)	(1 508)	-	-	-	-	(23 715)
Liabilities form financial leases and hire purchase contracts	(1 956)	-	-	-	-	-	(1 956)
Trade and other financial payables	(738)	(2 161)	-	-	-	-	(2 899)

40.2. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

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31 December 2014 Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under financial lease and hire purchase contracts	2 857	2 917	2 958	2 977	2 940	18 763	33 412
Loans, borrowings and bonds:							
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	9 068	-	-	-	-	-	9 068
PLN bank overdraft in BRE Bank S.A.	3 258	-	-	-	-	-	3 258
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 297	4 221	21 289	-	-	-	29 807
EUR bank loan in Bank Polska Kasa Opieki S.A.	1 392	1 266	5 999	-	-	-	8 657
PLN bank loan in BRE Bank S.A.	6 303	6 247	31 415	-	-	-	43 965
EUR bank loan in BRE Bank S.A.	3 250	3 124	14 615	-	-	-	20 989
PLN bank loan in BZ WBK	3 870	3 787	19 105	-	-	-	26 762
EUR bank loan in BZ WBK	1 335	1 208	5 728	-	-	-	8 271
SEK bank loan in SHB	13 281	-	-	-	-	-	13 281
SEK bank loan in Danske Bank	13 596	-	-	-	-	-	13 596
Sum of loans, borrowings and bonds	59 647	19 853	98 153	-	-	-	177 653
TOTAL	62 504	22 770	101 111	2 977	2 940	18 763	211 065

31 December 2014 Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans, borrowings and bonds:							
EUR Loan from the owner of the main shareholder	112	17 049	-	-	-	-	17 161
EUR Loan from the owner of the main shareholder	444	-	-	-	43 124		43 568
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 173	4 220	21 160	-	-	-	29 553
EUR bank loan in Bank Polska Kasa Opieki S.A.	2 961	2 961	13 728	-	-	-	19 650
PLN bank loan in BZ WBK	3 518	3 557	17 828	-	-	-	24 903
EUR bank loan in BZ WBK	2 468	2 468	11 441	-	-	-	16 377
TOTAL	13 676	30 255	64 157	-	43 124	-	151 212

*long term loan as on 31st December 2014 repaid in March 2015

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31 December 2013 Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under finance lease and hire purchase contracts	2 774	2 830	2 871	2 914	2 972	22 479	36 840
Loans, borrowings and bonds:							
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	19 247	-	-	-	-	-	19 247
PLN bank overdraft in BRE Bank S.A.	12 040	-	-	-	-	-	12 040
PLN bank overdraft in BZ WBK	12 736	-	-	-	-	-	12 736
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 258	4 276	4 315	21 400	-	-	34 249
EUR bank loan in Bank Polska Kasa Opieki S.A.	1 252	1 232	1 232	5 879	-	-	9 595
PLN bank loan in BRE Bank S.A.	7 012	6 328	6 384	31 730	-	-	51 454
EUR bank loan in BRE Bank S.A.	3 079	3 040	3 040	14 432	-	-	23 591
PLN bank loan in BZ WBK	4 175	3 770	3 804	18 884	-	-	30 632
EUR bank loan in BZ WBK	1 195	1 175	1 175	5 618	-	-	9 163
SEK bank loan in SHB	28 164	-	-	-	-	-	28 164
SEK bank loan in Danske Bank	35 517	-	-	-	-	-	35 517
Sum of loans, borrowings and bonds	128 673	19 821	19 950	97 943	-	-	266 387
TOTAL	131 448	22 651	22 821	100 856	2 972	22 479	303 227

31 December 2013 Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans, borrowings and bonds:							
Loan from the owner of the main shareholder	114	-	16 589	-	-	-	16 703
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 259	4 276	4 314	21 401	-	-	34 250
EUR bank loan in Bank Polska Kasa Opieki S.A.	2 901	2 881	2 881	13 527	-	-	22 190
PLN bank loan in BZ WBK	4 063	3 669	3 702	18 382	-	-	29 815
EUR bank loan in BZ WBK	2 421	2 401	2 401	11 302	-	-	18 525
TOTAL	13 757	13 227	29 887	64 612	-	-	121 482

40.3. Hedge accounting

As on 31st December 2014 the Group used cash flow hedge accounting for the following hedging relations:

- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the SWAP forward derivative in order to hedge repayments of interest in EUR on the bank loan in EUR.
- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the SWAP forward derivative in order to hedge repayments of interest in PLN on the bank loan in PLN.
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge the future purchases of electricity.
- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency expenditures in EUR related to future purchases of electricity.

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- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency inflows in EUR related to sales of pulp.

40.3.1. Cash flow hedge accounting

As on 31st December 2014 as well as on 31st December 2013 the Group held currency forward contracts, a forward contract for electricity purchases and an interest SWAP forward contract, as cash flow hedge instruments.

The hedging relationship in the cash flow hedge accounting on the currency trading with the use of FX forward

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the purchases of EUR for SEK:

Hedge type	Hedging the cash flow variations related to the planned purchases of electricity in foreign currencies
Hedged item	The hedged item is a part of the future highly probable cash flows resulting from purchases of electricity denominated in EURO
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to purchase EUR for SEK
Forward contract parameters	
Trade date	2 014
Delivery date	depending on the contract, untill 31.12.2016
Hedged amount	5.7 mln EUR
Forward ratio	9.06 SEK/EUR

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales of EUR for SEK:

Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedged item	The hedged item is a part of the future highly probable cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sell EUR for SEK
Forward contract parameters	
Trade date	2 014
Delivery date	depending on the contract, till 31.12.2016
Hedged amount	1.0 mln EUR
Forward ratio	8.84 SEK/EUR

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Cash flow hedge accounting related to electricity purchase with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to the electricity purchase:

Hedge type	Hedging the cash flow variations related to electricity purchases
Hedged item	The hedged item is a part of the future highly probable cash flows resulting from electricity purchases
Hedging instruments	Hedging instruments are forward transactions for electricity purchases on the Nord Pool Stock Exchange
Forward contract parameters	
Trade date	depending on the contract, since 01.02.2014
Delivery date	depending on the contract, untill 31.12.2017
Hedged amount	508.600 MWh
Forward price	from 31.45 to 48.50 EUR/MWh

Cash flow volatility hedge accounting related to changeable interest rate of a 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 repayment of interest in EUR on the loan in EUR:

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO
Hedged item	The hedged item is future cash flows in EUR connected with payment of interest based on 3M EURIBOR on a bank loan denominated in EURO
Hedging instruments	Hedging instrument is a SWAP transaction in which the Company commits to pay interest in EUR on a bank loan denominated in EUR based on a fixed rate
Forward contract parameters	
Trade date	28.12.2012 and 04.03.2013
Delivery date	each interest payment date based on schedule in bank loan agreement, untill 7.11.2017
Hedged amount	interest in accordance with bank loan agreement on bank loan of EUR 10.8 million
SWAP interest rate	0,69% and 0,78%

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

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in PLN
Hedged item	The hedged item is future cash flows in PLN connected with payment of interest based on 3M WIBOR on a bank loan denominated in PLN
Hedging instruments	Hedging instrument is a SWAP transaction in which the Company commits to pay interest in PLN on a bank loan denominated in PLN based on a fixed rate
Forward contract parameters	
Trade date	07.03.2013
Delivery date	each interest payment date based on schedule in bank loan agreement, untill 7.11.2017
Hedged amount	interest in accordance with bank loan agreement on bank loans of PLN 38.8 million and PLN 34.8 million
SWAP interest rate	3,71%

The table below presents the fair value of hedging derivatives in the cash flow hedge accounting as on 31st December 2014 and the comparative data:

	As at 31 December 2014		As at 31 December 2013	
	(audited)	(audited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	906	-	1 685	1 125
Pulp forward	-	-	-	1 661
SWAP	-	2 966	-	794
Electricity forward	-	13 739	-	23 945
Total hedging derivatives	906	16 705	1 685	27 525

The table below presents the nominal value of hedging derivatives as on 31st December 2014:

	3 months to 1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Currency sold (in EUR thousand)	-	1 000	-	1 000
Currency purchased (in EUR thousand)	-	5 700	-	5 700
Electricity forward:				
Electricity purchased (in PLN thousand)	29 409	26 781	-	56 190
Interest SWAP				
instalment payments (in PLN thousand)	13 120	77 363	-	90 483

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The table below presents cash flow hedge accounting amounts which were recognized by the Group in 2014 in the profit and loss account and in comprehensive income statement:

	Year ended 31 December 2014 (audited)
Revaluation reserve capital as at 31 December 2014 - revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedging	(12 412)
Inefective part of the revaluation to fair value of hedging derrivatives on account of the hedged risk, recognized in financial income or cost	-
Period, in which the hedged cash flows are expected to occur	1 January 2015 - 31 December 2017

The table below presents changes in the revaluation reserve capital on account of cash flow hedge accounting in 2014:

	Year ended 31 December 2014 (audited)
Revaluation reserve capital as at 1 January 2014	(11 041)
Deferral of revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedge	7 612
Amount of the deferred revaluation to fair value of hedging derivatives on account of the hedged risk, removed from revaluation reserve capital and transferred to financial income or cost	(8 983)
Revaluation reserve capital as ast 31 December 2014	(12 412)

41. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 years ended 31st December 2014 and 31st December 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 0.10-0.55. The Group includes within net debt the following positions: interest-bearing loans, borrowings and bonds, trade and other liabilities, less of cash and cash equivalents.

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Arctic Paper S.A. Group	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Interest bearing loans, borrowings and bonds and other financial liabilities	426 946	510 308
Trade and other payables	364 468	365 932
Less of cash and cash equivalents	(158 412)	(118 033)
Net debts	633 002	758 208
Equity	725 071	671 532
Capital and net debt	1 358 073	1 429 740
Gearing ratio	0,47	0,53

Compared to financial statements for year 2013, there was a decrease of financial gearing ratio from 0.53 to 0.47.

42. Employment structure

The average employment in the Group in the years ended 31st December 2014 and 31st December 2013 was as follows:

	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
Management Board of the parent entity	5	4
Management Boards of subsidiary companies	26	26
Administration department	129	156
Sales department	217	214
Production department	1 246	1 237
Other	140	203
Total	1 763	1 839

43. CO2 Emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and Arctic Paper Mochenwangen GmbH are all part of the European Union Emission Trading Scheme. The previous trading period lasted from 1st January 2008 to 31st December 2012.

New allocation covers the period of 1st January 2013 – 31st December 2020. The tables below specify the allocation for 2013-2020 and usage of emission rights by each of the five entities in years 2013 and 2014.

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(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Amount unused from previous years	348 490	306 448	-	-	-	-	-	-
Amount used	(150 577)	(147 950)						
Amount purchased	-	-						
Amount sold	-	-						
Amount unused	306 448	263 932						

(in tonnes) for Arctic Paper Munkedals AB	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Amount unused from previous years	24 305	67 262						
Amount used	(1 281)	(3 407)						
Amount purchased	-	-						
Amount sold	-	-						
Amount unused	67 262	107 325						

(in tonnes) for Arctic Paper Mochenwangen GmbH	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	112 141	76 733	37 350	36 663	35 969	35 267	34 557	33 844
Amount unused from previous years	(78 861)	1 398						
Amount used	(110 743)	(101 723)						
Amount purchased	78 861	128 700						
Amount sold	-	(105 105)						
Amount unused	1 398	3						

(in tonnes) dla Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Amount unused from previous years	69 411	111 448						
Amount used	-	-						
Amount purchased	-	-						
Amount sold	(35 000)	(186 403)						
Amount unused	111 448	734						

(in tonnes) for Rottneros' subsidiaries	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	30 681	30 484	31 023	31 023	31 023	31 023	31 023	31 023
Amount not used in previous years	72 888	90 522						
Amount used	(13 047)	(19 020)						
Amount purchased	-	-						
Amount sold	-	-						
Amount unused	90 522	101 986						

* - these figures are AP Kostrzyn's estimates based on information regarding emission rights allocation for the entities belonging to EU ETS system, calculated based on the provisions of article 10a of ETS Directive. As on the day of approval of these financial statements, there are no national directives valid.

44. Cogeneration certificates

In 2014, based on the provisions of article 91 paragraph 1 point 1 of the act dated 10th April 1997, Energy Law, Arctic Paper Kostrzyn obtained property rights to the Certificates of Origin being the confirmation of the amount of energy produced in the heavy duty (high performance) cogeneration unit using the gas fuels.

Due to producing electric energy in cogeneration, in 2014 the Group received the rights in the amount of:

yellow certificates MWh 104,667.744 and red certificates MWh 37,166.257. In 2014, revenues from allocation of cogeneration certificates amounted to PLN 11,317 thousand.

In 2013 because there was no legal regulation concerning yellow and red certificates, Arctic Paper Kostrzyn did not recognize income on cogeneration certificates.

AP Grycksbo and companies from Rottneros AB Group also have property rights for Certificates of Origin being the confirmation of the energy produced in cogeneration.

On the grounds of electricity production in cogeneration in 2014 AP Grycksbo received rights in the amount of green certificates kWh 26,044 (2013: kWh 27,778). In 2014, revenue on sales of certificates amounted to PLN 1,463 thousand (2013: PLN 1,772 thousand).

On the grounds of electricity produced in cogeneration in 2014 the companies of Rottneros Group received kWh 128,000 of certificates (2013: kWh 118,942). In 2014, sales revenue on certificates amounted to PLN 1,645 thousand (2013: PLN 1,718 thousand).

Revenues on certificates of cogeneration are recognized as reduction of cost of sales in the income statement.

45. Government grants and subsidies and operations in the Special Economic Zone

45.1. Grants and subsidies

In 2014, the Group did not receive any grants or subsidies.

45.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Special Economic Zone (the „KSSSE") and based on the permission issued by the Kostrzyńsko – Słubicka Special Economic Zone S.A. benefits from the corporate income tax relief as regards the activities carried out in the KSSSE.

The tax exemption is of conditional nature. The provisions of the act on special economic zones provide that Arctic Paper Kostrzyn S.A. loses its tax relief if at least one of the following occurs:

- Arctic Paper Kostrzyn S.A. ceases to conduct business operations in the KSSSE for which it obtained the permission,
- it violates the conditions of the permission,
- it does not remove errors/ irregularities identified during the course of control within the period of time specified in the order issued by appropriate minister for economic affairs,
- it transfers, in any form, the ownership right to assets to which the investment tax relief related within the period shorter than 5 years of introducing those assets to the fixed assets register,

- if the machines and equipment is transferred to conduct business activities outside the KSSSE,
- if Arctic Paper Kostrzyn S.A. receives compensation, in any form, of the investment expenditure incurred,
- if Arctic Paper Kostrzyn S.A. goes into liquidation or if it petitioned for bankruptcy.

Based on the permit issued on 25th August 2006, Arctic Paper Kostrzyn S.A. may benefit from exemption to 15th November 2017. The pre-requisite condition for this tax relief is that appropriate investment expenditure is made in the Special Economic Zone within the meaning of § 6 of the Decree of the Council of Minister dated 14th September 2004 concerning Kostrzyńsko – Słubicka Special Economic Zone, being the basis for the calculation of public assistance in accordance with § 3 Decree with a value exceeding EUR 40,000 thousand to 31st December 2013 calculated using the average EUR announced by the President of the National Bank of Poland as prevailing on the date the expenditure is made. Creation in the territory of the KSSSE of at least 5 new workplaces within the meaning of § 3 paragraph 3 and paragraph 6 of the Decree by 31st December 2011 and maintaining the employment level at 453 people during the period from 1st January 2012 to 31st December 2013.

The conditions of the exemption have not changed in the reporting period. The Group was not a subject to any inspection by the KSSSE authorities.

During the period from 25th August 2006 to 31st December 2014, Arctic Paper Kostrzyn S.A. incurred capital expenditure classified as expenditure of the KSSSE in the amount of PLN 227,102 thousand. During this period, the discounted amount of public assistance used was PLN 51,355 thousand.

If there is insufficient tax income to utilize the qualified investment expenditure during the year, then Arctic Paper Kostrzyn S.A. recognizes a deferred tax asset for the difference ascertained.

The recognized deferred tax asset on the expenditures in SEZ amounted to PLN 15,003 thousand as on 31st December 2014.

46. Events after the reporting period

Until the day of the hereby report, no other material events occurred, apart from those which have been disclosed in other sections of the hereby report.

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Signatures of Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	23 March 2015	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	23 March 2015	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	23 March 2015	
Member of the Management Board Chief Operating Officer	Per Skoglund	23 March 2015	
Member of the Management Board Sales Director	Michał Sawka	23 March 2015	

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